

SEITEL INC  
Form 10-K  
March 14, 2012

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, DC 20549

**FORM 10-K**

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

**For the fiscal year ended December 31, 2011**

**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 001-10165**

**SEITEL, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**76-0025431**  
(IRS Employer  
Identification Number)

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10811 S. Westview Circle Drive, Building C, Suite 100

Houston, Texas 77043

(Address of principal executive offices) (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). Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 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 whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark 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.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant at March 7, 2012 was zero. On March 7, 2012 there were a total of 100 shares of common stock outstanding.



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**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 our future outlook, prospects, strategies and plans, and about industry conditions, demand for seismic services and the future economic life of our seismic data are forward-looking. All statements that express belief, expectation, estimates or intentions, as well as those that are not statements of historical fact, are forward looking. The words proposed, anticipates, will, would, should, estimates and similar expressions are intended to identify forward-looking statements. Forward-looking statements represent our present belief and are based on our current expectations and assumptions with respect to future events. While we believe our expectations and assumptions are reasonable, they involve risks and uncertainties beyond our control that could cause the actual results or outcome to differ materially from the expected results or outcome reflected in our forward-looking statements. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Annual Report may not occur. Such risks and uncertainties include, without limitation, actual customer demand for our seismic data and related services, the timing and extent of changes in commodity prices for natural gas, crude oil and condensate and natural gas liquids, conditions in the capital markets during the periods covered by the forward-looking statements, the effect of economic conditions, our ability to obtain financing on satisfactory terms if internally generated funds and our current credit facility are insufficient to fund our capital needs, the impact on our financial condition as a result of our debt and our debt service, our ability to obtain and maintain normal terms with our vendors and service providers, our ability to maintain contracts that are critical to our operations, changes in the oil and gas industry or the economy generally and changes in the exploration budgets of our customers. Also note that we provide a cautionary discussion of risks and uncertainties under the captions Item 1A. 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 Securities and Exchange Commission ( 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 onshore seismic data to the oil and gas industry in North America with a top position in many of the premier unconventional plays. Seismic data significantly increases the success rate of locating and developing commercial oil and gas deposits by producing detailed images of the earth's subsurface. We own an extensive library of proprietary onshore and offshore seismic data that we license to a wide range of oil and gas companies. Our library includes a vast amount of data across many oil and gas basins and in plays, both unconventional and conventional. Unconventional plays are those that cannot be produced at economic flow rates, nor in economic volumes without the use of advanced stimulation techniques, usually for reasons of low permeability. The more common of these advanced stimulation techniques are horizontal drilling and hydraulic fracturing or any others that would enhance recovery rates. Included in these unconventional resources are heavy oil, tar sands, shale gas and oil, gas hydrates and coalbed methane. Over the past several years, we have embarked upon an aggressive campaign to acquire data in key North American unconventional plays and have established leading seismic market positions in many of those plays, including the Eagle Ford in south Texas, Marcellus in Pennsylvania, Niobrara in Colorado, Haynesville (Bossier) in east Texas, and, Montney, Cardium and Horn River in British Columbia.

Our products and services are critical for oil and gas exploration and development and management of hydrocarbon reserves by exploration and production ( E&P ) companies. Prior to the recent shift in activity from conventional to unconventional plays, seismic data had been used for both exploration and production purposes

but with a heavy bias towards exploration. With this recent shift, customer bias has reversed and seismic data is heavily employed in production, especially in the design of horizontal drilling and fracking programs. The importance of seismic data usage in the exploration, development and management process drives demand for data in our library.

We have built a library of onshore three-dimensional ( 3D ) seismic data that we believe is the largest available for licensing in North America. We own over 45,000 square miles of 3D and approximately 1.1 million linear miles of two-dimensional ( 2D ) seismic data concentrated primarily in the major active North American oil and gas producing regions. Over the past several years, we have aggressively focused our acquisition activity in unconventional plays. Today, we believe we are among the most active seismic data providers (measured in square miles) in some of the more prolific unconventional plays, including the Eagle Ford, Marcellus, Niobrara, Haynesville (Bossier), Montney, Cardium and Horn River. Our library also consists of data targeted at conventional plays and shot before we embarked on our current strategy of targeting data from unconventional plays. This earlier segment of the database, although originally targeted at conventional plays, will, in some cases, coincide with more recent shale and tight sand activity occurring at the same geographic location but at a different depth. This phenomenon has driven increased sales from the earlier segment of the database and has bolstered our position as a leading seismic data provider in the newly defined unconventional plays. The early moves by our customers into unconventional plays tended to be into shale gas, and our activity matched that shift into areas such as the Haynesville, southern Eagle Ford and southern Montney. More recently, oil and gas prices have resulted in a further shift into areas that are oil prone and areas that are gas prone but with high natural gas liquids content. We also own 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 include large independent and major integrated oil and gas companies as well as small and mid-cap exploration and production companies. Our customers hire us to acquire new seismic data for their use and typically underwrite a significant portion of the cost of the data creation in exchange for an initial license to the data. We own the acquired data and license it repeatedly to additional parties on a non-exclusive basis.

Several factors lead to multiple licensing of our seismic data. An area bounded by 3D seismic data may have multiple mineral holders with none having a single contiguous position, or a single company may not hold mineral rights throughout all depths but is restricted to one or two geological horizons. Also, new oil and gas field discoveries and/or new drilling technologies 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. Due to the capital intensive nature of developing unconventional plays, many oil and gas companies seek partners to share in the cost of development and these partners will often need to purchase licenses for their own use. 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 regularly add to our seismic data library by creating new seismic data. These data creation programs are substantially funded by our customers in exchange for a license granting them access to the newly acquired data which may occasionally include a limited exclusivity period. We do not employ seismic crews or own any seismic survey equipment but engage, as required, multiple third party contractors with qualified equipment and expertise to shoot new data. We believe this model provides enhanced flexibility allowing us to maximize or minimize ongoing capital expenditures as necessary and results in substantially less cash flow volatility by enabling us to respond quickly to changes in demand. 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 3D data created 18 years ago 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 2011 and 2010, approximately 98% of our revenues were attributable to revenue generated from customers underwriting data acquisitions and revenue from licensing of seismic data. In 2009, the percentage was approximately 96%. Other revenues during these years were primarily derived from Solutions for reproduction and delivery of seismic data licensed by our clients. See Note M 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.

### **Corporate Transactions**

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 in which ValueAct Capital Master Fund, L.P. ( ValueAct Capital ) owns a majority interest.

Under the terms of the merger agreement, our then 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.

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 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. The remaining \$2.0 million aggregate principal amount of the 11.75% Senior Notes were paid in 2011.

In addition, on February 14, 2007, we 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 Seitel, certain subsidiary guarantors and Bank of America, N.A. (as successor by merger to LaSalle Bank National Association), as trustee. Effective September 21, 2009, Deutsche Bank Trust Company Americas became trustee.

In May 2011, Centerbridge Capital Partners II, L.P. and Centerbridge Capital Partners SBS II, L.P. (together with Centerbridge Capital Partners II, L.P., Centerbridge ) purchased a minority interest in Holdings for \$125.0 million. Concurrently with the closing of this transaction, Holdings contributed \$125.0 million to Seitel. The funds received were used to redeem \$125.0 million of the 9.75% Senior Notes.

### **Description of Operations**

#### **Industry Conditions**

The emergence of shale and other unconventional plays has brought about fundamental changes for the North American E&P industry. Because of advancements in horizontal drilling and fracturing technologies, unconventional plays are more economically viable at lower natural gas prices than most conventional basins in North America, which has driven a substantial increase in activity in such unconventional plays. However, the increase in natural gas supply and continuing high levels of storage have caused the price of natural gas to fall, which has driven a shift toward more oil and liquids-rich plays. The most active plays include the Eagle Ford, Niobrara and Marcellus in the United States and Montney and Cardium in Canada with several plays emerging, including the Granite Wash, Utica, Sussex and several in the Permian.

With the shift to unconventional plays, seismic data is increasingly tied to relatively stable development capital expenditures. Historically, seismic data was tied to exploration capital expenditures, which are significantly more volatile, as E&P companies used seismic data to increase the success rate of discovering hydrocarbon deposits. E&P companies now use seismic data in the shales as a development tool to better identify efficient drilling plans and maximize production by identifying and understanding a series of critical characteristics of the targeted shale.

Land rig counts in North America were strong during 2011, achieving five-year highs (based on weekly rig counts) throughout the majority of the year. Horizontal rig activity continued to represent the majority of drilling activity. In addition, there has been a shift in the mix of U.S. drilling activity from natural gas to oil given stronger oil prices and weak natural gas prices. At the end of 2011, oil directed rigs represented approximately 60% of the activity. North America drilling activity is expected to hold relatively steady to slightly increasing in 2012.

The Energy Information Administration ( EIA ) expects a continued tightening of world oil markets over the next two years. Based on the EIA's Short-Term Energy Outlook dated March 6, 2012, world oil consumption is projected to grow by an annual average of 1.1 million barrels per day in 2012 and 1.4 million barrels per day in 2013. The EIA expects both inventories and significant increases in the production of crude oil to meet world demand growth. Based on its March 6, 2012 report, the EIA also predicts the price of West Texas Intermediate crude oil to average about \$106 per barrel in both 2012 and 2013 as compared to the average of \$95 in 2011.

In this same report, the EIA projects that total natural gas consumption in 2012 will increase approximately 3.1% from 2011 and will increase approximately 1.0% from 2012 to 2013. Total marketed natural gas production grew approximately 7.9% in 2011, the largest year-over-year volumetric increase in history. While the EIA expects production growth to continue in 2012 and 2013, the projected increases occur at a much lower rate than in 2011 as low prices reduce new drilling plans. The EIA expects near-record high inventories to continue through most of 2012. Therefore, natural gas prices are not expected to increase significantly in the near term. The EIA predicts that wellhead natural gas prices will average about \$2.83 per mcf in 2012 and \$3.51 per mcf in 2013 as compared to the average of \$3.90 per mcf in 2011.

We believe the use of 3D seismic data will continue to be an important part of oil and gas companies' exploration and development spending as they are continually looking to reduce drilling risk, decrease oil and natural gas finding costs and increase the efficiencies of reservoir location, delineation, completion and management. In addition, we believe that seismic data is an essential component of oil and gas production activity in the shale plays. Seismic data can provide a wealth of insight into the shale, including areal extent, depth, thickness, faulting patterns and a number of complex rock properties. Such insights enhance our customers' ability to design efficient and productive horizontal drilling and fracking programs. Understanding these unique shale features is critical for our customers as they develop their horizontal drilling plans, which can result in lateral drilling that reaches over one mile in each direction.

### **Seismic Data**

Oil and gas companies consider seismic data an essential tool in finding and exploiting 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 revealing additional, or step-out, locations that would not otherwise be apparent. With the shift to unconventional plays, E&P companies now use seismic data in the shales as a development tool to better identify efficient drilling plans and maximize production by identifying and understanding a series of critical characteristics of the targeted shale. The cost of seismic data is less than 1% of the total cost of exploration for most projects, but provides substantial benefits to operators. 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. 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.

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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, 2011, resale revenue from 3D onshore data was recognized from net historical investments made in the indicated periods (in thousands):

	Resale Revenue	Percentage	Net Investment <sup>(1)</sup>	Percentage
Investments prior to 2007	\$ 42,270	33%	436,343	75%
Investments 2008 through 2011	85,068	67%	143,776	25%
<b>Total 3D onshore</b>	<b>\$ 127,338</b>	<b>100%</b>	<b>580,119</b>	<b>100%</b>

<sup>(1)</sup> 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 3D onshore (a non-GAAP financial measure) to total revenue for the year ended December 31, 2011 (the most directly comparable GAAP financial measure) (in thousands):

Total resale revenue 3D onshore	\$ 127,338
Other revenue components:	
Other resale revenue (principally offshore and 2D)	8,912
Acquisition revenue	77,406
Solutions and other revenue	4,352
<b>Total revenue</b>	<b>\$ 218,008</b>

The following presents a reconciliation of net historical investment for 3D onshore data (a non-GAAP financial measure) to net book value at December 31, 2011 (the most directly comparable GAAP financial measure) (in thousands):

Net historical investment in seismic data 3D onshore	\$ 580,119
Add:	
Acquisition revenue 3D onshore	601,838
Other seismic data investment (principally offshore and 2D)	385,971
Foreign currency translation	40,166
Seismic projects in progress	67,743
Fair value adjustment resulting from Merger	275,235
Less:	
Historical impairment charges	(112,923)
Accumulated amortization (including historical amounts pre-Merger)	(1,717,455)
<b>Net book value</b>	<b>\$ 120,694</b>

### Seismic Data Library

Our seismic data library includes onshore and offshore 3D data, 2D data and multi-component data. We have ownership in over 45,000 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



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gas producing regions. Over the past several years, we have aggressively focused our acquisition activity on unconventional plays. Today, we believe we are among the most active seismic data providers (measured in square miles) in some of the more prolific unconventional plays, including the Eagle Ford, Marcellus, Niobrara, Haynesville (Bossier), Montney, Cardium and Horn River. Our library also consists of data targeted at conventional plays and shot before we embarked on our current strategy of targeting data from unconventional plays. We also own 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. The following table describes our 3D seismic data library, as well as data that we manage and market for third parties, as of March 7, 2012:

3D Data Library	Completed Surveys		Surveys in Progress
	Square Miles <sup>(1)</sup>	Percentage of Subtotal	Square Miles <sup>(1)</sup>
Haynesville	1,350	6%	
Eagle Ford	4,000	18%	750
Niobrara/Bakken	2,100	9%	250
Marcellus and Utica	150	1%	600
Granite Wash		0%	350
Conventional 3D	15,200	66%	
<b>Total U.S. Onshore</b>	<b>22,800</b>	<b>100%</b>	<b>1,950</b>
Montney	3,400	28%	250
Horn River	1,050	8%	
Cardium	2,900	23%	50
Conventional 3D	5,100	41%	
<b>Total Canada</b>	<b>12,450</b>	<b>100%</b>	<b>300</b>
<b>U.S. Offshore</b>	<b>10,500</b>	<b>100%</b>	
<b>Worldwide Total</b>	<b>45,750</b>	<b>100%</b>	<b>2,250</b>

<sup>(1)</sup> Square miles reflect mileage net to our revenue interest.

**Onshore U.S. and Canada:** Since 2008, our capital investment in both the U.S. and Canada has been focused on unconventional plays, initially in the shale gas areas and more recently shifting towards oil and liquids-rich objectives. These shifts in focus are made in accordance with the activity of our clients and our ability to serve them is an important component of our growth strategy.

The U.S. onshore 3D conventional sector of our seismic data library is mainly comprised of our Gulf Coast Texas and southern Louisiana/Mississippi components, which we began accumulating in 1993. We also have relatively small amounts of 3D seismic data in other areas, such as Alabama, California, Michigan, Northern Louisiana and West Texas as well as an extensive 2D data library that continues to contribute to our licensing sales.

The Canadian onshore 3D conventional sector of our seismic data library is mainly comprised of data within the Western Canadian Basin, which we began accumulating in 1998. We also have an extensive 2D data library that continues to contribute to our licensing sales.

**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 our U.S. Gulf of Mexico offshore 3D data since 1993. Although we have not shot new offshore surveys since 2002, on occasion, we add offshore Gulf of Mexico data through non-monetary exchanges.

### Data Library Growth

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

may occasionally have a limited exclusivity period. We consider the contracts signed up to the time we make a firm commitment to create the new seismic survey as underwriting or pre-funding. Any subsequent licensing of the data while it is in progress or once it is completed is considered a resale license. All of our data acquisition activity during 2011 occurred in unconventional plays, primarily the Eagle Ford in Texas, Marcellus in Pennsylvania, Niobrara in Colorado and both Montney and Cardium in Western Canada. All field work on these projects is outsourced to subcontractors. A significant percentage of the data processing for our U.S. projects is processed by our wholly owned subsidiary Seitel Data Processing, Inc. To date, all of the data processing for our Canadian projects has been outsourced to local subcontractors. In the first quarter of 2012, we began to form an internal data processing group in Canada with the intent that, over time, this group will grow to parallel the U.S. group and will undertake a high percentage of the processing work on our Canadian projects. 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 that meet our investment criteria.

**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 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. 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 was 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 may have exclusive access to the newly acquired data for a limited term. 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 Seitel Data Processing, 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**

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 and typically provide that in the event of a change of control of a customer-licensee, the surviving entity 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**

At March 7, 2012, we had capital expenditure commitments related to data creation projects of approximately \$165.7 million of which we have obtained approximately \$100.9 million of underwriting. We anticipate that the majority of this backlog will be recognized over the next 12 months. This is compared to capital expenditure commitments at March 10, 2011 of \$103.3 million with underwriting of approximately \$64.0 million.

### **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 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.

### **Customers**

We market our seismic data to a varied customer base. Our customers include independent oil and gas companies, major integrated oil and gas companies and national oil companies, as well as small and mid-cap exploration and production companies and private prospect generating individuals. One customer accounted for approximately 11% of our revenue during the year ended December 31, 2011. No one customer accounted for more than 10% of revenue during the years ended December 31, 2010 and 2009. We believe that the quality of our data, the breadth of its coverage in the major active North American basins and our longstanding commitment to client service enables us to attract top-tier clients. Because we do not acquire data speculatively, strategic relationships with our customers have been and will continue to be critical to our growth. 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. Customers consider several factors, including location of data, price, technological expertise and reputation for quality and dependability, when choosing a service provider. There are a number of geophysical companies that create, market and license seismic data and maintain 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 CGGVeritas; Geokinetics, Inc.; Global Geophysical Services, Inc.; Pulse Seismic Inc.; Seismic Exchange, Inc. (a private company based in New Orleans, Louisiana); TGS Nopec; and WesternGeco. Many of our competitors have substantially larger revenues and resources than we do.

### **Regulation**

Our operations are subject to a variety of federal, provincial, state, foreign and local laws and regulations, including environmental and health and safety laws. We invest financial and managerial resources to comply with these laws and related permit requirements. 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 or when the data becomes available for delivery. 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 \$750,000 per transaction, occasionally a single data license transaction from our library, including those resulting from the merger and acquisition or property sales activity of our customers, may be substantially larger. Such large license transactions, the completion and delivery of data 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, 2011, we and our subsidiaries had 118 full-time employees, including 5 executive officers, 17 marketing staff and 33 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.com](http://www.seitel.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 with, 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 anyone who requests them.

The public may read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 and may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at <http://www.sec.gov>.

### **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 generally 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 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, including social and political unrest in Africa and the Middle East;

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. Continued political instability (especially in the Middle East and other oil-producing regions) may lead to further significant fluctuations in demand and pricing for oil and gas or seismic data. 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 as a result of factors which are beyond our control could have a material adverse effect on our results of operations and cash flow.

**Increased regulation of hydraulic fracturing could result in reductions or delays in drilling and completing new oil and natural gas wells, which could adversely impact our revenues by decreasing the demand for our seismic data and related services.**

Hydraulic fracturing is a process used by oil and gas exploration and production operators in the completion of certain oil and gas wells whereby water, sand and chemicals are injected under pressure into subsurface formations to stimulate gas and, to a lesser extent, oil production. Due to concerns that hydraulic fracturing may adversely affect drinking water supplies, the U.S. Environmental Protection Agency ( EPA ) is undertaking a comprehensive research study to investigate any potential adverse impact that hydraulic fracturing may have on water quality and public health. The initial study results are expected to be available in 2012. An additional report is expected to be available in 2014. The EPA also has indicated that it intends to regulate hydraulic fracturing utilizing diesel fuels under its underground injection control permitting program, announced plans to develop standards for discharges of hydraulic fracturing wastewaters, proposed air standards for certain hydraulic fracturing operations and initiated a process for collecting health information and other data about fracturing additives. Separately, the U.S. Department of the Interior has announced plans to develop new rules for hydraulic fracturing on public lands that would address disclosure of chemicals used in the process, well bore integrity and handling of flowback water. Aside from these federal initiatives, several state and local governments have moved to require disclosure of fracturing fluid components or otherwise to regulate their use more closely. In certain areas of the country, new drilling permits for hydraulic fracturing have been put on hold pending development of additional standards. Adoption of legislation or regulations placing restrictions on hydraulic fracturing activities could impose operational delays and/or increase operating costs and additional regulatory burdens on operators, which could reduce their production of natural gas and, in turn, adversely affect our revenues and results of operations by decreasing the demand for our seismic data and related services.

**Economic conditions could adversely affect demand for our seismic data and related services and may increase our credit risk of customer non-payment.**

Prices for oil and natural gas have been volatile. Commencing in late 2008, commodity prices for oil and natural gas declined significantly. Crude oil prices recovered during 2010 while natural gas prices improved but continue to be depressed. A return to lower crude oil prices and continuing low natural gas prices could result in many oil and gas companies significantly reducing their levels of capital spending which could result in reduced demand for our seismic data and related services as our customers' operating cash flow decreases and the borrowing bases under their oil and gas reserve-based credit facilities are reduced. Lower commodity prices could also result in decreases in our customers liquidity and capital resources which could increase our credit risk of non-payment from such customers.

**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 our customers will continue to underwrite these costs at historical levels, or 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 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, 2011, we had approximately \$278.3 million of total outstanding indebtedness, including \$3.2 million of capital leases. In addition, we have \$30.0 million available for borrowing under our revolving credit facility, none of which was drawn at December 31, 2011. Our 2012 consolidated annual debt service requirements are expected to aggregate approximately \$27.3 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;

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 restrictive covenants in our debt instruments which, among other things, 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 facility bears interest at variable rates. If market interest rates increase, debt service on our credit facility 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 this credit facility 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 this credit facility may not be hedged and, accordingly, the portion that is not hedged will be subject to changes in interest rates.

**Our business could be adversely affected by the failure of our customers to fulfill their obligations to reimburse us for the underwritten portion of third-party contractor costs.**

A substantial portion of our seismic acquisition project costs, including third-party project costs, are underwritten by our customers. We target an average of 60% to 65% underwriting levels for new seismic acquisition projects on an aggregate basis. 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 third-party contractors.

**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 seismic libraries. Competition for acquisition of new seismic data among geophysical service providers historically has been, and we expect 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.

**Reduced demand for our seismic data may result in an impairment of the value of our seismic data library.**

Reduced demand, 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. As a result of these factors, among others, estimations of future cash flows are highly subjective, inherently imprecise and can fluctuate materially from period to period. Accordingly, if conditions change in the future, we may record impairment losses relative to our seismic data library, which could materially affect our results of operations in any particular reporting period.

**Failure to meet cash flow projections may result in goodwill impairment charges.**

We perform an annual assessment of the recoverability of goodwill by applying qualitative procedures. Additionally, we assess goodwill for impairment whenever events or changes in circumstances indicate that such carrying values may not be recoverable. If required to perform a goodwill impairment test, we rely on discounted cash flow analysis, which requires significant judgments and estimates about our future operations, to develop our estimates of fair value. If these projected cash flows change materially, we may be required to record impairment losses relative to goodwill 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. Fluctuations in foreign currency exchange rates could affect our revenue, expenses and operating margins. Assets and liabilities of Canadian operations are 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 are 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 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. Senior executives, which includes our President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, President of Seitel Data, Ltd. and President of Olympic Seismic Ltd., 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 impose numerous obligations that are applicable to our operations including:

the acquisition of permits before commencing regulated activities; and

the limitation or prohibition of seismic activities in environmentally sensitive or protected areas such as wetlands or wilderness areas.

Failure to comply with laws, regulations and permits may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations and the issuance of injunctions limiting or preventing some or all of our operations. Additionally, these laws and regulations may change 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. New and enhanced products and services introduced by one of our competitors may gain market acceptance, and, if not available to us, may adversely affect us.

**The indenture governing our \$275.0 million aggregate principal amount of 9.75% Senior Notes contains 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.**

The indenture governing our 9.75% Senior Notes imposes, 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.

The restrictions contained in 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.

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A breach of any of these covenants could result in a default under the indenture governing our 9.75% Senior Notes. If an event of default occurs, the lenders could elect to:

declare all borrowings outstanding, together with accrued and unpaid interest, to be immediately due and payable; or

require us to apply all of our available cash to repay the borrowings.

If we were unable to repay or otherwise refinance these borrowings when due, we cannot assure you that sufficient assets will remain to repay the 9.75% Senior Notes.

**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 on a quarterly basis 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; New Orleans, Louisiana and Oklahoma City, Oklahoma. We also lease office and warehouse space in two separate locations in Calgary, Alberta, Canada, 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
Oklahoma City, Oklahoma	234	Marketing	Leased
Calgary, Alberta, Canada <sup>(a)</sup>	23,270	Administrative; Financial; Marketing; Operations	Leased
Calgary, Alberta, Canada	42,985	Warehouse	Leased

<sup>(a)</sup> We have subleased 11,635 square feet of this office space to a third party through the end of our lease term.

**Item 3. Legal Proceedings**

We are involved from time to time in ordinary, routine claims and lawsuits incidental to our business. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolutions of these matters should not be material to our financial position, results of operations or

cash flows. However, it is not possible to predict

or determine the outcomes of the legal actions brought against us or by us, or to provide an estimate of all additional losses, if any, that may arise. At December 31, 2011, we have recorded the estimated amount of potential exposure we may have with respect to litigation and claims. Such amounts are not material to the financial statements.

**Item 4. Mine Safety Procedures**

Not applicable.

**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, 2011, 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 acquisition method of accounting. The financial information for the periods before the Merger is referred to as "Predecessor Period" and financial information for the periods after the Merger is referred to as the "Successor Period." The adjustments to our assets and liabilities as a result of the Merger have impacted net income subsequent to the Merger. The increase in the basis of the assets has resulted in non-cash charges in periods subsequent to the Merger, principally related to the step-up in the value of our seismic data library and other intangible assets. The book value of our seismic data library was increased by approximately \$275.2 million to its then fair market value of \$395.6 million. As a result of this step up in value and of our maximum four-year straight-line amortization of seismic data, our data amortization expense has increased in the Successor Period. In addition, we recorded identifiable intangible assets with a fair value of \$53.4 million of which \$52.5 million is amortizable over their useful lives ranging from 1 to 10 years. As a result of this step up in value, amortization expense of acquired intangible assets has increased in the Successor Period.

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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.

	2011	SUCCESSOR PERIOD			Feb. 14, 2007 - Dec. 31, 2007	PREDECESSOR
		Year Ended December 31,				PERIOD
		2010	2009	2008		Jan. 1, 2007 - Feb. 13, 2007
<b>Statement of Operations Data:</b>						
Revenue	\$ 218,008	\$ 175,556	\$ 115,345	\$ 172,403	\$ 129,802	\$ 19,010
<b>Expenses and costs:</b>						
Depreciation and amortization	142,963	175,592	150,199	168,629	146,072	11,485
Impairment of intangible asset				225		
Cost of sales	100	97	290	462	218	8
Selling, general and administrative	31,649	31,831	25,090	36,316	33,393	3,577
Merger				357	2,657	17,457
	174,712	207,520	175,579	205,989	182,340	32,527
Income (loss) from operations	43,296	(31,964)	(60,234)	(33,586)	(52,538)	(13,517)
Interest expense, net	(34,767)	(40,536)	(40,696)	(40,017)	(38,844)	(2,284)
Foreign currency exchange gains (losses)	(726)	441	1,008	(4,059)	3,173	(102)
Loss on early extinguishment of debt	(7,912)					
Gain on sale of marketable securities	2,467	4,188				
Other income	250	446	151	40	39	12
Income (loss) before income taxes	2,608	(67,425)	(99,771)	(77,622)	(88,170)	(15,891)
Provision (benefit) for income taxes	392	(4,008)	(2,974)	(3,548)	(11,057)	452
Net income (loss)	\$ 2,216	\$ (63,417)	\$ (96,797)	\$ (74,074)	\$ (77,113)	\$ (16,343)

	2011	As of December 31,			
		2010	2009	2008	2007
<b>Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 74,894	\$ 89,971	\$ 26,270	\$ 42,678	\$ 43,443
Seismic data library, net	120,694	106,104	200,389	279,257	349,039
Total assets	500,330	491,009	522,019	643,825	743,101
Total debt	278,256	405,604	405,732	405,499	406,481
Stockholder's equity (deficit)	109,840	(7,022)	46,361	115,785	220,958
Common shares outstanding	100	100	100	100	100



**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

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

**Overview**

**General**

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

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

Our clients continue to seek our services to create data in the United States and Canada. On March 7, 2012, our clients' commitment for underwriting on new data creation projects was \$100.9 million. Licensing data off the shelf does not require the longer planning and lead times like new data creation and thus is more likely to fluctuate quarter to quarter.

**Principal Factors Affecting Our Business**

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

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

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

Exploiting shale plays is a capital intensive endeavor and many technically proficient E&P companies remain capital constrained. They find themselves needing to sell their positions to, or create partnerships with, large well-capitalized companies in order to develop their recoverable resource base. These joint venture partners or new owners will often need to purchase licenses to our seismic data for their own use.

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

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

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

### Non-GAAP Key Performance Measures

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

The following are the key performance measures considered by management.

#### Cash Resales

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

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

	Year Ended December 31,		
	2011	2010	2009
Cash resales	\$ 134,497	\$ 137,605	\$ 49,268
Other revenue components:			
Acquisition revenue	77,406	40,500	37,403
Non-monetary exchanges	7,609	4,678	1,764
Revenue recognition adjustments	(5,856)	(11,005)	22,386
Solutions and other	4,352	3,778	4,524
<b>Total revenue</b>	<b>\$ 218,008</b>	<b>\$ 175,556</b>	<b>\$ 115,345</b>

**Cash EBITDA**

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

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

	Year Ended December 31,		
	2011	2010	2009
Cash EBITDA	\$ 112,031	\$ 117,252	\$ 32,868
Add (subtract) other revenue components not included in cash EBITDA:			
Acquisition revenue	77,406	40,500	37,403
Non-monetary exchanges	7,609	4,678	1,764
Revenue recognition adjustments	(5,856)	(11,005)	22,386
Solutions non-cash revenue	71		
Less:			
Gain on sale of marketable securities	(2,467)	(4,188)	
Depreciation and amortization	(142,963)	(175,592)	(150,199)
Non-recurring corporate expenses	(1,792)	(176)	(1,170)
Non-cash operating expenses	(743)	(3,433)	(3,286)
Operating income (loss)	\$ 43,296	\$ (31,964)	\$ (60,234)

**Growth of our Seismic Data Library**

We regularly add to our seismic data library through four different methods: (1) recording new data; (2) buying ownership of existing data for cash; (3) obtaining ownership of existing data sets through non-monetary exchanges; and (4) creating new value-added products from existing data within our library. For the years ended December 31, 2011, 2010 and 2009, we completed the addition of approximately 2,200 square miles, 900 square miles and 700 square miles, respectively, of seismic data to our library. For the period from January 1, 2012 to March 7, 2012 we completed the addition of approximately 850 square miles and as of March 7, 2012 we had approximately 2,250 square miles of seismic data in progress.

**Critical Accounting Policies**

We operate in one business segment, which is made up of seismic data acquisition, seismic data licensing, seismic data processing and seismic reproduction services.

We prepare our financial statements and the accompanying notes in conformity with GAAP, which requires management to make estimates and assumptions about future events that affect the reported amounts in the financial statements and the accompanying notes. We identify certain accounting policies as critical based on, among other things, their impact on the portrayal of our financial condition and results of operations and the degree of difficulty, subjectivity and complexity in their deployment. Notes A and B of the notes to the consolidated financial statements include a summary of the significant accounting policies used in the preparation of the accompanying consolidated financial statements. The following is a brief discussion of our most critical accounting policies.

## Revenue Recognition

### *Revenue from Data Acquisition*

We generate revenue when we create a new seismic survey that is initially licensed by one or more of our customers to use the resulting data. We consider the contracts signed up to the time we make a firm commitment to create the new seismic survey as underwriting. Underwriting revenue is recognized throughout the creation period using the proportional performance method based upon costs incurred and work performed to date as a percentage of total estimated costs and work required. Management believes that this method is the most reliable and representative measure of progress for our data creation projects. The customers paying for the initial licenses receive legally enforceable rights to any resulting product of the specific activities required to complete the survey. The customers also receive access to and use of the newly acquired, processed data.

### *Revenue from Non-Exclusive Data Licenses*

We recognize a substantial portion of our revenue from licensing of data once it is available for delivery. Revenue from the non-exclusive licensing of seismic data is recognized when the following criteria are met:

we have an arrangement with the customer that is validated by a signed contract;

the sales price is fixed and determinable;

collection is reasonably assured;

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

the data is currently available for delivery; and

the license term has begun.

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

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

### *Revenue from Non-Monetary Exchanges*

In certain cases, we will take ownership of a customer's seismic data or revenue interest (collectively referred to as data ) or receive advanced data processing services in exchange for a non-exclusive license to selected seismic data from our library, as partial consideration for the underwriting of new data acquisition or, in some cases, services provided by Solutions. These exchanges are referred to as non-monetary exchanges. In non-monetary exchange transactions, we record a data library asset for the data received or processed at the time the contract is entered into or the data is completed, as applicable, and recognize revenue on the transaction in equal value in accordance with our policies on revenue from data licenses, which is, when the seismic data is selected by the customer, or revenue from data acquisition, as applicable, or as services are provided by Solutions. These transactions are valued at the fair value of the data received or delivered, whichever is more readily determinable.

## Seismic Data Library

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Costs associated with creating, acquiring or purchasing seismic data 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.

### ***Data Library Amortization***

We amortize our seismic data library 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. Due to the subjectivity inherent in the income forecast amortization method, this amortization policy ensures a minimum level of amortization will be recorded if sales of the specific data do not occur as expected

and ensures that costs are fully amortized at the end of the data's useful life. 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.

We apply 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. We make this forecast annually and review it quarterly. If, during any such review, we determine 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, we revise the amortization rate attributable to future revenue from each survey in such component.

The greater of the income forecast or straight-line amortization policy is applied quarterly on a cumulative basis at the individual survey level. Under this policy, we first record 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***

We evaluate our seismic data library for impairment by grouping individual surveys into components based on our operations and geological and geographical trends. We believe that these library components constitute the lowest levels of independently identifiable cash flows. We evaluate our seismic data library investment for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We consider 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 our seismic data should be evaluated for impairment. In evaluating sales performance of each component, we generally consider five consecutive quarters of actual performance below forecasted sales to be an indicator of potential impairment.

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

For purposes of evaluating potential impairment losses, we estimate 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 our customer base, expected changes in technology and other factors that we deem 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, we may record impairment losses relative to our seismic data library, which could be material to any particular reporting period.

### **Business Acquisitions and Goodwill**

We account for acquired businesses using the acquisition method of accounting which requires that the assets acquired and liabilities assumed be recorded at the date of acquisition at their respective fair values. The cost to acquire a business is allocated to the underlying net assets of the acquired business in proportion to their respective fair values. Any excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill.

Goodwill is not amortized to earnings but is assessed, at least annually, for impairment at the reporting unit level. During 2011, we adopted Accounting Standards Update ( ASU ) 2011-08 Testing Goodwill for Impairment . ASU 2011-08 permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. We conduct a qualitative goodwill impairment assessment as of October 1 of each year by examining relevant events and circumstances which could have a negative impact on our goodwill such as macroeconomic conditions, industry and market conditions, cost factors that have a negative effect on earnings and cash flows, overall financial performance, and other relevant entity-specific events.

If after assessing the totality of events or circumstances described above, we determine that it is more likely than not that the fair value of the reporting unit is less than its carrying amount, the two-step goodwill test is performed. The two-step goodwill impairment test is also performed whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

The two-step impairment test is used to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of a reporting unit with its carrying amount, including goodwill. If the fair value of the reporting unit exceeds its carrying amount, goodwill is not considered to be impaired, and the second step of the test is not required. If necessary, the second step of the impairment test, used to measure the amount of impairment loss, compares the implied fair value of reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess.

### **Use of Estimates and Assumptions**

In preparing our 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. These estimates and assumptions must be made because certain information that is used in the preparation of our financial statements is dependent on future events, cannot be calculated with a high degree of precision from data available or is not otherwise capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and we must exercise significant judgment.

The most difficult, subjective and complex estimates and assumptions that deal with the greatest amount of uncertainty are related to our accounting for our seismic data library and goodwill.

Accounting for our seismic data library requires us to make significant subjective estimates and assumptions relative to future sales and cash flows from such library. These cash flows impact amortization rates, as well as potential impairment charges. Any changes in these estimates or underlying assumptions will impact our income from operations prospectively from the date changes are made. To the extent that such estimates, or the assumptions used to make those estimates, prove to be significantly different than actual results, the carrying value of the seismic data library may be subject to higher prospective amortization rates, additional straight-line amortization or impairment losses.

Because we apply a minimum income forecast amortization rate of 70%, the effect of decreasing future sales by 10%, with all other factors remaining constant, would cause the range of amortization rates to be from 70% to 73% as of January 1, 2012. The effect of decreasing future sales by 20%, with all other factors remaining constant, would cause the range of amortization rates to be from 70% to 82% as of January 1, 2012.

In a portion of our seismic data library activities, we engage in certain non-monetary exchanges and record a data library asset for the seismic data received and recognize revenue on the transaction in accordance with our policies on revenue recognition. These transactions are valued at the fair value of the data received by us or licenses or services granted by us, whichever is more readily determinable. In addition, we obtain third-party concurrence on the portfolio of all non-monetary exchanges for data valued at \$750,000 or more in order to support our estimate of the fair value of the transactions. Our estimate of the value of these transactions is highly subjective and based, in large part, on data sales transactions between us and a limited number of customers over a limited time period, and appraisals of the value of such transactions based on a relatively small market of private transactions over a limited period of time.

We conduct a qualitative goodwill impairment assessment at least annually. If, based on our qualitative procedures, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, we are required to perform a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized. The impairment test involves a comparison of the fair value of a reporting unit with its carrying amount, including goodwill to identify if a goodwill impairment exists. If necessary, an impairment loss is recognized as an amount equal to the excess of the carrying amount of goodwill over the implied fair value of goodwill. For our estimates of the fair value of goodwill, we prepare discounted cash flow analysis, which requires significant judgments and estimates about our future performance. If these projected cash flows change materially, we may be required to record impairment losses relative to goodwill.

Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements. To the extent management's estimates and assumptions change in the future, the effect on our reported results could be significant to any particular reporting period.

## Results of Operations

### Revenue

The following table summarizes the components of our revenue for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	\$00000000	\$00000000	\$00000000
	Year Ended December 31,		
	2011	2010	2009
<b>Acquisition revenue:</b>			
Cash underwriting	\$ 75,132	\$ 37,823	\$ 34,565
Underwriting from non-monetary exchanges	2,274	2,677	2,838
<b>Total acquisition revenue</b>	<b>77,406</b>	<b>40,500</b>	<b>37,403</b>
<b>Resale licensing revenue:</b>			
Cash resales	134,497	137,605	49,268
Non-monetary exchanges	7,609	4,678	1,764
Revenue recognition adjustments	(5,856)	(11,005)	22,386
<b>Total resale licensing revenue</b>	<b>136,250</b>	<b>131,278</b>	<b>73,418</b>
<b>Total seismic revenue</b>	<b>213,656</b>	<b>171,778</b>	<b>110,821</b>
<b>Solutions and other</b>	<b>4,352</b>	<b>3,778</b>	<b>4,524</b>
<b>Total revenue</b>	<b>\$ 218,008</b>	<b>\$ 175,556</b>	<b>\$ 115,345</b>

Total revenue was \$218.0 million for the year ended December 31, 2011 compared to \$175.6 million for the year ended December 31, 2010. This \$42.5 million, or 24%, increase was primarily due to an increase in acquisition revenue. Acquisition revenue increased to \$77.4 million in 2011 compared to \$40.5 million in 2010 due to our campaign to acquire data in unconventional plays and client interest in participating in the new projects. All of our data acquisition revenue in 2011 occurred in the key active unconventional plays in North America, primarily the Eagle Ford in south Texas, Marcellus in Pennsylvania, Niobrara in Colorado and Montney and Cardium in British Columbia. Total resale licensing revenue was \$136.3 million in 2011 compared to \$131.3 million in 2010. Cash resales were \$134.5 million in 2011 compared to \$137.6 million in 2010. Cash resales from 3D data located in unconventional plays totaled \$105.3 million, or 78%, of our cash resales in 2011 compared to \$93.9 million, or 68%, in 2010. Cash resales from conventional 3D, 2D and offshore data totaled \$29.2 million and \$43.7 million in 2011 and 2010, respectively. Non-monetary exchanges fluctuate year to year depending upon the data available for trade and totaled \$7.6 million in 2011 compared to \$4.7 million in 2010. Revenue recognition adjustments are non-cash adjustments to revenue and reflect the net amount of (i) revenue deferred as a result of all of the revenue recognition criteria not being met and (ii) the subsequent revenue recognition once the criteria are met. The increase of \$5.1 million in revenue recognition adjustments from 2010 to 2011 was primarily due to an increase in recognition of revenue previously deferred as a result of new data acquisition projects being completed and delivered partially offset by an increase in the deferral of new licensing contracts. Solutions and other revenue increased \$0.6 million in 2011 compared to 2010 due to the increase in total seismic revenue and the types of products delivered.





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Total revenue was \$175.6 million for the year ended December 31, 2010 compared to \$115.3 million for the year ended December 31, 2009. This \$60.2 million, or 52%, increase was primarily due to an increase in total resale licensing revenue. Acquisition revenue increased from \$37.4 million in 2009 to \$40.5 million in 2010, with the second half of 2010 reflecting resumed acquisition activity in both the U.S. and Canada following reduced activity in 2009 caused by the economic downturn. Acquisition revenue in 2010 related to unconventional plays, primarily the Haynesville in east Texas, Eagle Ford and Niobrara, as well as Montney and Horn River in Canada. Total resale licensing revenue was \$131.3 million in 2010 compared to \$73.4 million in 2009. The \$57.9 million, or 79%, increase in total resale licensing revenue reflected increased activity by our clients resulting from improving industry conditions and an increase in drilling activity in North America. Cash resales were \$137.6 million in 2010, up 179%, compared to \$49.3 million in 2009. Cash resales attributable to 3D data located in unconventional plays totaled \$93.9 million, or 68%, in 2010 compared to \$26.0 million, or 53%, in 2009. Cash resales from conventional 3D, 2D and offshore data totaled \$43.7 million and \$23.3 million in 2010 and 2009, respectively. Non-monetary exchanges fluctuate year to year depending upon the data available for trade and totaled \$4.7 million in 2010 compared to \$1.8 million in 2009. In 2010, the deferral of new licensing contracts exceeded the amount of revenue recognized from previously deferred contracts primarily as a result of cash resales on data that are still in the acquisition phase requiring deferral since the data products are not yet available for delivery as well as an increase in the value of library card contracts entered into in the period. Solutions and other revenue decreased \$0.7 million in 2010 compared to 2009 due to the completion of a data management project in 2009 and due to the mix of seismic revenue and the types of products delivered.

At December 31, 2011, we had a deferred revenue balance of \$48.8 million compared to the December 31, 2010 balance of \$37.1 million. The deferred revenue balance was related to (i) data licensing contracts on which selection of specific data had not yet occurred, (ii) deferred revenue on data acquisition projects and (iii) contracts in which the data products are not yet available or the revenue recognition criteria has not yet been met. The deferred revenue will be recognized when selection of specific data is made by the customer, upon expiration of the data selection period specified in the data licensing contracts, as work progresses on the data acquisition contracts, as the data products become available or as all of the revenue recognition criteria are met. Deferred revenue will be recognized no later than the following, based on the expiration of the selection period or our estimate of progress on acquisition projects and the availability of data products, although some revenue may be recognized earlier (in thousands):

	<b>\$0000000</b>
2012	\$ 42,131
2013	6,551
2014 and thereafter	163

### Depreciation and Amortization

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

	\$00000000	\$00000000	\$00000000
	Year Ended December 31,		
	2011	2010	2009
<b>Amortization of seismic data:</b>			
Income forecast	\$ 102,210	\$ 87,617	\$ 65,424
Straight-line	32,758	80,190	77,031
<b>Total amortization of seismic data</b>	<b>134,968</b>	<b>167,807</b>	<b>142,455</b>
Depreciation of property and equipment	2,167	2,081	2,256
Amortization of acquired intangibles	5,828	5,704	5,488
<b>Total</b>	<b>\$ 142,963</b>	<b>\$ 175,592</b>	<b>\$ 150,199</b>

Total seismic data library amortization amounted to \$135.0 million, \$167.8 million and \$142.5 million in 2011, 2010 and 2009, respectively. The amount of seismic data library amortization fluctuates based on the level and location of specific seismic surveys licensed (including licensing resulting from new data acquisition) and selected by our customers during any period as well as the amount of straight-line amortization required under our accounting policy. Additionally, the step-up in our data library value resulting from the Merger became fully amortized in the first quarter of 2011 which has resulted in a decrease in the level of straight-line amortization in 2011.



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

Components of Amortization	Year Ended December 31,		
	2011	2010	2009
Income forecast	48%	51%	59%
Straight-line	15%	47%	70%
<b>Total</b>	<b>63%</b>	<b>98%</b>	<b>129%</b>

The percentage of income forecast amortization to total seismic revenue was 48% for the year ended December 31, 2011; 51% for the year ended December 31, 2010; and 59% for the year ended December 31, 2009. In all three years, we had resale revenue recognized which was from data whose costs were fully amortized. In 2011, 50% of resales did not attract amortization, as compared to 36% in 2010 and 24% in 2009. Straight-line amortization represents the expense required under our accounting policy to ensure our data value is fully amortized within four years of when the data becomes available for sale. The \$47.4 million decrease in straight-line amortization from 2010 to 2011 was primarily because a significant portion of our data library became fully amortized in the first quarter of 2011 due to such data reaching its four-year life after the Merger. The \$3.2 million increase in straight-line amortization from 2009 to 2010 was due to the distribution of revenue among the various seismic surveys, resulting in more straight-line amortization in 2010.

For both of the years ended December 31, 2011 and 2010, the rates utilized under the income forecast method was 70% for all components. For the year ended December 31, 2009, the amortization rates utilized under the income forecast method ranged from 70% to 74%. The rate of amortization with respect to each component is decreased or increased if our estimate of future cash sales from such component is materially increased or decreased, subject to a minimum amortization rate of 70%. Additionally, certain seismic surveys have been fully amortized; consequently, no amortization expense is required on revenue recorded for these seismic surveys. As of January 1, 2012, the amortization rate to be utilized under the income forecast method is 70% for all components.

In connection with the Merger, we recorded acquired intangible assets of \$53.4 million, of which \$52.5 million are amortizable over their useful lives ranging from 1 to 10 years. Amortization related to customer relationships and internally developed software totaled \$5.8 million, \$5.7 million, and \$5.5 million for the years ended December 31, 2011, 2010 and 2009, respectively.

### Selling, General and Administrative Expenses

Selling, general and administrative ( SG&A ) expenses were \$31.6 million in 2011, \$31.8 million in 2010 and \$25.1 million in 2009. SG&A expenses are made up of the following expense categories (in thousands):

	Year Ended December 31,		
	\$00000000 2011	\$00000000 2010	\$00000000 2009
Cash SG&A expenses	\$ 30,906	\$ 28,398	\$ 21,804
Non-cash equity compensation expense	453	3,157	3,034
Non-cash rent expense	290	276	252
<b>Total</b>	<b>\$ 31,649</b>	<b>\$ 31,831</b>	<b>\$ 25,090</b>

The increase in cash SG&A expenses of \$2.5 million from the year ended December 31, 2010 to the year ended December 31, 2011 was primarily due to (1) an increase of \$1.4 million in salaries and benefits, (2) an increase of \$1.6 million in non-recurring expenses, mainly professional fees incurred with respect to evaluating debt restructuring alternatives and severance costs and (3) an increase of \$1.0 million in various other expenses associated with our increased revenue and acquisition activities in 2011. These increases were partially offset by a \$1.5 million decrease in our bad debt expense.

The increase in cash SG&A expenses of \$6.6 million from the year ended December 31, 2009 to the year ended December 31, 2010 was primarily due to (1) an increase in performance incentive compensation of \$4.4 million resulting from the improvement in 2010 cash EBITDA, (2) \$0.8 million expense related to a long-term incentive compensation plan implemented in 2010, (3) an increase of \$0.9 million in sales commissions as a result of higher revenues and (4) an increase of \$1.0 million in our allowance for doubtful accounts. These increases were partially offset by a decrease of \$0.5 million in various other expenses primarily related to severance and one-time costs associated with cost reduction measures.

The decrease in non-cash equity compensation expense of \$2.7 million between 2010 and 2011 was primarily due to the 2010 period including expense associated with the re-pricing of outstanding options granted to certain employees and non-employee directors. Additionally, there was a reduction in the expense related to stock options due to the expense being recognized using graded vesting and a significant portion of our options becoming fully vested in the first quarter of 2011. Non-cash equity compensation expense increased \$0.1 million in 2010 compared to 2009. The re-pricing of our outstanding stock options in May 2010 caused non-cash compensation expense to increase in 2010; this was partially offset by a reduction in expense related to stock options due to the use of graded vesting to amortize the compensation expense.

The non-cash rent expense represents amortization of a favorable facility lease that was recorded as an intangible asset in connection with the Merger and is being amortized over its remaining lease term from the Merger date of 6.25 years.

#### **Other Income (Expense)**

Interest expense was \$35.2 million for the year ended December 31, 2011, \$41.1 million for the year ended December 31, 2010 and \$41.2 million for the year ended December 31, 2009. The decrease in interest expense in 2011 was due to the repayment of \$125.0 million of our 9.75% Senior Notes on July 1, 2011.

The call premium paid to repay \$125.0 million of our 9.75% Senior Notes along with the write-off of the related unamortized issuance costs resulted in a \$7.9 million loss on early extinguishment of debt in 2011.

During the years ended December 31, 2011 and 2010, we sold \$2.5 million and \$4.2 million, respectively, of marketable securities through multiple transactions on an active international exchange. Total gains were equal to the proceeds received.

During the years ended December 31, 2011, 2010 and 2009, we reported foreign currency transaction gains (losses) on U.S. denominated transactions of our Canadian subsidiaries totaling \$(0.7) million, \$0.4 million and \$1.0 million, respectively.

#### **Income Taxes**

Tax expense (benefit) was \$0.4 million, \$(4.0) million and \$(3.0) million for the years ended December 31, 2011, 2010 and 2009, respectively. The 2011 expense was comprised of (i) an expense of \$1.0 million related to our Canadian operations, (ii) a benefit of \$0.4 million related to certain research and development tax credits received in Canada, (iii) a benefit of \$0.4 million related to U.S. state taxes and (iv) an expense of \$0.2 million related to interest on uncertain tax positions. The Federal tax benefit of \$0.2 million in 2011 resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

The 2010 benefit was comprised of (i) a benefit of \$3.7 million related to our Canadian operations, (ii) a benefit of \$0.4 million related to certain research and development tax credits received in Canada and (iii) an expense of \$0.1 million related to principal, penalties and interest on uncertain tax positions. The Federal tax benefit of \$18.1 million in 2010 resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

The 2009 benefit was comprised of (i) a benefit of \$2.8 million related to our Canadian operations, (ii) a benefit of \$0.3 million related to certain research and development tax credits received in Canada, (iii) \$0.1 million of state tax benefit in the U.S. and (iv) an expense of \$0.2 million related to principal, penalties and interest on uncertain tax positions. The Federal tax benefit of \$30.8 million in 2009 resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

### Liquidity and Capital Resources

As of December 31, 2011, we had \$74.9 million in consolidated cash and cash equivalents, including \$245,000 of restricted cash. As of December 31, 2011, approximately \$13.2 million of our cash was held by a foreign subsidiary which will be used to reinvest in our Canadian operations as our intent is to use this cash to, among other things, fund the operations of our Canadian subsidiary. If we decide at a later date to repatriate those funds to the U.S., we may be required to provide taxes on certain of those funds based on applicable U.S. tax rates net of foreign taxes.

In addition to the cash on our balance sheet, other sources of liquidity include our credit facility described below.

We maintain sufficient working capital to enable us to meet our obligations for new data acquisition projects. Our working capital practices are consistent with the general practices associated in the industry in which we operate.

**Credit Facility:** On May 25, 2011, we entered into a credit agreement ( Credit Facility ) which provides us with the ability to borrow up to \$30.0 million. The Credit Facility provides a \$30.0 million revolving credit facility with a Canadian sublimit of \$5.0 million, subject to borrowing base limitations. The Credit Facility expires on November 15, 2013, which date will be extended upon the occurrence of certain refinancing of our existing 9.75% Senior Notes. The Credit Facility requires that we maintain certain minimum excess availability levels (as defined in the Credit Facility) or the fixed charge coverage ratio (as defined in the Credit Facility) shall not be less than 1.00 to 1.00. As of December 31, 2011, no amounts were outstanding under the Credit Facility and there was \$30.0 million of availability.

**9.75% Senior Unsecured Notes:** On February 14, 2007, we issued in a private placement \$400.0 million aggregate principal amount of our 9.75% Senior Notes. The proceeds from the notes were used to partially fund the transactions in connection with the Merger. On July 1, 2011, we redeemed \$125.0 million aggregate principal amount of the 9.75% Senior Notes outstanding. The redemption price was equal to 104.875% of the principal amount of the notes, plus accrued and unpaid interest. Interest on these senior notes is payable in cash, semi-annually in arrears on February 15 and August 15. As of December 31, 2011, \$275.0 million of the 9.75% Senior Notes remain outstanding.

We may from time to time, as part of various financing and investing strategies, purchase our outstanding indebtedness. These purchases, if any, could have a material positive or negative impact on our liquidity available to repay outstanding debt obligations or on our consolidated results of operations.

**Contractual Obligations:** As of December 31, 2011, we had outstanding debt and lease obligations, with aggregate contractual cash obligations, including principal and interest, summarized as follows (in thousands):

	\$00000000	\$00000000	\$00000000	\$00000000	\$00000000
	Payments due by period				
	Total	2012	2013-2015	2016-2017	2018 and thereafter
Contractual cash obligations					
Debt obligations <sup>(1)(2)</sup>	\$ 342,133	\$ 26,884	\$ 315,249	\$	\$
Capital lease obligations <sup>(2)</sup>	4,359	390	1,209	833	1,927
Operating lease obligations	3,439	1,201	1,714	524	
Total contractual cash obligations	\$ 349,931	\$ 28,475	\$ 318,172	\$ 1,357	\$ 1,927

(1) Debt obligations include the face amount of our 9.75% Senior Notes totaling \$275.0 million.

(2) Amounts include interest related to debt and capital lease obligations.

**Cash Flows from Operating Activities:** Cash flows provided by operating activities were \$126.1 million, \$109.3 million, and \$40.9 million for the years ended December 31, 2011, 2010 and 2009, respectively. Operating cash flows for 2011 increased from 2010 primarily due to increased collections on acquisition underwriting partially offset by lower collections on cash resales and tax payments made to appeal the results of the CRA audit of Olympic Seismic Ltd., a wholly owned subsidiary. Operating cash flows for 2010 increased from 2009 primarily due to the higher level of our cash resales in 2010 and the related cash collections.



**Cash Flows from Investing Activities:** Cash flows used in investing activities were \$127.2 million, \$45.7 million, and \$56.3 million for the years ended December 31, 2011, 2010 and 2009, respectively. Cash expenditures for seismic data were \$127.0 million, \$49.5 million, and \$55.9 million for the years ended December 31, 2011, 2010 and 2009, respectively. The increase in cash invested in seismic data for 2011 compared to 2010 was due to increased data acquisition activity in both the U.S. and Canada. The decrease in cash invested in seismic data for 2010 compared to 2009 was primarily due to the reduced activity in 2009 caused by the economic downturn which had a continuing effect into 2010.

**Cash Flows from Financing Activities:** Cash flows used in financing activities were \$14.7 million, \$0.3 million and \$0.2 million for the years ended December 31, 2011, 2010 and 2009, respectively. In 2011, our financing activities primarily consisted of the following: (i) a \$125.0 million cash capital contribution by Holdings in connection with the minority interest investment in Holdings by Centerbridge in May 2011, (ii) \$131.1 million in principal and premium payments on our 9.75% Senior Notes, (iii) \$6.3 million in costs paid in conjunction with our Credit Facility and the Centerbridge transaction and (iv) \$2.0 million in principal payments on our 11.75% Senior Notes.

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

For a discussion of a number of factors that may impact our liquidity and the sufficiency of our capital resources, see [Overview](#) and [Item 1A. Risk Factors](#) above.

#### **Deferred Taxes**

As of December 31, 2011, we had a net deferred tax liability of \$1.4 million attributable to our Canadian operations. In the United States, we had a Federal deferred tax asset of \$108.0 million, all of which was fully offset by a valuation allowance. The recognition of the U.S. Federal deferred tax asset will not occur until such time that it is more likely than not that some portion or all of the Federal deferred tax asset will be realized. As of December 31, 2011, it was more likely than not that all of the U.S. Federal deferred tax asset will not be realized. Additionally, in the United States, we had a state deferred tax asset of \$56,000 which was recognized as it is more likely than not that the state deferred tax asset will be realized.

#### **Off-Balance Sheet Transactions**

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



## Capital Expenditures

During 2011, capital expenditures for seismic data and other property and equipment amounted to \$153.0 million. Our capital expenditures for 2012 are presently estimated to be \$215.0 million. Our 2011 actual and 2012 estimated capital expenditures are comprised of the following (in thousands):

	Year Ended December 31, 2011	Estimate For Year Ending December 31, 2012
New data acquisition	\$ 137,737	\$ 204,000
Cash purchases and data processing	2,894	3,000
Non-monetary exchanges	10,215	6,000
Property and equipment and other	2,121	2,000
<b>Total capital expenditures</b>	<b>152,967</b>	<b>215,000</b>
Less:		
Non-monetary exchanges	(10,215)	(6,000)
Changes in working capital	(13,652)	
<b>Cash investment per statement of cash flows</b>	<b>\$ 129,100</b>	<b>\$ 209,000</b>

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

	Year Ended December 31, 2011	Estimate For Year Ending December 31, 2012
<b>Total capital expenditures</b>	<b>\$ 152,967</b>	<b>\$ 215,000</b>
Less:		
Non-cash additions	(10,215)	(6,000)
Cash underwriting	(75,132)	(126,000)
<b>Capital expenditures funded from operating cash flows</b>	<b>\$ 67,620</b>	<b>\$ 83,000</b>

As of March 7, 2012, we had capital expenditure commitments related to data acquisition projects of approximately \$165.7 million of which we have obtained approximately \$99.4 million of cash underwriting and \$1.5 million of underwriting from non-monetary exchanges.

## Recent Accounting Pronouncements

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

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The ASU requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, entities will be required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 which indefinitely

deferred the requirement to present reclassification adjustments by component in both the statement

where net income is presented and the statement where other comprehensive income is presented. The deferral does not affect the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As the new standard does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, our financial position, results of operations or cash flows will not be impacted.

#### Reconciliation of Non-GAAP to GAAP Financial Measures

We believe the allocation of cash resales between data located in conventional and unconventional plays provides useful additional information about current trends in our operations. The tables below compare such non-GAAP information to information related to the most comparable GAAP measure, total revenue.

The following table reconciles cash resales to revenue recognized and summarizes the percentage of cash resales and total revenue generated from 3D data located in unconventional plays for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Unconventional 3D data cash resales	\$ 105,346	\$ 93,951	\$ 25,986
Other revenue components:			
Acquisition revenue	77,406	39,507	36,719
Non-monetary exchanges	7,306		
Revenue recognition adjustments	(10,168)	(13,058)	9,831
Unconventional 3D data total revenue	\$ 179,890	\$ 120,400	\$ 72,536
Percentage of total cash resales	78%	68%	53%
Percentage of total revenue	83%	69%	63%

The following table reconciles cash resales to revenue recognized for conventional 3D, 2D and offshore data for the years ended December 31, 2011, 2010 and 2009 (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Conventional 3D, 2D and offshore data cash resales	\$ 29,151	\$ 43,654	\$ 23,282
Other revenue components:			
Acquisition revenue		993	684
Non-monetary exchanges	303	4,678	1,764
Revenue recognition adjustments	4,312	2,053	12,555
Conventional 3D, 2D and offshore data total revenue	\$ 33,766	\$ 51,378	\$ 38,285

#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

##### Interest Rate Risk

We may enter into various financial instruments, such as interest rate swaps or interest rate lock agreements, to manage the impact of changes in interest rates. Currently, we have no open interest rate swap or interest rate lock agreements. Therefore, our exposure to changes in interest rates primarily results from our short-term and long-term debt with both fixed and floating interest rates. As of December 31, 2011 and 2010 we did not have any debt outstanding with floating interest rates. The following table presents principal or notional amounts by year of maturity (stated in thousands) and average interest rates for our debt obligations and their indicated fair market value at December 31, 2011:



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	0000000	0000000	0000000	0000000	0000000	0000000	0000000	0000000
	2012	2013	2014	2015	2016	There- after	Total	Fair Value
Debt:								
Fixed Rate	\$ 66	\$ 29	\$ 275,000	\$	\$	\$	\$ 275,095	\$ 273,024
Average Interest Rate	9.75%	9.75%	9.75%				9.75%	

The following table presents principal or notional amounts by year of maturity (stated in thousands) and average interest rates for our debt obligations and their indicated fair market value at December 31, 2010:

	00000000	00000000	00000000	00000000	00000000	00000000	00000000	00000000
	2011	2012	2013	2014	2015	There- after	Total	Fair Value
Debt:								
Fixed Rate	\$ 2,059	\$ 66	\$ 29	\$ 400,000		\$	\$ 402,154	\$ 386,077
Average Interest Rate	9.76%	9.75%	9.75%	9.75%			9.76%	

**Foreign Currency Exchange Rate Risk**

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

**Item 8. Financial Statements and Supplementary Data**

The financial statements and financial statement schedules required by this Item are set forth at the pages indicated in Item 15(a) (1) and (2) below.

**Item 9. Change in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

As of December 31, 2011, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our President and Chief Executive Officer along with our Chief Financial Officer concluded that our disclosure controls and procedures as of December 31, 2011 were designed to ensure, and were effective in ensuring, that our information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

**Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining effective internal control over financial reporting (as defined in Rules 13a-15(f) or 15d-15(f) promulgated under the Exchange Act) for us. Even an effective internal control system, no matter how well designed, has inherent limitations, including the possibility of human error and circumvention or overriding of controls and therefore can provide only reasonable assurance with respect to reliable financial reporting. Furthermore, the effectiveness of a system of internal control over financial reporting in future periods can change as conditions change.



Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2011. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. Based on this assessment and such criteria, management believes that, as of December 31, 2011, our internal control over financial reporting was effective. Our assessment also appears on page F-1.

This annual report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to an exemption for non-accelerated filers set forth in the Dodd-Frank Wall Street Reform and Consumer Protection Act.

#### **Changes in Internal Controls Over Financial Reporting**

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

#### **Item 9B. Other Information**

None.

### **PART III**

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated herein by reference from our Form 10-K/A to be filed within 120 days after December 31, 2011, under a similarly entitled caption.

#### **Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference from our Form 10-K/A to be filed within 120 days after December 31, 2011, under a similarly entitled caption.

#### **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference from our Form 10-K/A to be filed within 120 days after December 31, 2011, under a similarly entitled caption.

#### **Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference from our Form 10-K/A to be filed within 120 days after December 31, 2011, under a similarly entitled caption.

#### **Item 14. Principal Accountant Fees and Services**

The information required by this Item is incorporated herein by reference from our Form 10-K/A to be filed within 120 days after December 31, 2011, under a similarly entitled caption.

**PART IV**

**Item 15. Exhibits and Financial Statement Schedules**

(a) Documents files as part of this Report.

	Page
(1) Financial Statements	
<u>Management's Report on Internal Control Over Financial Reporting</u>	F-1
<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets</u>	F-3
<u>Consolidated Statements of Operations</u>	F-5
<u>Consolidated Statements of Stockholder's Equity</u>	F-6
<u>Consolidated Statements of Cash Flows</u>	F-7
<u>Notes to Consolidated Financial Statements</u>	F-9
<u>(2) Schedule II - Valuation and Qualifying Accounts</u>	S-2

(3) Exhibits:

- 2.1 Agreement and Plan of Merger by and among Seitel Holdings, LLC (now known as Seitel Holdings, Inc.), Seitel Acquisition Corp. and Seitel, Inc., dated October 31, 2006 (incorporated by reference from Exhibit 2.1 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on November 2, 2006) (Seitel, Inc. agrees to furnish supplementally a copy of any omitted schedule to the SEC upon request).
- 3.1 Certificate of Incorporation of Seitel, Inc. (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
- 3.2 Bylaws of Seitel, Inc. (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
- 4.1 Indenture governing 11.75% Senior Subordinated Notes due 2011 by and among Seitel, Inc., the Guarantors named therein and LaSalle Bank National Association, as Trustee, dated July 2, 2004 (incorporated by reference from Exhibit 4.4 to the Seitel, Inc. Post Effective Amendment No. 1 to the Seitel, Inc. Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on July 2, 2004).
- 4.2 Form of 11.75% Senior Subordinated Notes due 2011 (included in Exhibit 4.1).
- 4.3 Supplemental Indenture by and among Seitel, Inc., the Guarantors named therein and UBS Securities LLC and Jeffries & Company, Inc., as Initial Purchasers, dated July 2, 2004 (incorporated by reference from Exhibit 4.5 to the Seitel, Inc. Post Effective Amendment No. 1 to the Seitel, Inc. Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on July 2, 2004).
- 4.4 Indenture governing 9.75% Senior Notes due 2014 by and among Seitel, Inc., the Guarantors named therein and LaSalle Bank National Association, as Trustee, dated February 14, 2007 (incorporated by reference from Exhibit 4.6 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
- 4.5 Form of 9.75% Senior Notes due 2014 (included in Exhibit 4.4) (incorporated by reference from Exhibit 4.7 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).



- 4.6 Supplemental Indenture by and among Seitel, Inc., the Guarantors named therein and LaSalle Bank National Association, as Trustee, dated January 31, 2007 (incorporated by reference from Exhibit 4.1 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on February 2, 2007).
- 10.1 Support Agreement by and among Seitel, Inc., Seitel Holdings, Inc. and ValueAct Capital Master Fund, L.P., dated October 31, 2006 (incorporated by reference from Exhibit 2.2 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on November 2, 2006).
- 10.2 Credit Agreement, dated May 25, 2011, by and among Seitel, Inc. and Olympic Seismic Ltd., as borrowers, and Wells Fargo Capital Finance, LLC and Wells Fargo Capital Finance Corporation Canada, as lenders (incorporated by reference from Exhibit 10.1 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on June 1, 2011).
- 10.3 Security Agreement, dated May 25, 2011, by and among the Grantors listed on the signature pages thereto and Wells Fargo Capital Finance, LLC, as administrative agent and collateral agent (incorporated by reference from Exhibit 10.2 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on June 1, 2011).
- 10.4 Trademark Security Agreement, dated May 25, 2011, by and among the Grantors listed on the signature pages thereto and Wells Fargo Capital Finance, LLC, as administrative agent and collateral agent (incorporated by reference from Exhibit 10.3 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on June 1, 2011).
- 10.5 Amendment No. 1 to Credit Agreement, dated November 28, 2011, by and among Seitel, Inc. and Olympic Seismic Ltd., as borrowers, and Wells Fargo Capital Finance, LLC and Wells Fargo Capital Finance Corporation Canada, as lenders and agents (incorporated by reference from Exhibit 10.1 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on November 30, 2011).
- 10.6 Amended and Restated Advisory Agreement, dated May 23, 2011, by and among Seitel, Inc., Seitel Holdings, Inc., ValueAct Capital Management L.P., and Centerbridge Advisors II, L.L.C. (incorporated by reference from Exhibit 10.1 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on May 25, 2011).
- 10.7 Amended and Restated Securities Holders Agreement, dated May 23, 2011, by and among Seitel Holdings, Inc., ValueAct Capital Master Fund, L.P., Centerbridge Capital Partners II, L.P., Centerbridge Capital Partners SBS II, L.P. and each of the Management Investors named therein (incorporated by reference from Exhibit 10.2 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on May 25, 2011).
- 10.8 Amended and Restated Registration Rights Agreement, dated May 23, 2011 by and among Seitel Holdings, Inc., ValueAct Capital Master Fund, L.P., Centerbridge Capital Partners II, L.P., Centerbridge Capital Partners SBS II, L.P. and each of the Management Investors named therein (incorporated by reference from Exhibit 10.3 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on May 25, 2011).
- 10.9 Joinder to Securities Holders Agreement and Registration Rights Agreement of Philip B. Livingston, dated February 16, 2007 (incorporated by reference from Exhibit 10.9 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
- 10.10 Joinder to Securities Holders Agreement and Registration Rights Agreement of Jay H. Golding, dated May 24, 2007 (incorporated by reference from Exhibit 10.10 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).

- 10.11 Joinder to Securities Holders Agreement and Registration Rights Agreement of John E. Jackson, dated August 1, 2007 (incorporated by reference from Exhibit 10.12 to the annual report on Form 10-K for the year ended December 31, 2007, as filed with the SEC on March 31, 2008).
- 10.12 Seitel Holdings, Inc. 2007 Non-Qualified Stock Option Plan, effective February 14, 2007, as amended as of June 30, 2008 (incorporated by reference from Exhibit 10.3 to the quarterly report on Form 10-Q for the quarter ended June 30, 2008, as filed with the SEC on August 13, 2008).
- 10.13 Amendment to the 2007 Non-Qualified Stock Option Plan of Seitel Holdings, Inc., dated May 23, 2011 (incorporated by reference from Exhibit 10.7 to the quarterly report on Form 10-Q for the quarter ended June 30, 2011, as filed with the SEC on August 12, 2011).
- 10.14 Form of Stock Option Agreement (incorporated by reference from Exhibit 10.12 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
- 10.15 Form of Stock Option Agreement (incorporated by reference from Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended June 30, 2010, as filed with the SEC on August 9, 2010).
- 10.16 Seitel Holdings, Inc. 2008 Restricted Stock and Restricted Stock Unit Plan, effective April 8, 2008 (incorporated by reference from Exhibit 10.1 to the quarterly report on Form 10-Q for the quarter ended June 30, 2008, as filed with the SEC on August 13, 2008).
- 10.17 Form of Seitel Holdings, Inc. Restricted Stock Unit Award Agreement (incorporated by reference from Exhibit 10.2 to the quarterly report on Form 10-Q for the quarter ended June 30, 2008, as filed with the SEC on August 13, 2008).
- 10.18 Summary of 2011 Long-Term Incentive Plan (incorporated by reference from Exhibit 10.19 to the annual report on Form 10-K for the year ended December 31, 2010, as filed with the SEC on March 16, 2011).
- 10.19 Employment Agreement by and between Seitel, Inc. and Robert D. Monson, dated January 30, 2007 (incorporated by reference from Exhibit 10.13 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
- 10.20 Employment Agreement by and between Seitel, Inc. and Kevin P. Callaghan, dated January 30, 2007 (incorporated by reference from Exhibit 10.15 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
- 10.21 Form of Amendment to Employment Agreement (incorporated by reference from Exhibit 10.1 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on June 8, 2009).
- 10.22 Form of Second Amendment to Employment Agreement (incorporated by reference from Exhibit 10.1 to the current report on Form 8-K, as filed with the SEC on January 27, 2010).
- 21.1\* Subsidiaries of Seitel, Inc.
- 31.1\* Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002
- 31.2\* Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002

32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

Management contract, compensation plan or arrangement.

\* Filed herewith.

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

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Act of 1934, the Registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

SEITEL, INC.

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

Date: March 14, 2012

Pursuant to the requirements of the Securities Act of 1934, this Report on Form 10-K has been signed below by the following persons on behalf of the Registrant in the capacities and on the date indicated.

Signature	Title	Date
/s/ Gregory P. Spivy Gregory P. Spivy	Chairman of the Board of Directors	March 14, 2012
/s/ Robert D. Monson Robert D. Monson	Chief Executive Officer, President and Director (Principal Executive Officer)	March 14, 2012
/s/ Marcia H. Kendrick Marcia H. Kendrick	Chief Financial Officer (Principal Financial Officer)	March 14, 2012
/s/ Allison A. Bennington Allison A. Bennington	Director	March 14, 2012
/s/ Ryan M. Birtwell Ryan M. Birtwell	Director	March 14, 2012
/s/ Dalton J. Boutte Dalton J. Boutte	Director	March 14, 2012
/s/ Kevin P. Callaghan Kevin P. Callaghan	Chief Operating Officer and Director	March 14, 2012
/s/ Kyle N. Cruz Kyle N. Cruz	Director	March 14, 2012
/s/ Jay H. Golding Jay H. Golding	Director	March 14, 2012
/s/ John E. Jackson John E. Jackson	Director	March 14, 2012
/s/ Daniel R. Osnoss Daniel R. Osnoss	Director	March 14, 2012

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**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The accompanying consolidated financial statements of Seitel, Inc. and its subsidiaries (Seitel) were prepared by management, which is responsible for their integrity, objectivity and fair presentation. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States of America and, accordingly, include some amounts that are based on the best estimates and judgments of management.

Seitel's management is also responsible for establishing and maintaining effective internal control over financial reporting. The system of internal control of Seitel is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America. This system consists of 1) entity level controls, including written policies and guidelines relating to the ethical conduct of business affairs, 2) general computer controls and 3) process controls over initiating, authorizing, recording, processing and reporting transactions. Even an effective internal control system, no matter how well designed, has inherent limitations, including the possibility of human error and circumvention or overriding of controls and therefore can provide only reasonable assurance with respect to reliable financial reporting. Furthermore, the effectiveness of an internal control system in future periods can change with conditions.

The adequacy of financial controls of Seitel and the accounting principles employed in financial reporting by Seitel are under the general oversight of the Audit Committee of the Board of Directors. No member of this committee is an officer or employee of Seitel. Seitel's independent registered public accounting firm has full, free, separate and direct access to the Audit Committee and meets with the committee from time to time to discuss accounting, auditing and financial reporting matters.

Seitel's management assessed the effectiveness of Seitel's internal control over financial reporting as of December 31, 2011. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control - Integrated Framework*. These criteria cover the control environment, risk assessment process, control activities, information and communication systems, and monitoring activities. Based on this assessment, management believes that, as of December 31, 2011, Seitel's internal control over financial reporting is effective based on those criteria.

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

/s/ Marcia H. Kendrick  
Marcia H. Kendrick  
*Executive Vice President and*

*Chief Financial Officer*

Houston, Texas

March 14, 2012

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Audit Committee, Board of Directors and Stockholder

Seitel, Inc.

Houston, Texas

We have audited the accompanying consolidated balance sheets of Seitel, Inc., as of December 31, 2011 and 2010, and the related consolidated statements of operations, stockholder's equity and cash flows for each of the years in the three year period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB) (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, and we were not engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audits also included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Seitel, Inc., as of December 31, 2011 and 2010, and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

*/s/ BKD, LLP*

Houston, Texas

March 14, 2012

**SEITEL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****(In thousands)**

	December 31,	
	2011	2010
<b>ASSETS</b>		
Cash and cash equivalents	\$ 74,894	\$ 89,971
Receivables		
Trade, less allowance for doubtful accounts of \$1,043 and \$2,556 at December 31, 2011 and 2010, respectively	51,306	34,404
Notes and other, less allowance for doubtful accounts of \$1,501 and \$0 at December 31, 2011 and 2010, respectively	4,322	84
Due from Seitel Holdings, Inc. (Note K)	861	156
Seismic data library (Note B)	872,674	728,134
Less: Accumulated amortization	(751,980)	(622,030)
Net seismic data library	120,694	106,104
Property and equipment	16,921	15,150
Less: Accumulated depreciation and amortization	(11,882)	(9,704)
Net property and equipment	5,039	5,446
Investment in marketable securities	262	3,102
Prepaid expenses, deferred charges and other	10,244	10,249
Intangible assets, net (Note C)	26,814	33,117
Goodwill (Note C)	205,838	208,050
Deferred income taxes (Note D)	56	326
<b>TOTAL ASSETS</b>	<b>\$ 500,330</b>	<b>\$ 491,009</b>

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

**SEITEL, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS-continued****(In thousands, except share and per share amounts)**

	December 31,	
	2011	2010
<b>LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)</b>		
Accounts payable	\$ 36,593	\$ 21,013
Accrued liabilities	16,856	25,588
Employee compensation payable	7,101	6,569
Income taxes payable	1,464	8
Debt (Note E)		
Senior Notes	275,000	402,056
Notes payable	95	154
Obligations under capital leases (Note F)	3,161	3,394
Deferred revenue (Note A)	48,845	37,121
Deferred income taxes (Note D)	1,375	2,128
<b>TOTAL LIABILITIES</b>	<b>390,490</b>	<b>498,031</b>
<b>COMMITMENTS AND CONTINGENCIES (Note G)</b>		
<b>STOCKHOLDER'S EQUITY (DEFICIT)</b>		
Common stock, par value \$.001 per share; 100 shares authorized, issued and outstanding at December 31, 2011 and 2010		
Additional paid-in capital	398,011	277,488
Retained deficit	(309,185)	(311,401)
Accumulated other comprehensive income	21,014	26,891
<b>TOTAL STOCKHOLDER'S EQUITY (DEFICIT)</b>	<b>109,840</b>	<b>(7,022)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY (DEFICIT)</b>	<b>\$ 500,330</b>	<b>\$ 491,009</b>

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



## SEITEL, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

	Year Ended December 31,		
	2011	2010	2009
REVENUE	\$ 218,008	\$ 175,556	\$ 115,345
EXPENSES:			
Depreciation and amortization	142,963	175,592	150,199
Cost of sales	100	97	290
Selling, general and administrative	31,649	31,831	25,090
	174,712	207,520	175,579
INCOME (LOSS) FROM OPERATIONS	43,296	(31,964)	(60,234)
Interest expense	(35,246)	(41,094)	(41,194)
Interest income	479	558	498
Foreign currency exchange gains (losses)	(726)	441	1,008
Loss on early extinguishment of debt	(7,912)		
Gain on sale of marketable securities	2,467	4,188	
Other income	250	446	151
Income (loss) before income taxes	2,608	(67,425)	(99,771)
Provision (benefit) for income taxes	392	(4,008)	(2,974)
NET INCOME (LOSS)	\$ 2,216	\$ (63,417)	\$ (96,797)

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

## SEITEL, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share amounts)

	Comprehensive Loss	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2008		100	\$	\$ 271,297	\$ (151,187)	\$ (4,325)
Amortization of stock-based compensation costs				3,034		
Net loss	\$ (96,797)				(96,797)	
Foreign currency translation adjustments	22,483					22,483
Unrealized gain on marketable securities, net of tax:	1,856					1,856
Comprehensive loss	\$ (72,458)					
Balance, December 31, 2009		100		274,331	(247,984)	20,014
Amortization of stock-based compensation costs				3,157		
Net loss	\$ (63,417)				(63,417)	
Foreign currency translation adjustments	6,948					6,948
Unrealized gain on securities held as available for sale, net of tax:						
Unrealized net holding gain arising during the period	4,117					4,117
Less: Reclassification adjustment for realized gains included in earnings	(4,188)					(4,188)
Comprehensive loss	\$ (56,540)					
Balance, December 31, 2010		100		277,488	(311,401)	26,891
Investment by Parent, net				120,070		
Amortization of stock-based compensation costs				453		
Net income	\$ 2,216				2,216	
Foreign currency translation adjustments	(3,037)					(3,037)
Unrealized gain on securities held as available for sale, net of tax:						
Unrealized net holding loss arising during the period	(373)					(373)
Less: Reclassification adjustment for realized gains included in earnings	(2,467)					(2,467)
Comprehensive loss	\$ (3,661)					
Balance, December 31, 2011		100	\$	\$ 398,011	\$ (309,185)	\$ 21,014

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

## SEITEL, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2011	2010	2009
Cash flows from operating activities:			
Reconciliation of net income (loss) to net cash provided by operating activities:			
Net income (loss)	\$ 2,216	\$ (63,417)	\$ (96,797)
Depreciation and amortization	142,963	175,592	150,199
Loss on early extinguishment of debt	7,912		
Deferred income tax benefit	(289)	(4,053)	(2,924)
Amortization of deferred financing costs	1,999	1,753	1,832
Amortization of debt premium	(56)	(98)	(93)
Amortization of stock-based compensation	453	3,157	3,034
Amortization of favorable lease facility	290	276	252
Allowance for collection of trade receivables	12	1,524	513
Non-cash other income	(98)	(124)	
Non-cash revenue	(9,514)	(9,864)	(7,413)
Gain on sale of marketable securities	(2,467)	(4,188)	
Loss on sale of subsidiary			19
Decrease (increase) in receivables	(20,277)	(7,285)	22,997
Decrease (increase) in other assets	(471)	(156)	1,180
Increase (decrease) in deferred revenue	11,108	12,811	(27,194)
Increase (decrease) in accounts payable and other liabilities	(7,684)	3,393	(4,751)
Net cash provided by operating activities	126,097	109,321	40,854
Cash flows from investing activities:			
Cash invested in seismic data	(126,979)	(49,465)	(55,865)
Cash paid to acquire property, equipment and other	(2,121)	(527)	(400)
Net proceeds from sale of marketable securities	2,467	4,188	
Cash transferred upon sale of subsidiary			(22)
Cash from sale of property, equipment and other	122	86	15
Advances to Seitel Holdings, Inc.	(755)	(9)	(11)
Repayment from Seitel Holdings, Inc.	50		
Net cash used in investing activities	\$ (127,216)	\$ (45,727)	\$ (56,283)

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

## SEITEL, INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS, continued

(In thousands)

	Year Ended December 31,		
	2011	2010	2009
<b>Cash flows from financing activities:</b>			
Contributed capital	\$ 125,000	\$	\$
Repayment of 9.75% Senior Notes	(131,094)		
Repayment of 11.75% Senior Notes	(2,000)		
Principal payments on notes payable	(59)	(54)	(48)
Principal payments on capital lease obligations	(164)	(146)	(124)
Borrowings on line of credit	737	10	401
Payments on line of credit	(737)	(10)	(401)
Costs of debt and equity transactions	(6,338)	(65)	
Net cash used in financing activities	(14,655)	(265)	(172)
Effect of exchange rate changes	697	372	(807)
Net increase (decrease) in cash and cash equivalents	(15,077)	63,701	(16,408)
Cash and cash equivalents at beginning of period	89,971	26,270	42,678
Cash and cash equivalents at end of period	\$ 74,894	\$ 89,971	\$ 26,270
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid during the period for:			
Interest	\$ 37,981	\$ 39,440	\$ 39,455
Income taxes, net of refunds received	\$ 7,979	\$ (53)	\$ 281
<b>Supplemental disclosure of non-cash investing activities:</b>			
Additions to seismic data library	\$ 10,215	\$ 10,545	\$ 2,197

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

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2011

NOTE A-BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

**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 in which ValueAct Capital Master Fund, L.P. ( ValueAct Capital ) owns a majority interest. In May 2011, Centerbridge Capital Partners II, L.P. and Centerbridge Capital Partners SBS II, L.P. (together with Centerbridge Capital Partners II, L.P., Centerbridge ) purchased a minority interest in Holdings.

**Nature of Operations:** The Company owns an extensive library of proprietary onshore and offshore seismic data that it offers for license to oil and gas companies. The Company's library includes a vast amount of data across both unconventional plays and conventional oil and gas basins. Unconventional plays are those that cannot be produced at economic flow rates, nor in economic volumes without the use of advanced stimulation techniques, usually for reasons of low permeability. The more common of these advanced stimulation techniques are horizontal drilling and hydraulic fracturing or any others that would enhance recovery rates. Included in these unconventional resources are heavy oil, tar sands, shale gas and oil, gas hydrates and coalbed methane. The Company has leading seismic market positions in key North American unconventional plays, including Eagle Ford, Marcellus, Niobrara and Haynesville (Bossier) in the United States and Montney, Cardium and Horn River in Canada. The majority of the Company's conventional seismic data covers onshore regions within North America with the remainder covering offshore United States. To support its seismic data licensing business and its clients, the Company maintains warehouse and electronic storage facilities in Houston, Texas and Calgary, Alberta, Canada and offers, through its Seitel Solutions business unit ("Solutions"), the ability to access and interact, via a standard web browser and the Internet, with the seismic data library owned and marketed by the Company.

**Basis of Presentation:** The accompanying consolidated financial statements include the accounts of the Company and the accounts of its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the amounts in the prior year's financial statements to conform to the current year's presentation.

The Company presents its consolidated balance sheets on an unclassified basis. The portion of seismic data library costs to be amortized during the next year cannot be classified as a current asset due to Securities and Exchange Commission ("SEC") guidance. Classification of all of these costs as noncurrent would be misleading to the reader because it would not indicate the level of assets expected to be converted into cash in the next year.

**Use of Estimates and Assumptions:** 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. These estimates and assumptions must be made because certain information that is used in the preparation of the Company's financial statements is dependent on future events, cannot be calculated with a high degree of precision from data available or is not otherwise capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and the Company must exercise significant judgment.

The most difficult, subjective and complex estimates and assumptions that deal with the greatest amount of uncertainty are related to the Company's accounting for its seismic data library and goodwill.

**SEITEL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** Continued

The Company's accounting for its seismic data library requires it to make significant subjective estimates and assumptions relative to future sales and cash flows from such library. These cash flows impact amortization rates, as well as potential impairment charges. Any changes in the Company's estimates or underlying assumptions will impact the Company's income from operations prospectively from the date changes are made. To the extent that such estimates, or the assumptions used to make those estimates, prove to be significantly different than actual results, the carrying value of the seismic data library may be subject to higher prospective amortization rates, additional straight-line amortization or impairment losses.

In a portion of its seismic data library activities, the Company engages in certain non-monetary exchanges and records a data library asset for the seismic data received and recognizes revenue on the transaction in accordance with its policies on revenue recognition. These transactions are valued at the fair value of the data received by the Company or licenses or services granted by the Company, whichever is more readily determinable. In addition, the Company obtains third-party concurrence on the portfolio of all non-monetary exchanges for data valued at \$750,000 or more in order to support its estimate of the fair value of the transactions. The Company's estimate of the value of these transactions is highly subjective and based, in large part, on data sales transactions between the Company and a limited number of customers over a limited time period, and appraisals of the value of such transactions based on a relatively small market of private transactions over a limited period of time.

The Company conducts a qualitative goodwill impairment assessment as of October 1 of each year. If, based on the Company's qualitative procedures, it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company is required to perform a two-step impairment test to identify potential goodwill impairment and measure the amount of a goodwill impairment loss to be recognized. The impairment test involves a comparison of the fair value of a reporting unit with its carrying amount, including goodwill to identify if a goodwill impairment exists. If necessary, an impairment loss is recognized as an amount equal to the excess of the carrying amount of goodwill over the implied fair value of goodwill. For its estimates of the fair value of goodwill, the Company prepares discounted cash flow analysis, which requires significant judgments and estimates about the future performance of the Company. If these projected cash flows change materially, the Company may be required to record impairment losses relative to goodwill.

Actual results could differ materially from the estimates and assumptions that the Company uses in the preparation of its financial statements. To the extent management's estimates and assumptions change in the future, the effect on the Company's reported results could be significant to any particular reporting period.

**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 payments for the initial licenses are sometimes referred to as underwriting or prefunding. Customers make periodic payments throughout the creation period, which generally correspond to costs incurred and work performed. These payments are non-refundable. The Company considers the contracts signed up to the time the Company makes a firm commitment to create the new seismic survey as underwriting. Any subsequent licensing of the data while it is in progress is considered a resale license (see Revenue from Non-Exclusive Data Licenses).

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

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**SEITEL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    *Continued*

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

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

***Revenue from Non-Exclusive Data Licenses***

The Company recognizes a substantial portion of its revenue from licensing of data once it is available for delivery. These are sometimes referred to as resale licensing revenue, post-acquisition license sales or shelf sales.

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

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

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

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

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

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

that all customers must also execute a master license agreement that governs the use of all data received under 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;

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**SEITEL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

the actual data that is accessible to the customer; and

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

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

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

the sales price is fixed and determinable;

collection is reasonably assured;

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

the data is currently available for delivery;

and the license term has begun.

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

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

***Revenue from Non-Monetary Exchanges***

In certain cases, the Company will take ownership of a customer's seismic data or revenue interest (collectively referred to as "data") in exchange for a non-exclusive license to selected seismic data from the Company's library and, in some cases, services provided by Solutions. In connection with specific data acquisition contracts, the Company may choose to receive both cash and ownership of seismic data from the customer as consideration for the underwriting of new data acquisition. In addition, the Company may receive 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 policies on revenue from data licenses, which is, when the data is selected by the customer, or revenue from data acquisition, as applicable, or as services are provided by Solutions. The data license to the customer is in the form of one of the four basic forms of contracts discussed above. These transactions are valued at the fair value of the data received or delivered, whichever is more readily determinable.

**SEITEL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** Continued

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

First, the Company considers the value of the data or services received from the customer. In determining the value of the data received, the Company considers the age, quality, current demand and future marketability of the data and, in the case of 3D seismic data, the cost that would be required to create the data. In addition, the Company applies a limitation on the value it assigns per square mile on the data received. In determining the value of the services received, the Company considers the cost of such similar services that it could obtain from a third party provider.

Second, the Company determines the value of the license granted to the customer. Typically, the range of cash transactions by the Company for licenses of similar data during the prior six months are evaluated. In evaluating the range of cash transactions, the Company does not consider transactions that are disproportionately high or low.

Third, the Company obtains concurrence from an independent third party on the portfolio of all non-monetary exchanges for data valued at \$750,000 or more in order to support the Company's valuation of the data received. The Company obtains this concurrence on an annual basis, usually in connection with the preparation of its annual financial statements.

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

	Year Ended December 31,		
	2011	2010	2009
Seismic data library additions	\$ 10,215	\$ 10,545	\$ 2,197
Revenue recognized based on specific data licenses or selections of data	7,169	7,187	4,575
Revenue recognized related to acquisition contracts	2,274	2,677	2,838
Revenue recognized related to Solutions	71		

***Revenue from Solutions***

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

**Trade Receivables:** The Company extends credit to various companies in the oil and gas industry for the purchase of their seismic data, which results in a concentration of credit risk. This concentration of credit risk may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. However, management believes that the risk is mitigated by the number, size, reputation, and diversified nature of the companies to which they extend credit. Historical credit losses incurred on receivables by the Company have not been significant relative to sales. The Company determines the adequacy of its allowance for doubtful accounts based on a periodic review of specific receivables for which revenue has been recognized.

In certain transactions, the Company may permit a customer to make payments on receivables over a period of time. If such payments extend beyond one year from the transaction date, the Company discounts such receivable and recognizes interest income over the term of the payments.

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**SEITEL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued**

**Major Customers:** One customer accounted for approximately 11% of revenue for the year ended December 31, 2011. No single customer accounted for 10% or more of revenue for the years ended December 31, 2010 and 2009.

**Property and Equipment:** Property and equipment consists primarily of computer equipment, leasehold improvements and furniture and fixtures stated at historical cost through February 13, 2007, at which time the Company adjusted its property and equipment to fair value in accordance with purchase accounting. Subsequent additions are stated at historical cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, the majority of which are three to five years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the term of the underlying lease. Depreciation expense for the years ended December 31, 2011, 2010 and 2009 was \$2.2 million, \$2.1 million, and \$2.3 million, respectively.

**Marketable Equity Securities:** Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. The Company's marketable securities are categorized as available-for-sale and are carried at fair value, with unrealized holding gains and losses, net of taxes, reflected in accumulated other comprehensive income included in stockholder's equity until realized. For the purpose of computing realized gains and losses, cost is identified on a specific identification basis.

During 2011 and 2010, the Company sold its marketable equity securities through a series of transactions. Proceeds from the sales were \$2.5 million and \$4.2 million for the years ended December 31, 2011 and 2010, respectively. Total realized gains were equal to proceeds received. As of December 31, 2011 and 2010, total unrealized gains on marketable securities were \$0.3 million and \$3.1 million, respectively. The deferred tax expense of \$0.1 million and \$1.1 million on the net gains was not recognized at December 31, 2011 and December 31, 2010, respectively, due to Company's deferred tax asset having a full valuation allowance.

**Debt Issue Costs:** Debt issue costs related to the Company's senior notes and revolving credit facility are included in prepaid expenses, deferred charges and other assets in the consolidated balance sheets. Such costs are amortized over the scheduled maturities of the debt. As of December 31, 2011 and 2010, unamortized debt issue costs were \$4.4 million and \$6.8 million, respectively.

**Business Combinations:** The Company accounts for the assets acquired and liabilities assumed in a business combination based on fair value estimates as of the date of acquisition. These estimates are revised during the measurement period as necessary if, and when, information becomes available to further define and quantify assets acquired and liabilities assumed. The measurement period may not exceed one year. To the extent the fair value estimates are resolved or settled during the measurement period, such items are included in the revised allocation of the purchase price. After the measurement period, the effect of changes in the purchase price allocation is included in results of operations in the periods in which the adjustments are determined.

**Goodwill and Other Intangible Assets:** Goodwill is the excess of purchase price over the fair value of the net assets of acquired businesses. The Company does not amortize goodwill and indefinite-lived intangibles but, at least annually, evaluates whether goodwill and indefinite-lived intangibles are impaired. Goodwill is considered impaired if the carrying amount of the reporting unit exceeds its estimated fair value. During 2011, the Company adopted Accounting Standards Update (ASU) 2011-08 Testing Goodwill for Impairment which permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The Company conducts a qualitative goodwill impairment assessment as of October 1 of each year by examining relevant events and circumstances which could have a negative impact on its goodwill such as macroeconomic conditions, industry and market conditions, cost factors that have a negative effect on earnings and cash flows, overall financial performance, and other relevant entity-specific events. If after assessing the totality of events or circumstances described above, the Company determines that it is more likely

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**SEITEL, INC. AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

than not that the fair value of the reporting unit is less than its carrying amount, the two-step goodwill test is performed. The two-step goodwill impairment test is also performed whenever events or changes in circumstances indicate that the carrying value may not be recoverable. If it is necessary to perform an analysis to determine if the Company's goodwill is impaired, the Company utilizes discounted cash flow analysis, which requires significant judgments and estimates about future operations, to develop the Company's estimates of fair value.

The cost of intangible assets with determinable lives is amortized to reflect the pattern of economic benefits consumed, on a straight-line basis, over the estimated periods benefited, ranging from 6 to 10 years.

**Income Taxes:** The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recorded for the future income consequences of temporary differences between the financial reporting and income tax bases of assets and liabilities, and are measured using enacted tax rates and laws.

The Company regularly evaluates valuation allowances established for deferred tax assets for which future realization is uncertain. In assessing the realizability of deferred tax assets at December 31, 2011 and 2010, the Company considered whether it was more likely than not that some portion or all of the deferred tax assets would not be realized. The Company considers the scheduled reversal of deferred tax liabilities and tax planning strategies in making this assessment.

The Company and all of its U.S. subsidiaries file a consolidated federal income tax return. The Company does not provide U.S. taxes on the undistributed earnings of its foreign subsidiaries whose earnings are intended to be permanently reinvested in foreign operations. At December 31, 2011, there were no accumulated net earnings of non-U.S. subsidiaries.

**Foreign Currency Translation:** For subsidiaries that have functional currency which is deemed to be other than the U.S. dollar, asset and liability accounts are translated at period-end exchange rates and revenue and expenses are translated at the current exchange rates as of the dates on which they are recognized. Resulting translation adjustments are included in accumulated other comprehensive income in stockholder's equity. Accumulated translation gains were \$20.8 million and \$23.8 million at December 31, 2011 and 2010, respectively. Any gains or losses realized on transactions or monetary assets or liabilities in currencies other than the functional currency are included in net income (loss) in the current period. Transaction gains (losses) totaled \$(0.7) million, \$0.4 million and \$1.0 million for the years ended December 31, 2011, 2010 and 2009, respectively.

**Use of Derivatives:** The Company may enter into various derivative instruments to manage foreign exchange risks. Derivatives are limited in use and are entered into for purposes of hedging cash flows and not for speculative purposes. The Company may enter into foreign exchange contracts to hedge certain foreign currency denominated assets or liabilities and currency commitments. As of December 31, 2011 and 2010, the Company did not have any derivative contracts.

**Stock-Based Compensation:** The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award.

**Employee Benefit Plans:** The Company maintains savings plans in the United States and Canada that allow employees to contribute a portion of their compensation on a pre-tax and/or after-tax basis in accordance with specified guidelines. The Company matches a percentage of the employee contributions up to certain limits. Savings plan expense amounted to \$491,000, \$357,000 and \$190,000 and for the years ended December 31, 2011, 2010 and 2009, respectively.

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**SEITEL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

**Comprehensive Loss:** The Company has reported comprehensive loss in the consolidated statements of stockholder's equity for the years ended December 31, 2011, 2010 and 2009. Accumulated other comprehensive income for the Company consists of foreign currency translation adjustments and unrealized gains (losses) on marketable securities. Cumulative translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

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

In June 2011, the FASB issued ASU 2011-05, Presentation of Comprehensive Income. This standard eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. The ASU requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, entities will be required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statements where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB issued ASU 2011-12, Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05 which indefinitely deferred the requirement to present reclassification adjustments by component in both the statement where net income is presented and the statement where other comprehensive income is presented. The deferral does not affect the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements, which is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. As the new standard does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income, the Company's financial position, results of operations or cash flows will not be impacted.

**NOTE B-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.

**SEITEL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** Continued

The following table sets forth a summary of the net book value of the Company's seismic data library (in thousands):

	As of December 31,	
	2011	2010
<b>U.S. Onshore:</b>		
Unconventional 3D	\$ 43,106	\$ 32,787
Conventional 3D	21,166	40,224
2D		681
<b>Canadian:</b>		
Unconventional 3D	55,738	27,312
Conventional 3D	513	2,769
2D	171	1,304
U.S. Offshore		1,027
<b>Total</b>	<b>\$ 120,694</b>	<b>\$ 106,104</b>

At December 31, 2011 and 2010, approximately 34% and 25%, respectively, of the net book value of the seismic data library were projects in progress.

***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 A for discussion of the process used to determine fair value.

For newly created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data. Such costs include salaries and benefits of the Company's processing personnel and certain other costs incurred for the benefit of the processing activity. The Company believes that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for internal data processing were \$1.9 million, \$1.6 million, and \$1.5 million for the years ended December 31, 2011, 2010 and 2009, 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.

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





**SEITEL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** Continued

Amortization expense totaled \$135.0 million, \$167.8 million, and \$142.5 million for the years ended December 31, 2011, 2010 and 2009, respectively. The actual aggregate rate of amortization as a percentage of total seismic revenue was 63%, 98%, and 129% for the same periods, respectively. 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 January 1, 2012, the amortization rate utilized under the income forecast method is 70% for all components. Additionally, certain seismic surveys have been fully amortized; consequently, no amortization expense is required on revenue recorded for these seismic surveys.

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

***Seismic Data Library Impairment***

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

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

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

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

## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

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

The Company did not have any impairment charges during the three years ended December 31, 2011.

## NOTE C-GOODWILL AND OTHER INTANGIBLES

The Company performs an annual assessment of the recoverability of goodwill as of October 1 each year. Additionally, the Company assesses goodwill for impairment whenever events or changes in circumstances indicate that such carrying values may not be recoverable. In 2011, the Company early adopted guidance that permits an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. After assessing the totality of events and circumstances for the qualitative impairment assessment at October 1, 2011, the Company determined that performing the two-step goodwill impairment test was unnecessary and no goodwill impairment was recognized. Additionally, the Company incurred no impairment as a result of the annual tests in prior years. There were no events or changes in circumstances that indicated that an impairment was more likely than not during interim periods in 2011, 2010, or 2009. However, there can be no assurance that goodwill and indefinite lived intangibles will not be impaired at any time in the future.

Changes in the carrying amount of goodwill for the years ended December 31, 2011 and 2010 are as follows (in thousands):

	December 31,	
	2011	2010
Balance beginning of year	\$ 208,050	\$ 203,060
Translation adjustments	(2,212)	4,990
Balance end of year	\$ 205,838	\$ 208,050

The recorded carrying amount will change at each balance sheet date due to the impact of foreign currency fluctuations. The following is a summary of the Company's intangible assets other than goodwill (in thousands):

	Weighted Average Amortization Period	December 31, 2011	December 31, 2010
<b>Amortized intangible assets:</b>			
<b>Cost:</b>			
Favorable facility lease	6 years	\$ 1,752	\$ 1,792
Customer relationships	10 years	44,397	44,673
Internally developed software	7 years	9,143	9,349
		55,292	55,814
<b>Accumulated Amortization:</b>			
Favorable facility lease	6 years	(1,367)	(1,111)
Customer relationships	10 years	(21,644)	(17,311)
Internally developed software	7 years	(6,367)	(5,175)
		(29,378)	(23,597)

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Net book value	25,914	32,217
Indefinite-lived intangible assets:		
Trade names	900	900
Total intangible assets at net book value	\$ 26,814	\$ 33,117

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## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

The Company's trade name assets have an indefinite life and are not amortized, but are reviewed annually on October 1 and tested for impairment. The trade names were determined to have indefinite lives due to the length of time the trade names have been in place. The Company's current intentions are to maintain the trade names indefinitely. All other intangible assets are amortized on a straight-line basis over their expected useful lives. As of December 31, 2011, the weighted average amortization period for these intangible assets was 9.4 years.

Amortization expense for the Company's intangible assets was \$6.1 million, \$6.0 million, and \$5.7 million during the years ended December 31, 2011, 2010 and 2009, respectively. Estimated future amortization expense is as follows: fiscal year ending 2012 \$6.0 million, fiscal year ending 2013 \$5.9 million, fiscal year ending 2014 \$4.6 million, fiscal year ending 2015 \$4.4 million, fiscal year ending 2016 \$4.4 million, and thereafter \$0.6 million.

The Company evaluates the remaining useful life of these intangible assets on an annual basis. The Company also reviews for recoverability when events or changes in circumstances indicate the carrying values may not be recoverable.

## NOTE D-INCOME TAXES

*Income Tax Expense (Benefit)*

Income (loss) before income taxes is comprised of the following (in thousands):

	\$00,000	\$00,000	\$00,000
	Year Ended December 31,		
	2011	2010	2009
U.S.	\$ 330	\$ (53,038)	\$ (88,535)
Foreign	2,278	(14,387)	(11,236)
	\$ 2,608	\$ (67,425)	\$ (99,771)

The provision (benefit) for income taxes is comprised of the following (in thousands):

	Year Ended December 31,		
	2011	2010	2009
<b>Current:</b>			
State	\$ (713)	\$	\$ (2)
Foreign	1,394	45	(48)
	681	45	(50)
<b>Deferred:</b>			
Federal	(1)	(369)	98
State	270	1	(117)
Foreign	(558)	(3,685)	(2,905)
	(289)	(4,053)	(2,924)
<b>Tax provision (benefit):</b>			
Federal	(1)	(369)	98
State	(443)	1	(119)

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Foreign	836	(3,640)	(2,953)
	\$ 392	\$ (4,008)	\$ (2,974)

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## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

The differences between the U.S. Federal income taxes computed at the statutory rate (35%) and the Company's income taxes for financial reporting purposes are as follows (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Statutory Federal income tax	\$ 913	\$ (23,599)	\$ (34,920)
Change in unrecognized tax benefits	235	83	334
State income tax, less Federal benefit	(193)		1
Tax difference on foreign earnings	(245)	949	588
Change in foreign taxes	156	64	264
Canadian withholding tax	26	45	(52)
Change in valuation allowance	(513)	18,050	30,774
Tax credits	(366)	(384)	(345)
Non-deductible expenses	280	233	371
Other, net	99	551	11
Income tax provision (benefit)	\$ 392	\$ (4,008)	\$ (2,974)

*Deferred Tax Asset/Liability*

The components of the net deferred income tax asset (liability) reflected in the Company's consolidated balance sheets at December 31, 2011 and 2010 were as follows (in thousands):

	Deferred Tax Assets (Liabilities) December,	
	2011	2010
Deferred tax assets:		
Deferred revenue	\$ 2,158	\$ 1,035
Depreciation and amortization	18,941	21,402
Alternative minimum tax credit carryforward	1,782	1,782
Net operating loss carryforwards	84,413	86,827
Research and development tax credit carryforward	1,055	1,205
Accrued expenses and other	8,349	8,859
Total deferred tax assets	116,698	121,110
Deferred tax liabilities:		
Depreciation and amortization	(973)	(3,986)
Intangible assets	(8,315)	(10,174)
Unrealized gain on marketable securities	(92)	(1,086)
Deferred expenses and other	(571)	(176)
Total deferred tax liabilities	(9,951)	(15,422)
Valuation allowance:		

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Beginning balance	(107,490)	(88,694)
Increase during the period	(576)	(18,796)
Total valuation allowance	(108,066)	(107,490)
Net deferred tax liability	\$ (1,319)	\$ (1,802)
Deferred income taxes have been classified in the Consolidated Balance Sheet as:		
Deferred income tax asset	\$ 56	\$ 326
Deferred income tax liability	(1,375)	(2,128)
Net deferred income tax liability	\$ (1,319)	\$ (1,802)

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## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

During 2011 and 2010, the Company's valuation allowance provided against its U.S. net deferred tax asset increased by \$0.6 million and \$18.8 million, respectively, primarily related to U.S. net operating losses incurred in 2011 and 2010 for which utilization is uncertain and, in 2011, the change in deferred taxes on unrealized gain on marketable securities.

As of December 31, 2011, the Company has a U.S. Federal net operating loss ("NOL") carryforward of approximately \$223.3 million which can be used to offset U.S. income taxes payable in future years. This U.S. NOL carryforward will expire in periods beginning 2025 through 2031. As of December 31, 2011, the Company has an alternative minimum tax (AMT) credit carryforward of approximately \$1.8 million which can be used to offset regular U.S. Federal income taxes payable in future years and which has an indefinite carryforward period. As of December 31, 2011, the Company has Canadian NOL carryforwards of approximately \$1.4 million (Canadian) which can be used to offset Canadian income taxes payable in future years. These Canadian NOL carryforwards will expire in 2029.

In February 2006, Olympic Seismic Ltd. (Olympic), a wholly owned subsidiary of the Company, was notified by Canada Revenue Agency (CRA) that CRA was going to perform an audit of certain aspects of Olympic's tax returns for the years 2003 and 2004. In February 2009, CRA notified the Company that the audit was expanded to include years from 2005 through 2007. In April 2011, the Company received notification that CRA concluded their audits, disallowing Olympic's deductions for certain royalties payable to the Company's U.S. entities for years 2003 to 2007. Olympic and the Company object to and are appealing the audit results. As a condition to appeal the audit results, Olympic was required to pay \$7.6 million (Canadian) to CRA and did so in May 2011 and made an additional \$0.1 million payment in the third quarter of 2011. These payments, which included amounts for taxes, penalties and interest assessed by CRA, have been shown as income tax payments in the Consolidated Statement of Cash Flows because the amounts paid can be applied interchangeably to the amounts which may ultimately be due to CRA. As of December 31, 2011, the appeal process has not been concluded. The Company has recorded liabilities associated with potential adjustments that may occur as a result of the appeal based on management's assessment of the probability of the outcome of the appeal, net of certain payments made to CRA. See *Uncertain Tax Benefits* below.

*Uncertain Tax Benefits*

The Company accounts for income taxes in accordance with ASC Topic 740, *Income Taxes*, which prescribes a minimum recognition threshold a tax position must meet before being recognized in the financial statements. A reconciliation of the beginning and ending gross unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Balance at beginning of year	\$ 6,151	\$ 5,545	\$ 4,859
Additions based on prior year tax positions		310	275
Reductions in tax positions due to a lapse in statute			(365)
Foreign currency translation	(135)	296	776
Balance at end of year	\$ 6,016	\$ 6,151	\$ 5,545

As of December 31, 2011, approximately \$6.0 million of the total unrecognized tax benefits would impact the effective income tax rate, if recognized in future periods. In addition, as of December 31, 2011, the Company has recorded \$5.9 million in related assets which are fully offset with a valuation allowance.

Uncertain tax positions are reflected as income tax assets and liabilities. Income tax-related interest and penalty expenses are recorded as a component of income tax expense. As of December 31, 2011, we had \$0.5 million of



## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

accrued interest and \$1.0 million of accrued penalties. As of December 31, 2010, we had \$0.3 million of accrued interest and \$1.0 million of accrued penalties. Income tax expense (benefit) for the years ended December 31, 2011, 2010 and 2009 included \$0.2 million, \$(0.2) million and \$0.1 million, respectively, related to interest and penalties on unrecognized tax benefits.

With few exceptions, the Company is no longer subject to U.S. Federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2007, 2007 and 2004, respectively.

**NOTE E-DEBT**

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

	December 31,	
	2011	2010
9.75% Senior Notes	\$ 275,000	\$ 400,000
11.75% Senior Notes		2,000
Credit Facility		
Subsidiary revolving line of credit		
Note payable to former executive	95	154
	275,095	402,154
Plus: Premium on debt		56
	\$ 275,095	\$ 402,210

**9.75% Senior Unsecured Notes:** On February 14, 2007, the Company issued, in a private placement, \$400.0 million aggregate principal amount of 9.75% senior notes due 2014 (the 9.75% Senior Notes). The proceeds from the 9.75% Senior Notes were used to partially fund the transactions in connection with the Merger. As required by their terms, the 9.75% Senior Notes were exchanged for senior notes of like amounts and terms in a publicly registered exchange offer in August 2007. On July 1, 2011, the Company redeemed \$125.0 million aggregate principal amount of the 9.75% Senior Notes outstanding in accordance with the terms and conditions of the indenture governing the 9.75% Senior Notes. The redemption price was equal to 104.875% of the principal amount of the notes, plus accrued and unpaid interest. Accordingly, the Company recorded a loss on early extinguishment of debt of \$7.9 million, which included the write-off of unamortized issue expenses, for the year ended December 31, 2011. The remaining notes mature on February 15, 2014. Interest is payable in cash, semi-annually in arrears on February 15 and August 15 of each year. As of December 31, 2011, accrued interest totaled \$10.1 million and was included in accrued liabilities on the Consolidated Balance Sheet. The 9.75% Senior Notes are unsecured and are guaranteed by substantially all of the Company's domestic subsidiaries on a senior basis. The 9.75% Senior Notes contain restrictive covenants which limit the Company's ability to, among other things, incur additional indebtedness, pay dividends and complete mergers, acquisitions and sales of assets.

Upon a change of control (as defined in the indenture), 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.

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**SEITEL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued**

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

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

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

The Credit Facility requires that the Company maintain certain minimum excess availability levels (as defined in the Credit Facility) or the fixed charge coverage ratio (as defined in the Credit Facility) shall not be less than 1.00 to 1.00. In addition, the Credit Facility contains affirmative and negative covenants, representations and warranties, borrowing conditions, events of default and remedies for the Lenders. The aggregate loan or any individual loan made under the Credit Facility may be prepaid at any time subject to certain restrictions. The Credit Facility is also subject to the payment of upfront, letter of credit, administrative and certain other fees. The Credit Facility requires the payment of an unused line fee of .50% per annum payable in arrears.

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

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

**Aggregate Maturities:** The aggregate maturities of the Company's debt over the next five years and thereafter are as follows: \$66,000 in 2012, \$29,000 in 2013 and \$275.0 million in 2014.

**NOTE F-LEASE OBLIGATIONS**

Assets recorded under capital lease obligations of \$3.7 million and \$3.8 million at December 31, 2011 and 2010, respectively, are included in property and equipment. Accumulated depreciation related to such assets was \$1.2 million and \$1.0 million at December 31, 2011 and 2010, respectively. Depreciation on the assets recorded under capital leases is included in depreciation expense.

**SEITEL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS** Continued

The Company leases office space under operating leases, some of which include renewal options. Rental expense for the years ended December 31, 2011, 2010 and 2009 was approximately \$1.7 million, \$1.7 million, and \$1.6 million, respectively. The Company received income from subleases of approximately \$284,000, \$319,000, and \$271,000 for the years ended December 31, 2011, 2010 and 2009, respectively.

Future minimum lease payments for the five years subsequent to December 31, 2011, thereafter and in the aggregate are as follows (in thousands):

	Capital Leases	Operating Leases
2012	\$ 390	\$ 1,201
2013	403	769
2014	403	474
2015	403	471
2016	403	471
Thereafter	2,357	53
<b>Total minimum lease payments</b>	<b>4,359</b>	<b>\$ 3,439</b>
Less amount representing interest	(1,198)	
<b>Present value of net minimum lease payments</b>	<b>\$ 3,161</b>	

On April 30, 2002, Olympic entered into a sale leaseback agreement on a building and land located in Calgary, Alberta, Canada. Proceeds of the sale were \$3.6 million (Canadian dollars). The term of the lease is a 20-year capital lease with remaining lease payments of: \$370,860 (Canadian dollars) in years 6-10; \$409,500 (Canadian dollars) in years 11-15; and \$452,340 (Canadian dollars) in years 16-20. The transaction resulted in a gain on the sale of \$737,000, which, prior to the Merger, was deferred and recognized into income over the term of the lease. In connection with the Merger, the deferred gain was eliminated.

**NOTE G-COMMITMENTS AND CONTINGENCIES***Litigation*

The Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolutions of these matters should not be material to the Company's financial position, results of operations or cash flows. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At December 31, 2011, the Company has recorded the estimated amount of potential exposure it may have with respect to litigation and claims. Such amounts are not material to the financial statements.

**NOTE H-STOCK-BASED COMPENSATION**

In connection with the Merger, Holdings, the Company's parent, adopted a stock-based compensation plan (the "2007 Non-Qualified Stock Option Plan") for the benefit of the Company's key employees and non-employee directors. 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.

Total stock-based compensation cost recognized and included in selling, general and administrative expenses was \$0.5 million, \$3.2 million and \$3.0 million for the years ended December 31, 2011, 2010 and 2009, respectively. The Company has not recognized any tax benefits related to stock based compensation for the three years ended December 31, 2011.



## SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *Continued**Restricted Stock Units*

The 2008 Restricted Stock and Restricted Stock Unit Plan, which is administered by the board of directors of Holdings, authorizes the issuance of up to 25,000 shares of Holdings' common stock pursuant to such grants. The restricted stock units are convertible into common shares of Holdings within 30 days of one of the following events: termination of employment, death, disability or upon a change in control of the Company. During 2011 and 2010, 221 and 241 restricted stock units, respectively, were converted into shares of Holdings. A total of 22,659 restricted shares were available for grant at December 31, 2011.

*Stock Options*

In connection with the Merger, Holdings, adopted 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.

The options contain only service condition requirements. The issuances in 2007 through 2010 vest 25 percent on each of the first, second, third and fourth anniversaries of each grant date. The 2011 issuance vests 20 percent on each of the first, second, third, fourth and fifth anniversary of the grant date. All options provide for accelerated vesting after a change in control. The Company recognizes compensation expense for these options on a straight-line basis over the requisite service period for each separate vesting portion of the option as if the option was, in substance, multiple options (graded vesting). The options expire 10 years after the date of grant. Upon exercise of the options, shares will be issued from authorized but unissued shares of Holdings. A total of 11,859 shares of Holdings' common stock were available for grant as options at December 31, 2011.

The fair value of the options was estimated on each grant date in 2011 and 2010 using the Black-Scholes option pricing method. No options were granted in 2009. The assumptions used in the model are outlined in the following table:

	Year Ended December 31,	
	2011	2010
Weighted average grant date fair value per share	\$ 123.29	\$ 47.15
Weighted average assumptions used:		
Expected volatility	45%	45%
Expected life (in years)	6.50	6.63
Risk free interest rate	2.36%	3.23%
Expected dividend yield	0.0%	0.0%

In May 2010, the Company cancelled and reissued all of its then outstanding stock options in order to reduce the exercise price of the options to \$193.13. The vesting conditions and the expiration dates were not changed from the original grant of each option. The modification affected 16 employees and 2 non-employee directors who had a total of 86,135 options outstanding as of the modification date. The incremental compensation cost as a result of the modified exercise price was \$1.3 million, of which \$0.9 million was expensed immediately for vested options at the date of modification. The remaining \$0.4 million incremental cost along with the remaining unrecognized compensation cost prior to the modification is being recognized using the graded vesting attribution method over the remaining vesting periods of stock options. The incremental compensation cost as a result of

## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

the re-pricing was calculated as the difference in the fair value of the stock options immediately before the re-pricing and the fair value of the stock options at the new exercise price. The fair value was estimated using the Black-Scholes option pricing method. The assumptions used in the model are outlined in the following table:

	Prior to Re-pricing	After Re-pricing
Weighted average grant date fair value per share	\$ 21.43	\$ 36.74
Weighted average assumptions used:		
Expected volatility	45%	45%
Expected life (in years)	5.97	4.97
Risk free interest rate	3.01%	2.60%
Expected dividend yield	0.0%	0.0%

The computation of the expected volatility assumptions used in the Black-Scholes calculations was based on historical volatilities and implied volatilities of peer companies. The Company utilized the volatilities of peer companies due to its lack of extensive history. When establishing its expected life assumptions, the Company used the simplified method prescribed in SEC Staff Accounting Bulletin ( SAB ) No. 107, Shared-Based Payment, as amended by SAB 110, for companies that do not have adequate historical data.

The following table summarizes stock option activity during the years ended December 31, 2011, 2010 and 2009 (shares in thousands):

	Year Ended December 31, 2011		Year Ended December 31, 2010		Year Ended December 31, 2009	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding at beginning of period	91	\$ 193.13	92	\$ 392.07	\$ 103	\$ 391.79
Granted	1	\$ 258.37	91	\$ 193.13	\$	\$
Exercised	(8)	\$ 193.13		\$		\$
Cancelled		\$	(91)	\$ 392.09	\$	\$
Forfeited		\$	(1)	\$ 389.42	\$ (11)	\$ 389.42
Outstanding at end of period <sup>(1)</sup>	84	\$ 193.91	91	\$ 193.13	\$ 92	\$ 392.07
Options exercisable at end of period <sup>(2)</sup>	76	\$ 193.13	62	\$ 193.13	\$ 48	\$ 390.69
Available for grant at end of period	12		13		12	

<sup>(1)</sup> Stock options outstanding at December 31, 2011 have a weighted average remaining contractual term of 5.5 years.

<sup>(2)</sup> Exercisable stock options at December 31, 2011 have a weighted average remaining contractual term of 5.3 years.

As of December 31, 2011, the total future compensation cost related to non-vested options not yet recognized in the Consolidated Statement of Operations was \$0.2 million and will be recognized using graded vesting over a weighted average period of 3.1 months. The Company did not receive any cash from option exercises during the three years ended December 31, 2011.

## NOTE I SHAREHOLDER S EQUITY

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In May 2011, Centerbridge purchased a minority interest in Holdings for \$125.0 million. Concurrently with the closing of this transaction, Holdings contributed \$125.0 million to the Company. Holdings incurred approximately \$4.9 million in professional fees associated with this transaction, which are reflected as a reduction to Holdings' contribution to the Company. The funds received were used to redeem \$125.0 million of the Company's 9.75% Senior Notes in July 2011.

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## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

## NOTE J-FAIR VALUE MEASUREMENTS

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

The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In measuring the fair value of the Company's assets and liabilities, market data or assumptions are used that the Company believes market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. As of December 31, 2011 and 2010, the Company's assets that are measured at fair value on a recurring basis include the following (in thousands):

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
<b>At December 31, 2011:</b>				
Cash equivalents	\$ 74,421	\$ 74,421	\$	\$
Investment in stock options related to equity securities	262		262	
<b>At December 31, 2010:</b>				
Cash equivalents	\$ 89,581	\$ 89,581	\$	\$
Investment in equity securities	2,232	2,232		
Investment in stock options related to equity securities	870		870	

The Company had no transfers of assets between any of the above levels during the years ended December 31, 2011 or 2010.

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

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

During the years ended December 31, 2011 and 2010, the Company sold all of its investment in equity securities for proceeds totaling \$2.5 million and \$4.2 million, respectively. Total realized gains were equal to proceeds received.



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**SEITEL, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**    **Continued**

**Other Financial Instruments:**

**Debt**    Based upon the rates available to the Company, the fair value of the 9.75% Senior Notes and the note payable to a former executive approximated \$273.0 million as of December 31, 2011, compared to the book value of \$275.1 million. The quoted market price of the 9.75% Senior Notes was \$272.9 million at December 31, 2011. The fair value of the 9.75% Senior Notes, the 11.75% Senior Notes and the note payable to a former executive approximated \$386.1 million as of December 31, 2010, compared to the book value of \$402.2 million. The quoted market price of the 9.75% Senior Notes was \$384.0 million at December 31, 2010.

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

**NOTE K-RELATED PARTY TRANSACTIONS**

Holdings does not maintain a cash account. Consequently, the Company makes payments, as needed, on Holdings' behalf for corporate expenditures such as taxes and share repurchases for employees that have left the Company and who held equity instruments in Holdings. In 2011 and 2010, the Company made payments of approximately \$755,000 and \$9,000, respectively on behalf of Holdings. The Company received \$50,000 from Holdings in 2011 which was applied toward the outstanding balance. The balance due from Holdings as of December 31, 2011 and 2010 was \$861,000 and \$156,000, respectively.

On December 22, 2009, the Company entered into a secured credit agreement with ValueAct Capital Management, L.P., an affiliate of ValueAct Capital, which provided the Company the ability to borrow up to \$9.9 million until December 31, 2010. No borrowings were made on this facility; therefore, under its terms, the facility expired on December 31, 2010.

The Company owns 20% of Wandoo Energy LLC ("Wandoo"), a privately owned oil and gas prospecting company. The Company's Chief Operating Officer serves as the Company's representative on the board of directors of Wandoo. The Company received \$67,000 and \$40,000 in 2011 and 2010, respectively, in tax distribution payments from Wandoo. Additionally, Wandoo reimbursed the Company in 2010 for \$133,000 in geophysical consulting services previously paid to Wandoo's president in 2005 and 2006. In 2011, the Company received \$335,000 for a licensing agreement with Texoz E&P, Inc., a wholly owned subsidiary of Texon Petroleum Ltd. ( "Texon" ). Texon was formed in 2006 as a spinoff from Wandoo. The Company received shares and stock options in Texon in connection with its formation. As of December 31, 2011, the Company has sold all of its shares in Texon but continues to hold stock options.

**NOTE L-STATEMENT OF CASH FLOW INFORMATION**

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

For purposes of the statement of cash flows, the Company considers all highly liquid investments or debt instruments with an original maturity of three months or less to be cash equivalents. The Company maintains its day-to-day operating cash and temporary excess cash with various banking institutions that, in turn, invest in time deposits and U.S. Treasury bills.

**SEITEL, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued**

Significant non-cash investing and financing activities are as follows:

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

	Year Ended December 31,		
	2011	2010	2009
Non-monetary exchanges related to resale licensing revenue	\$ 7,609	\$ 4,000	\$ 1,764
Non-monetary exchanges from underwriting of new data acquisition	2,687	3,222	(1,291)
Other non-monetary additions	98	124	
Completion of data in progress from prior non-monetary exchanges		3,199	1,724
Less: Non-monetary exchanges for data in progress	(179)		
Total non-cash additions to seismic data library	\$ 10,215	\$ 10,545	\$ 2,197

During the year ended December 31, 2009, the Company reversed a non-monetary exchange valued at \$1.3 million that was originally entered into in 2008. The Company was notified that the client was unable to provide clear title to one of the seismic surveys included in the original contract resulting in the negative amount of non-monetary exchanges from underwriting of new acquisition in the 2009 period. This portion of non-cash underwriting was subsequently satisfied with a cash payment.

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

	Year Ended December 31,		
	2011	2010	2009
Acquisition revenue on underwriting from non-monetary exchange contracts	\$ 2,274	\$ 2,677	\$ 2,838
Licensing revenue from specific data licenses and selections on non-monetary exchange contracts	7,169	7,187	4,575
Solutions revenue recognized from non-monetary exchange contracts	71		
Total non-cash revenue	\$ 9,514	\$ 9,864	\$ 7,413

**NOTE M-INDUSTRY SEGMENTS**

The Company operates in one business segment, which is made up of seismic data acquisition, seismic data licensing, seismic data processing and seismic reproduction service.

## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

Geographic information for the periods presented is as follows (in thousands):

	United States	Canada	Other Foreign Countries	Total
<u>Year ended December 31, 2011</u>				
Revenue	\$ 152,792	\$ 65,216	\$	\$ 218,008
Assets <sup>(1)</sup>	65,156	60,577		125,733
<u>Year ended December 31, 2010</u>				
Revenue	\$ 129,888	\$ 45,668	\$	\$ 175,556
Assets <sup>(1)</sup>	76,121	35,429		111,550
<u>Year ended December 31, 2009</u>				
Revenue	\$ 78,792	\$ 36,529	\$ 24	\$ 115,345
Assets <sup>(1)</sup>	150,874	56,518		207,392

<sup>(1)</sup> Assets include net seismic data library and net property and equipment.

The Company's revenues may be divided into two major categories, (i) acquisition and licensing of seismic data and (ii) reproduction and delivery of seismic data and other services. Revenue by type of service for the periods presented is as follows (in thousands):

	Year Ended December 31,		
	2011	2010	2009
Acquisition and licensing of seismic data	\$ 213,656	\$ 171,778	\$ 110,821
Reproduction and delivery of seismic data and other services	4,352	3,778	4,524
	\$ 218,008	\$ 175,556	\$ 115,345

## NOTE N-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

On February 14, 2007, the Company completed a private placement of 9.75% Senior Notes in the aggregate principal amount of \$400.0 million. As of December 31, 2011, \$275.0 million aggregate principal amount remains outstanding. The Company's payment obligations under the 9.75% Senior Notes are jointly and severally guaranteed by certain of its 100% owned U.S. subsidiaries ("Guarantor Subsidiaries"). All subsidiaries of the Company that do not guarantee 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 December 31, 2011 and 2010 and the consolidating condensed statements of operations and statements of cash flows for the years ended December 31, 2011, 2010 and 2009 of (a) the Company; (b) the Guarantor Subsidiaries; (c) the Non-Guarantor Subsidiaries; (d) elimination entries; and (e) the Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis.

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



## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

## CONSOLIDATING CONDENSED BALANCE SHEET

As of December 31, 2011

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>					
Cash and cash equivalents	\$	\$ 61,612	\$ 13,282	\$	\$ 74,894
Receivables					
Trade, net		32,129	19,177		51,306
Notes and other, net	520	1,606	2,196		4,322
Due from Seitel Holdings, Inc.		861			861
Intercompany receivables (payables)	95,955	(78,614)	(17,341)		
Investment in subsidiaries	272,268	416,322	1,448	(690,038)	
Net seismic data library		63,259	57,435		120,694
Net property and equipment		1,897	3,142		5,039
Investment in marketable securities		262			262
Prepaid expenses, deferred charges and other	4,409	5,078	757		10,244
Intangible assets, net	900	16,462	9,452		26,814
Goodwill		107,688	98,150		205,838
Deferred income taxes		56			56
<b>TOTAL ASSETS</b>	<b>\$ 374,052</b>	<b>\$ 628,618</b>	<b>\$ 187,698</b>	<b>\$ (690,038)</b>	<b>\$ 500,330</b>
<b>LIABILITIES AND STOCKHOLDER S EQUITY</b>					
Accounts payable and accrued liabilities	\$ 10,050	\$ 23,563	\$ 26,937	\$	\$ 60,550
Income taxes payable	81		1,383		1,464
Senior Notes	275,000				275,000
Notes payable	95				95
Obligations under capital leases			3,161		3,161
Deferred revenue		33,340	15,505		48,845
Deferred income taxes			1,375		1,375
<b>TOTAL LIABILITIES</b>	<b>285,226</b>	<b>56,903</b>	<b>48,361</b>		<b>390,490</b>
<b>STOCKHOLDER S EQUITY</b>					
Common stock					
Additional paid-in capital	398,011				398,011
Parent investment		764,752	156,913	(921,665)	
Retained deficit	(309,185)	(193,299)	(38,328)	231,627	(309,185)
Accumulated other comprehensive income		262	20,752		21,014
<b>TOTAL STOCKHOLDER S EQUITY</b>	<b>88,826</b>	<b>571,715</b>	<b>139,337</b>	<b>(690,038)</b>	<b>109,840</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER S EQUITY</b>	<b>\$ 374,052</b>	<b>\$ 628,618</b>	<b>\$ 187,698</b>	<b>\$ (690,038)</b>	<b>\$ 500,330</b>



## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

## CONSOLIDATING CONDENSED BALANCE SHEET

As of December 31, 2010

(In thousands)

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





## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2011

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$	\$ 152,759	\$ 66,644	\$ (1,395)	\$ 218,008
EXPENSES:					
Depreciation and amortization		92,106	50,857		142,963
Cost of sales		88	12		100
Selling, general and administrative	1,503	19,626	11,915	(1,395)	31,649
	1,503	111,820	62,784	(1,395)	174,712
INCOME (LOSS) FROM OPERATIONS	(1,503)	40,939	3,860		43,296
Interest expense, net	(14,124)	(19,805)	(838)		(34,767)
Foreign currency exchange gains (losses)		4	(730)		(726)
Loss on early extinguishment of debt	(7,912)				(7,912)
Gain on sale of marketable securities		2,467			2,467
Other income	4	67	179		250
Income (loss) before income taxes and equity in income of subsidiaries	(23,535)	23,672	2,471		2,608
Provision (benefit) for income taxes		(418)	810		392
Equity in income of subsidiaries	25,751	1,661		(27,412)	
NET INCOME	\$ 2,216	\$ 25,751	\$ 1,661	\$ (27,412)	\$ 2,216

## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2010

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$	\$ 131,417	\$ 47,892	\$ (3,753)	\$ 175,556
EXPENSES:					
Depreciation and amortization		126,593	48,999		175,592
Cost of sales		87	10		97
Selling, general and administrative	3,219	19,612	12,753	(3,753)	31,831
	3,219	146,292	61,762	(3,753)	207,520
LOSS FROM OPERATIONS	(3,219)	(14,875)	(13,870)		(31,964)
Interest expense, net	(20,115)	(20,173)	(248)		(40,536)
Foreign currency exchange gains		24	417		441
Gain on sale of marketable securities		4,188			4,188
Other income	2	319	125		446
Loss before income taxes and equity in loss of subsidiaries	(23,332)	(30,517)	(13,576)		(67,425)
Benefit for income taxes		(328)	(3,680)		(4,008)
Equity in loss of subsidiaries	(40,085)	(9,896)		49,981	
NET LOSS	\$ (63,417)	\$ (40,085)	\$ (9,896)	\$ 49,981	\$ (63,417)

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## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Year Ended December 31, 2009

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$	\$ 80,400	\$ 38,090	\$ (3,145)	\$ 115,345
EXPENSES:					
Depreciation and amortization		111,476	38,723		150,199
Cost of sales		282	8		290
Selling, general and administrative	3,051	14,343	10,841	(3,145)	25,090
	3,051	126,101	49,572	(3,145)	175,579
LOSS FROM OPERATIONS	(3,051)	(45,701)	(11,482)		(60,234)
Interest expense, net	(17,139)	(23,403)	(154)		(40,696)
Foreign currency exchange gains		2	1,006		1,008
Other income (loss)	1	168	(18)		151
Loss before income taxes and equity in loss of subsidiaries	(20,189)	(68,934)	(10,648)		(99,771)
Benefit for income taxes		(73)	(2,901)		(2,974)
Equity in loss of subsidiaries	(76,608)	(7,747)		84,355	
NET LOSS	\$ (96,797)	\$ (76,608)	\$ (7,747)	\$ 84,355	\$ (96,797)

## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

## CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2011

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$ (39,324)	\$ 120,408	\$ 45,013	\$	\$ 126,097
Cash flows from investing activities:					
Cash invested in seismic data		(68,145)	(58,834)		(126,979)
Cash paid to acquire property, equipment and other		(1,856)	(265)		(2,121)
Net proceeds from sale of marketable securities		2,467			2,467
Cash from sale of property, equipment and other		121	1		122
Advances to Seitel Holdings, Inc.		(755)			(755)
Repayment from Seitel Holdings, Inc.		50			50
Net cash used in investing activities		(68,118)	(59,098)		(127,216)
Cash flows from financing activities:					
Contributed capital	125,000				125,000
Repayment of 9.75% Senior Notes	(131,094)				(131,094)
Repayment of 11.75% Senior Notes	(2,000)				(2,000)
Principal payments on notes payable	(59)				(59)
Principal payments on capital lease obligations			(164)		(164)
Borrowings on line of credit			737		737
Payments on line of credit			(737)		(737)
Costs of debt and equity transactions	(6,268)		(70)		(6,338)
Intercompany transfers	53,745	(65,745)	12,000		
Net cash provided by (used in) financing activities	39,324	(65,745)	11,766		(14,655)
Effect of exchange rate changes		(1)	698		697
Net decrease in cash and cash equivalents		(13,456)	(1,621)		(15,077)
Cash and cash equivalents at beginning of period		75,068	14,903		89,971
Cash and cash equivalents at end of period	\$	\$ 61,612	\$ 13,282	\$	\$ 74,894

## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

## CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2010

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$ (39,719)	\$ 115,585	\$ 33,455	\$	\$ 109,321
Cash flows from investing activities:					
Cash invested in seismic data		(33,287)	(16,178)		(49,465)
Cash paid to acquire property, equipment and other		(380)	(147)		(527)
Net proceeds from sale of marketable securities		4,188			4,188
Cash from sale of property, equipment and other		86			86
Advances to Seitel Holdings, Inc.		(9)			(9)
Return of capital from subsidiary		4,501	(4,501)		
Net cash used in investing activities		(24,901)	(20,826)		(45,727)
Cash flows from financing activities:					
Principal payments on notes payable	(54)				(54)
Principal payments on capital lease obligations			(146)		(146)
Borrowings on line of credit			10		10
Payments on line of credit			(10)		(10)
Costs of debt and equity transactions	(65)				(65)
Intercompany transfers	39,838	(39,838)			
Net cash provided by (used in) financing activities	39,719	(39,838)	(146)		(265)
Effect of exchange rate changes		1	371		372
Net increase in cash and cash equivalents		50,847	12,854		63,701
Cash and cash equivalents at beginning of period		24,221	2,049		26,270
Cash and cash equivalents at end of period	\$	\$ 75,068	\$ 14,903	\$	\$ 89,971

## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

## CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2009

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$ (38,969)	\$ 51,051	\$ 28,772	\$	\$ 40,854
Cash flows from investing activities:					
Cash invested in seismic data		(45,972)	(9,893)		(55,865)
Cash paid to acquire property, equipment and other		(284)	(116)		(400)
Cash transferred upon sale of subsidiary			(22)		(22)
Cash from disposal of property and equipment		15			15
Advances to Seitel Holdings, Inc.		(11)			(11)
Return of capital from subsidiary		11,150	(11,150)		
Net cash used in investing activities		(35,102)	(21,181)		(56,283)
Cash flows from financing activities:					
Principal payments on notes payable	(48)				(48)
Principal payments on capital lease obligations			(124)		(124)
Borrowings on line of credit			401		401
Payments on line of credit			(401)		(401)
Intercompany transfers	39,017	(24,762)	(14,255)		
Net cash provided by (used in) financing activities	38,969	(24,762)	(14,379)		(172)
Effect of exchange rate changes			(807)		(807)
Net decrease in cash and cash equivalents		(8,813)	(7,595)		(16,408)
Cash and cash equivalents at beginning of period		33,034	9,644		42,678
Cash and cash equivalents at end of period	\$	\$ 24,221	\$ 2,049	\$	\$ 26,270

## SEITEL, INC. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

## NOTE O-QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2011 and 2010:

	March 31	Quarter Ended June 30      Sept. 30 (In thousands)		Dec. 31
<i>2011</i>				
Revenue	\$ 59,496	\$ 35,545	\$ 52,208	\$ 70,759
Operating income	9,501	4,335	10,506	18,954
Net income (loss)	511	(5,026)	(5,111)	11,842
	March 31	Quarter Ended June 30      Sept. 30 (In thousands)		Dec. 31
<i>2010</i>				
Revenue	\$ 32,376	\$ 32,962	\$ 46,140	\$ 64,078
Operating income (loss)	(12,833)	(13,557)	(7,407)	1,833
Net loss	(22,242)	(22,586)	(15,917)	(2,672)

**Report of Independent Registered Public Accounting**

**Firm on Financial Statement Schedule**

Audit Committee, Board of Directors

and Stockholder

Seitel, Inc.

Houston, Texas

In connection with our audit of the consolidated financial statements of Seitel, Inc., for each of the years ended December 31, 2011, 2010 and 2009, we have also audited the following financial statement schedule. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule, based on our audits of the basic consolidated financial statements. The financial statement schedule is presented for purposes of complying with the Securities and Exchange Commission's rules and regulations, and is not a required part of the consolidated financial statements.

In our opinion, the financial statement schedule referred to above, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information required to be included therein.

*/s/* **BKD, LLP**

Houston, Texas

March 14, 2012



**SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS****For the Years Ended December 31, 2011, 2010 and 2009****(Amounts in thousands)**

	Balance at beginning of period	Charged to expense	Deductions from reserves	Balance at end of period
<b>Year ended December 31, 2011:</b>				
Reserves deducted from assets to which they apply:				
Allowance for doubtful accounts	\$ 2,556	\$ 12	\$ (1,525)	\$ 1,043
Allowance for notes receivable			1,501 <sup>(1)</sup>	1,501
Valuation allowance on deferred tax asset	107,490	576		108,066
<b>Total</b>	<b>\$ 110,046</b>	<b>\$ 588</b>	<b>\$ (24)</b>	<b>\$ 110,610</b>

<sup>(1)</sup> Reflects reclassification from allowance for doubtful accounts on trade receivables to allowance for notes receivable.

	\$000,000)	\$000,000)	\$000,000)	\$000,000)
<b>Year ended December 31, 2010:</b>				
Reserves deducted from assets to which they apply:				
Allowance for doubtful accounts	\$ 1,108	\$ 1,524	\$ (76)	\$ 2,556
Valuation allowance on deferred tax asset	88,694	18,796		107,490
<b>Total</b>	<b>\$ 89,802</b>	<b>\$ 20,320</b>	<b>\$ (76)</b>	<b>\$ 110,046</b>
<b>Year ended December 31, 2009:</b>				
Reserves deducted from assets to which they apply:				
Allowance for doubtful accounts	\$ 845	\$ 513	\$ (250)	\$ 1,108
Allowance for notes receivable	225		(225)	
Valuation allowance on deferred tax asset	58,239	30,455		88,694
<b>Total</b>	<b>\$ 59,309</b>	<b>\$ 30,968</b>	<b>\$ (475)</b>	<b>\$ 89,802</b>

EXHIBIT

INDEX

Exhibit	Title
21.1	Subsidiaries of Seitel, Inc.
31.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.
31.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002.
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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