

SEITEL INC  
Form 10-K/A  
April 03, 2002

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

**FORM 10-K/A**  
**Amendment No. 1**

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

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

For the fiscal year ended December 31, 2001

OR

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

Commission File Number 0-14488

SEITEL, INC.

(Exact name of registrant as specified in charter)

Delaware

76-0025431

(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification Number)

50 Briar Hollow Lane, 7<sup>th</sup> Floor West

Houston, Texas

77027

(Zip Code)

(Address of principal executive offices)

Registrant's telephone number, including area code:

(713) 881-8900

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

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| <u>Title of Each Class</u>     | <u>Name of Each Exchange on Which Registered</u>   |
|--------------------------------|--|
| Common Stock, par value \$0.01 | New York Stock Exchange;<br>Toronto Stock Exchange |

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

None

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

Yes  No

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

The aggregate market value of the voting stock held by non-affiliates of the registrant at March 28, 2002 was approximately \$225,707,442. On such date, the closing price of the Common Stock on the New York Stock Exchange was \$9.15 and there were a total of 25,075,350 shares of Common Stock outstanding.

Documents Incorporated by Reference:

| <u>Document</u>   | <u>Part</u> |
|---|-------------|
| Definitive Proxy Statement for 2002 Annual Stockholders Meeting | III         |

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**EXPLANATORY NOTE:**

This Amendment No. 1 to our Annual Report on Form 10-K for the year ended December 31, 2001 is being filed because, solely due to a transmission error, five pages that contained notes to the financial statements were not filed with the Annual Report on Form 10-K filed on April 2, 2002. This Amendment No. 1 contains all of the financial statements, including the five pages that were not filed on April 1, 2002; the remainder of the Form 10-K, including the financial statements filed herewith, filed on April 1, 2002 remains unchanged.

**Signature**

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/A, Amendment #1 to be signed on its behalf by the undersigned, thereunto duly authorized.

**Seitel, Inc.**

By:  
Paul A. Frame  
Chairman of the Board of  
Directors  
and President

/s/ Paul A. Frame

ITEM 1. BUSINESS

General

Seitel, Inc. (the "Company") is a leading provider of seismic data and related geophysical services and expertise to the petroleum industry. The Company owns and licenses what it believes to be the largest nonproprietary onshore seismic data library in North America as well as one of the largest offshore seismic data libraries and initiates new seismic data through multi-client shoots with oil and gas companies.

Oil and gas companies consider seismic data an essential tool for finding hydrocarbons. By properly utilizing seismic data, oil and gas companies can significantly increase drilling success rates and reduce the occurrence of dry holes. By participating in multi-client surveys, oil and gas companies can obtain access to expensive surveys that they could not otherwise afford. Further, seismic data 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.

Since September 2000, the Company has been developing proprietary software, technology, and business methods (the "Solution") through its wholly owned subsidiary, Seitel Solutions, that will enable its clients to access and interact, via a standard web browser and the Internet, with the one petabyte of seismic data currently owned and marketed by Seitel. The Company opened a state-of-the-art data technology center in Houston, Texas on March 12, 2002, which will (i) run its Solutions offering; (ii) store its petabyte of seismic data; and (iii) provide a secure storage facility for its customers' seismic data and other intellectual property. The Company intends to open a second state-of-the-art data technology center in Calgary, Alberta, Canada in the second quarter of 2002.

The Company also explores for, finds, develops, produces and sells natural gas and oil through its Exploration and Production Group ("E&P Group").

Seitel is a Delaware corporation which was founded in 1982. Since that time, Seitel has engaged in the creation of 2D, 3D and 4C seismic databases and has acquired a large number of existing seismic data libraries. The company conducts its seismic activities principally through its wholly owned subsidiaries, Seitel Data, Ltd. and Olympic Seismic Ltd. (the "Seismic Data Group"), which have their principal offices in Houston, Texas and Calgary, Alberta Canada, respectively. The Company also has marketing offices in Denver, Colorado and New Orleans, Louisiana. Oil and gas exploration activities are conducted through the Company's E&P Group which has its principal office in Houston, Texas. See Note Q to the Company's Consolidated Financial Statements for financial information relating to industry segments.

Recent Developments

Restatement of Financial Statements

Under the direction of our new Chairman, and in accordance with the recent "cautionary advice" of the SEC to select

accounting policies that are not only reasoned, but provide investors with "full transparency" as to their effects, we have revised our revenue recognition policies for certain data licensing contracts. Historically, Seitel recognized revenue from the licensing of seismic data when it had a contract with its customer for a fixed sales price, a licensing agreement was in place, the seismic data was available for use by the customer, and collectibility of the sales price was reasonably assured. Under certain contracts, although a licensing agreement was in place, collectibility was reasonably assured, and access to the seismic data available was delivered to the customer, the customer was given time to select specific data from the data available to it to be held long-term under its licensing agreement. Under those contracts, delivery of data to the customer was, therefore, not required until a specific selection was made. In other cases, the customer was delivered seismic data to review and could select from among that data the specific data it wanted to hold long-term. With each of these types of contracts, specific data selections could be made over the term of the contract, which is typically two years. The accounting model described above has been consistently followed by the Company for these types of contracts and has also been followed by others in the seismic industry on similar types of data licensing contracts. This accounting model was not changed with the adoption of the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 (SAB 101), "*Revenue Recognition in Financial Statements*," in October 2000, because the Company and its auditors determined the SAB 101 guidance did not suggest a change in accounting policy.

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However, in February 2002, one of our industry colleagues announced a restatement of its 2000 financial statements for a change in accounting policy based upon SAB 101 for some of its seismic data licensing arrangements to recognize revenue upon selection of specific seismic data. In consideration of this industry change and upon further evaluation of SAB 101, the Company has determined that it is appropriate to adopt a more conservative approach to revenue recognition for the Company's data licensing contracts and to recognize revenue at the time of data selection. As a result, we have revised our 2000 and first through third quarter 2001 financial statements to adopt the selection method.

The financial statements also reflect revisions for the amount and timing of revenue recognized under certain data acquisition contracts. In 2000 and 2001, the Company entered into certain acquisition contracts under which the Company and the customer participated in the acquisition services. Under these arrangements, the Company did not assume the sole risk of service throughout the acquisition process. The Company recognized revenue under these contracts consistent with its revenue recognition policies for acquisition contracts. Under these contracts, the Company has now determined that revenue previously recognized for amounts funded by customers should be used to reduce the Company's recorded cost of creating the seismic data. The Company continues to have sole ownership of the newly created data.

While the above revisions reduced reported revenue and net income for the nine months ended September 30, 2001, and the year ended December 31, 2000, they had no effect on the cash received by the Company during those periods.

As a result of the foregoing revisions to our financial statements, we will also be amending other Securities and Exchange Commission filings to reflect the revisions to our quarterly and annual results in 2000 and the first through third quarters of 2001. Our previously filed financial statements and announced earnings for those periods should not be relied on.

### Description of Operating Groups

#### Seismic Data Group

The Company's Seismic Data Group markets licenses to seismic data from its library to the oil and gas industry. The Company's data library includes two-dimensional ("2D"), three-dimensional ("3D") and multi-component data, in both the onshore and offshore segments. The Company has a strong market position in the United States and Canadian markets because of its ownership in 1.1 million linear miles of two-dimensional and 26,000 square miles of three-dimensional seismic data. Revenue from the Seismic Data Group and their percentage of total revenue for the years ended December 31, 2001, 2000 and 1999 were \$115,238,000 (85%), \$113,887,000 (82%) and \$109,671,000 (85%), respectively.

The Seismic Data Group actively markets data from its library for resale under non-exclusive, non-transferable license agreements using an aggressive marketing strategy combined with geophysical expertise. The Company's customers may not assign or transfer a seismic data license. In the event of a merger or acquisition of an existing customer, the surviving entity generally must pay a fee to relicense any data it wants to continue to use. The Company's marketing philosophy is that seismic data must be sold actively as opposed to waiting passively for customer purchases. The Seismic Data Group has a team of dedicated marketing specialists who maximize license sales opportunities by monitoring petroleum industry exploration and development activities through close interaction with oil and gas companies on a daily basis.

The Seismic Data Group initiates new data surveys utilizing the multi-client approach. Within the seismic industry, there are two types of data initiation: data acquired with underwriter commitments and data acquired in a speculative shoot. The Company does not perform high-risk speculative data initiation because it believes that would create unacceptable financial risk. The Company utilizes the multi-client underwriting approach in which generally at least 65 to 75 percent of the cost of the survey has been underwritten through license sales for the data to be created before the data initiation occurs. In addition, Seitel employs a group of experienced geoscientists who design seismic programs and manage the field acquisition and data processing centers for our clients to assure customer satisfaction.

The Company's data library is concentrated primarily in the major North American oil and gas producing areas. The main areas of focus include the onshore, offshore and transition zone of the U.S. Gulf of Mexico extending from Texas to Florida, onshore East Texas and the Rocky Mountain region. In addition, the Company's international seismic surveys are concentrated in Western Canada and the Continental Shelf offshore the United Kingdom and Ireland.

Three-dimensional 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. The proper use of 3D surveys can significantly increase drilling success rates and, correspondingly, significantly lower exploration and development finding costs. However, the cost to create 3D seismic data is significantly more than the cost to create 2D seismic data, particularly for onshore data. As a result, 2D data remains economically more efficient for preliminary, broad-scale exploration evaluation as well as in determining the location and design of 3D surveys. The 3D surveys can then be used for more site-specific analysis to maximize actual drilling potential and success.

The Company has expanded its seismic activities to include multi-component data, primarily 3D/4-C data. In a standard 3D seismic survey, the reflections of only pressure waves are measured and recorded. A 3D/4-C survey measures and records not only pressure waves but also shear waves. Pressure waves are affected by the fluids in rock formation, whereas shear waves are not. By measuring and recording both pressure waves and shear waves, a 3D/4-C survey can improve analysis of rock formations.

Seitel Solutions

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Since September 2000, the Company has been developing proprietary software, technology, and business methods (the "Solution") that will enable its clients to access and interact, via a standard web browser and the Internet, with its seismic data library. During 2000, the Company acquired the rights to certain software that aided in the development of the Solution; and during 2001, the Company continued to develop the Solution. On March 12, 2002, the Company opened a state-of-the-art data technology center in Houston, Texas. In the second quarter of 2002, the Company intends to open a second state-of-the-art data technology center in Calgary, Alberta, Canada.

Through Seitel Solutions' data technology centers, the Company will be able to offer the following services: (1) online licensing of seismic data and oil and gas attribute products; (2) licensing of software; (3) hosted services on the internet; (4) turnkey/enterprise installations on third party premises; (5) data storage and management services; and (6) data management consulting services. The Company believes that these expanded services create new market opportunities in the U.S., Canada and other international markets.

### The E&P Group

The E&P Group engages in the exploration for and production of oil and gas. The E&P Group participates in these projects as a working interest owner, sharing costs and revenue of oil and gas exploration and production projects with other oil and gas companies. The E&P Group consists of a team of professionals with average industry experience of over 20 years. The E&P Group's expertise covers all core areas of exploration and production including geology, geophysics, land, engineering and operations. The E&P Group's goal is to leverage their experience along with certain proprietary and non-proprietary assets into a significant portfolio of oil and gas reserves. Revenue from the E&P Group and their percentage of total revenue for the years ended December 31, 2001, 2000 and 1999 totaled \$21,091,000 (15%), \$24,435,000 (18%) and \$19,036,000 (15%), respectively.

In November 1999, the Company filed a registration statement with the Securities and Exchange Commission ("SEC") to accomplish the spin-off of DDD Energy through an initial public offering. The proposed offering was delayed due to market conditions and management changes.

### Customers

The Company markets its seismic data to major and independent oil and gas companies. The Company generally markets its quantities of oil and gas to numerous purchasers through the operators of its oil and gas properties. During 2001, 2000 and 1999, no one customer accounted for more than 10% of the Company's revenue. The Company does not believe that the loss of any single customer would have a material adverse impact on its seismic or oil and gas business.

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### Competition

The creation and licensing of seismic data are highly competitive. There are a number of independent oil-service companies that create and market data, and numerous oil and gas companies create seismic data and maintain their own seismic data libraries which they offer for licensing. The Company's largest competitors, most of whom are engaged in acquiring seismic data as well as maintaining a data library, are: Petroleum Geo-Services, Schlumberger, TGS Nopec, Veritas DGC and Compagnie

Generale de Geophysique. The Company has positioned itself to take advantage of the increased outsourcing trend by exploration and production companies for their seismic data services. In addition, the Company believes it can compete favorably because of the breadth of its data library, the expertise of its marketing staff and the technical proficiency and exploration experience of its geoscientists. These resources enable the Company to provide high-quality service and to create and market high-grade data which enhances explorationists' success in finding hydrocarbons.

In the oil and gas exploration and production business, there are numerous exploration and production companies competing for the acquisition of mineral properties.

#### Seasonality and Timing Factors

The Company's results of operations can fluctuate from quarter to quarter. The fluctuations are caused by a number of factors.

With respect to seismic licensing revenue, the Company's results are influenced by oil and gas industry capital expenditure budgets and spending patterns. These budgets are not necessarily spent in either 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, the Company's revenue recognition policy under certain data licensing contracts is dependent upon when the customer selects the data. As a result, the Company's seismic data revenue does not necessarily flow evenly or progressively on a sequential quarterly basis during the year. In addition, certain weather-related events may delay the creation of seismic data for the Company's library during any given quarter. Although the majority of the Company's seismic resales are under \$500,000 per sale, occasionally a single data resale from the Company's library, including those resulting from the merger and acquisition of the Company's oil and gas company customers, can be as large as \$5 million or more. Such large resales can materially impact the Company's results during the quarter in which they occur, creating an impression of a trend of increasing revenue that may not be achieved in subsequent periods.

Due to the high percentage of gas reserves in the Company's portfolio and the variability in gas prices, the Company's results from its oil and gas operations are subject to significant fluctuations. The Company's oil and gas exploration and production operations also can be impacted by certain weather-related events as well as by mechanical and equipment problems or shortages and other factors, which may delay the hookup of successfully completed wells and delay the resultant production revenue. In addition, some producing wells may be required to go off line periodically for pipeline and other maintenance.

#### Employees

As of December 31, 2001, the Company and its subsidiaries had 188 full-time employees. None of the Company's employees are covered by collective bargaining agreements.

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#### Other

The Company is not dependent on any particular raw materials, patents, trademarks or copyrights for its business operations.

The following table gives an overview of the structure of the Company. All subsidiaries are directly or indirectly wholly owned unless separately noted.

| <u>NAME OF SUBSIDIARY</u>                      | <u>INCORPORATED IN</u>              |
|--|-------------------------------------|
| ** African Geophysical, Inc.                   | Cayman Islands                      |
| ** Alternative Communication Enterprises, Inc. | Texas                               |
| Datatel, Inc.                                  | Delaware                            |
| DDD Energy, Inc.                               | Delaware                            |
| ** EHI Holdings, Inc.                          | Delaware                            |
| Endeavor Exploration LLC                       | Delaware                            |
| Energy Venture Holdings LLC                    | Delaware                            |
| ** Exsol, Inc.                                 | Delaware                            |
| ** Geo-Bank, Inc.                              | Texas                               |
| Matrix Geophysical, Inc.                       | Delaware                            |
| Olympic Seismic Ltd.                           | Alberta, Canada                     |
| SEIC, Inc.                                     | Delaware                            |
| SEIC Business Trust                            | Canadian business trust             |
| SEIC Holdings Ltd.                             | Alberta, Canada                     |
| SEIC L.L.C.                                    | Delaware                            |
| SEIC Partners Limited Partnership              | Alberta, Canada limited partnership |
| SEIC Trust Administration, Ltd.                | Alberta, Canada                     |
| Seitel Canada Holdings, Inc.                   | Delaware                            |
| Seitel Canada, L.L.C.                          | Delaware                            |
| Seitel Data Corp.                              | Delaware                            |
| Seitel Data, Ltd.                              | Texas limited partnership           |
| Seitel Delaware, Inc.                          | Delaware                            |
| ** Seitel Gas & Energy Corp.                   | Delaware                            |
| ** Seitel Geophysical, Inc.                    | Delaware                            |
| Seitel IP Holdings, LLC                        | Delaware                            |
| Seitel International, Inc.                     | Cayman Islands                      |
| Seitel Management, Inc.                        | Delaware                            |
| ** Seitel Natural Gas, Inc.                    | Delaware                            |
| Seitel Offshore Corp.                          | Delaware                            |
| ** Seitel Power Corp.                          | Delaware                            |
| Seitel Solutions Canada Ltd.                   | Alberta, Canada                     |
| Seitel Solutions, Inc.                         | Delaware                            |
| Seitel Solutions, L.L.C.                       | Delaware                            |
| Seitel Solutions, Ltd.                         | Texas limited partnership           |
| Seitel Solutions Holdings, LLC                 | Delaware                            |
| SI Holdings, G.P.                              | Delaware                            |
| Seitel International, CV                       | Netherlands                         |
| ** Vision Energy, Inc.                         | Delaware <sup>(1)</sup>             |
| 818312 Alberta Ltd.                            | Alberta, Canada                     |



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(1)Seitel, Inc. owns 19%

\*\*Dormant

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## ITEM 2. PROPERTIES

The Company leases office and warehouse space principally in Houston and Calgary. The Company also owns warehouse space in Calgary. The size and condition of the spaces are appropriate for the Company's business.

The Company, through its E&P Group, participates in oil and gas exploration and development efforts. For estimates of the Company's net proved and proved developed oil and gas reserves as of December 31, 2001, see Note S to the Company's Consolidated Financial Statements. There are numerous uncertainties inherent in estimating quantities of proved reserves and in projecting future rates of production and timing of development expenditures, including many factors beyond the control of the producer. The reserve data set forth in Note S to the Company's Consolidated Financial statements represents only estimates. Reservoir engineering is a subjective process of estimating underground accumulations of natural gas and liquids, including crude oil, condensate and natural gas liquids that cannot be measured in an exact manner. The accuracy of any reserve estimate is a function of the amount and quality of available data and of engineering and geological interpretation and judgment. As a result, estimates of different engineers normally vary. In addition, results of drilling, testing and production subsequent to the date of an estimate may justify revision of such estimate. Accordingly, reserve estimates are often different from the quantities ultimately recovered. The meaningfulness of such estimates is highly dependent upon the accuracy of the assumptions upon which they were based.

In general, the volume of production from oil and gas properties owned by the Company declines as reserves are depleted. Except to the extent that the Company acquires additional properties containing proved reserves or conducts successful exploration and development activities, or both, the proved reserves of the Company will decline as reserves are produced. Volumes generated from future activities of the Company are therefore highly dependent upon the level of success in finding or acquiring additional reserves and the costs incurred in so doing.

The following table sets forth the number of productive oil and gas wells (including producing wells and wells capable of production) in which the Company owned an interest as of December 31, 2001. Gross oil and gas wells include five with multiple completions. All of the wells are operated by the Company's oil and gas company partners. A "gross" well is a well in which the Company owns a working interest. "Net" wells refer to the sum of the fractional working interests owned by the Company in gross wells.

|     | <u>Gross Wells</u> | <u>Net Wells</u> |
|-----|--------------------|------------------|
| Oil | 13                 | 3.11             |
| Gas | 58                 | 15.57            |

The following table sets forth the number of net wells drilled in the last three fiscal years and in which the Company participated.

| Exploratory | Development |
|-------------|-------------|
|-------------|-------------|

|             | <u>Productive</u> | <u>Dry</u> | <u>Total</u> | <u>Productive</u> | <u>Dry</u> | <u>Total</u> |
|-------------|-------------------|------------|--------------|-------------------|------------|--------------|
| <u>2001</u> |                   |            |              |                   |            |              |
| Texas       | .20               | .15        | .35          | .67               | .21        | .88          |
| Mississippi | 2.80              | -          | 2.80         | -                 | -          | -            |
| Louisiana   | .25               | .25        | .50          | .33               | -          | .33          |
| California  | 2.80              | .13        | 2.93         | -                 | -          | -            |
| <u>2000</u> |                   |            |              |                   |            |              |
| Texas       | 1.78              | .25        | 2.03         | 1.24              | -          | 1.24         |
| Mississippi | .80               | .40        | 1.20         | -                 | -          | -            |
| Louisiana   | -                 | .49        | .49          | -                 | -          | -            |
| California  | 2.33              | .48        | 2.81         | -                 | -          | -            |
| <u>1999</u> |                   |            |              |                   |            |              |
| Texas       | 1.14              | .28        | 1.42         | 1.09              | -          | 1.09         |
| Louisiana   | .52               | -          | .52          | -                 | -          | -            |
| California  | .30               | -          | .30          | -                 | -          | -            |

As of December 31, 2001, the Company was not participating in the drilling of any wells.

The following table sets forth certain information regarding the Company's developed and undeveloped lease acreage as of December 31, 2001. "Gross" acres refer to the number of acres in which the Company owns a working interest. "Net" acres refer to the sum of the fractional working interests owned by the Company in gross acres.

|            | <u>Developed Acres</u> |            | <u>Undeveloped Acres</u> |            |
|------------|------------------------|------------|--------------------------|------------|
|            | <u>Gross</u>           | <u>Net</u> | <u>Gross</u>             | <u>Net</u> |
| California | 8,836                  | 2,437      | 95,810                   | 30,181     |
| Louisiana  | 3,887                  | 940        | 12,163                   | 3,153      |
| Michigan   | 320                    | 90         | 0                        | 0          |
| Offshore   | 0                      | 0          | 7,456                    | 4,576      |
| Texas      | 12,394                 | 3,717      | 27,168                   | 7,488      |
| Total      | 25,437                 | 7,184      | 142,597                  | 45,398     |

The following table describes for each of the last three fiscal years, crude oil (including condensate and natural gas liquids) and natural gas production for the Company, average production costs and average sales prices. All such production primarily comes from the U.S. Gulf Coast region and California. The Company has not filed any different

estimates of its December 31, 2001 reserves with any federal agencies.

| Year Ended<br>December 31, | Net Production |               | Average<br>Production<br>Cost per Mcfe | Average Sales Price |              |
|----------------------------|----------------|---------------|--|---------------------|--------------|
|                            | Oil<br>(Mbbls) | Gas<br>(Mmcf) |  | Oil<br>(Bbls)       | Gas<br>(Mcf) |
| 2001                       | 278            | 3,157         | \$.88                                  | \$21.73             | \$4.74       |
| 2000                       | 303            | 4,390         | .78                                    | 27.09               | 3.65         |
| 1999                       | 346            | 5,693         | .61                                    | 16.35               | 2.28         |

### ITEM 3. LEGAL PROCEEDINGS

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 resolution of these matters should not be material to the Company's financial position or results of operations.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth fiscal quarter of 2001.

## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is traded on the New York Stock Exchange which is the Company's principal exchange. The Company's Common Stock is also traded on the Toronto Stock Exchange. The following table sets forth the high and low sales prices for the Common Stock for 2001 and 2000 as reported by the New York Stock Exchange.

|                | 2001     |          | 2000    |         |
|----------------|----------|----------|---------|---------|
|                | High     | Low      | High    | Low     |
| First Quarter  | \$ 22.72 | \$ 16.29 | \$ 9.63 | \$ 6.50 |
| Second Quarter | 20.16    | 13.03    | 9.50    | 5.88    |
| Third Quarter  | 14.36    | 8.89     | 16.38   | 7.06    |

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Fourth Quarter 14.20 9.55 19.75 13.25

On March 28, 2002, the closing price for the Common Stock was \$9.15. To the best of the Company's knowledge, there are approximately 903 record holders of the Company's Common Stock as of March 28, 2002.

Dividend Policy

The Company did not pay cash dividends during 2001 or 2000, and it intends to retain future earnings in order to provide funds for use in the operation and expansion of its business. Because the payment of dividends is dependent upon earnings, capital requirements, financial conditions, any required consents of lenders and other factors, there is no assurance that dividends, whether in the form of stock or cash, will be paid in the future.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA (in thousands, except per share data)

The following table summarizes certain historical consolidated financial data of the Company and is qualified in its entirety by the more detailed consolidated financial statements and notes thereto included in Item 8 hereof.

| Statement of Operations Data:                         | Year Ended December 31, |            |            |            |            |
|---|-------------------------|------------|------------|------------|------------|
|   | 2001                    | 2000       | 1999       | 1998       | 1997       |
|   |                         | (Restated  |            |            |            |
|   |                         | )          |            |            |            |
| Revenue <sup>(1)</sup>                                | \$ 136,329              | \$ 138,322 | \$ 128,707 | \$ 144,857 | \$ 127,556 |
| Expenses and costs:                                   |                         |            |            |            |            |
| Depreciation, depletion and amortization              | 60,713                  | 62,897     | 59,624     | 69,890     | 49,679     |
| Impairment of oil and gas properties                  | 40,433                  | -          | -          | -          | 9,560      |
| Cost of sales   | 5,465                   | 5,570      | 5,016      | 4,874      | 17,953     |
| Selling, general and administrative                   | 38,093                  | 33,131     | 28,587     | 26,599     | 23,043     |
| Expenses related to delayed DDD Energy, Inc. offering | -                       | 958        | -          | -          | -          |
| Restructuring charge                                  | -                       | 4,394      | -          | -          | -          |
|   | 144,704                 | 106,950    | 93,227     | 101,363    | 100,235    |
| (Loss) income from operations                         | (8,375)                 | 31,372     | 35,480     | 43,494     | 27,321     |

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|  |                    |                   |                   |                   |                   |
|--|--------------------|-------------------|-------------------|-------------------|-------------------|
| Interest expense, net  | (13,102)           | (12,106)          | (11,077)          | (5,540)           | (3,554)           |
| Dividend income  | -                  | 22                | -                 | -                 | -                 |
| Equity in earnings (loss) of<br>affiliate  | -                  | -                 | (91)              | 222               | 146               |
| Impairment due to dividend<br>distribution of affiliate stock  | -                  | -                 | (7,794)           | -                 | -                 |
| Gain on sale of subsidiary stock   | -                  | -                 | -                 | -                 | 18,449            |
| Increase (decrease) in under-<br>lying equity of affiliate   | -                  | -                 | -                 | (193)             | 10,750            |
| Extinguishment of volumetric<br>production payment   | -                  | -                 | -                 | -                 | (4,133)           |
|  | <u>          </u>  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| (Loss) income before provision<br>for income taxes   | (21,477)           | 19,288            | 16,518            | 37,983            | 48,979            |
| (Benefit) provision for income taxes   | (6,484)            | 7,578             | 7,138             | 13,623            | 17,422            |
|  | <u>          </u>  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| (Loss) income before cumulative<br>effect of accounting change   | (14,993)           | 11,710            | 9,380             | 24,360            | 31,557            |
| Cumulative effect on prior years of<br>change in revenue recognition,<br>net of tax benefit of \$8,859 | -                  | (14,219)          | -                 | -                 | -                 |
|  | <u>          </u>  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net (loss) income  | <u>\$ (14,993)</u> | <u>\$ (2,509)</u> | <u>\$ 9,380</u>   | <u>\$ 24,360</u>  | <u>\$ 31,557</u>  |

Year Ended December 31,

| Statement of Operations Data:                | <u>2001</u>       | <u>2000</u>       | <u>1999</u>       | <u>1998</u>       | <u>1997</u>       |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|
|  |                   | (Restated)        |                   |                   |                   |
| Earnings (loss) per share: <sup>(2)</sup>    |                   |                   |                   |                   |                   |
| Basic:                                       |                   |                   |                   |                   |                   |
| (Loss) Income before<br>cumulative<br>effect | \$ (.60)          | \$ .49            | \$ .39            | \$ 1.07           | \$ 1.48           |
| Cumulative effect of<br>accounting<br>change | -                 | (.59)             | -                 | -                 | -                 |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

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|  |           |           |           |            |           |
|--|-----------|-----------|-----------|------------|-----------|
| Net (loss) income                            | \$ ( .60) | \$ ( .10) | \$ .39    | \$ 1.07    | \$ 1.48   |
| Diluted:                                     |           |           |           |            |           |
| (Loss) income before<br>cumulative<br>effect | \$ ( .60) | \$ .49    | \$ .39    | \$ 1.05    | \$ 1.43   |
| Cumulative effect of<br>accounting<br>change | -         | (.59)     | -         | -          | -         |
| Net (loss) income                            | \$ ( .60) | \$ ( .10) | \$ .39    | \$ 1.05    | \$ 1.43   |
| Weighted average shares: <sup>(2)</sup>      |           |           |           |            |           |
| - Basic                                      | 24,986    | 23,909    | 23,863    | 22,720     | 21,380    |
| - Diluted                                    | 24,986    | 24,090    | 24,063    | 23,124     | 22,050    |
| EBITDA <sup>(4)</sup>                        | \$ 92,771 | \$ 99,621 | \$ 95,104 | \$ 113,384 | \$ 84,436 |

As of December 31,

| Balance Sheet Data:  | 2001       | 2000       | 1999       | 1998       | 1997       |
|--|------------|------------|------------|------------|------------|
|  |            | (Restated) |            |            |            |
| Seismic data library, net  | \$ 455,845 | \$ 362,603 | \$ 329,885 | \$ 262,950 | \$ 180,936 |
| Oil and gas properties, net  | 89,370     | 141,658    | 150,166    | 148,977    | 112,915    |
| Total assets   | 661,469    | 599,131    | 555,919    | 495,767    | 365,682    |
| Total debt   | 268,350    | 206,598    | 225,223    | 150,690    | 90,566     |
| Stockholders' equity   | 243,587    | 253,590    | 243,024    | 237,587    | 207,273    |
| Stockholders' equity per<br>common share outstanding<br>at December 31 | \$ 9.71    | \$ 10.28   | \$ 10.30   | \$ 10.05   | \$ 9.26    |
| Common shares outstanding at<br>December 31 <sup>(2) (3)</sup>         | 25,075     | 24,671     | 23,605     | 23,629     | 22,373     |

(1) Non-cash revenue and the percentage of total revenue for the five years ended December 31, 2001 are \$18,219,000 (13.4%), \$7,330,000 (5.3%), \$8,989,000 (7.0%), \$1,140,000 (.9%) and \$0, respectively.

(2) All number of shares and per share amounts have been restated to give effect to the two-for-one stock split effected in the form of a 100% stock dividend in December 1997.

(3) Net of treasury shares.

- (4) "EBITDA" is earnings before special items, equity in earnings (loss) from affiliate, interest expense, depreciation, depletion, amortization, taxes, impairment charges, and cumulative effect of accounting changes. EBITDA includes non-cash earnings. EBITDA should not be interpreted as a measure of operating results, cash flows provided by operating activities, a measure of liquidity, or as an alternative to any generally accepted accounting principle measure of performance. The Company is reporting EBITDA because it is a widely used financial measure of the potential capacity of a company to incur and service debt. The Company's reported EBITDA may not be comparable to similarly titled measures used by other companies.
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## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Information Regarding Forward Looking Statements

Statements contained in this Report about Seitel's future outlook, prospects and plans, including those that express belief, expectation, estimates or intentions, as well as those that are not statements of historical fact, are forward looking. These statements represent Seitel's reasonable belief and are based on Seitel's current expectations and assumptions with respect to future events. While Seitel believes its expectations and assumptions are reasonable, they involve risks and uncertainties beyond Seitel's control that could cause the actual results or outcome to differ materially from the expected results or outcome. Such factors include any significant change in the oil and gas business or the economy generally, changes in the exploration budgets of the Company's seismic data and related services customers, actual customer demand for the Company's seismic data and related services, the extent of the Company's success in acquiring oil and gas properties and in discovering, developing and producing reserves, the timing and extent of changes in commodity prices for natural gas, crude oil and condensate and natural gas liquids and conditions in the capital markets and equity markets during the periods covered by the forward looking statements, and the effect on our reported operating results and stock price as a result of the Company's restatement of financial statements. The forward-looking statements contained in this Report speak only as of the date hereof, and Seitel disclaims any duty to update these statements.

### Restatement of Financial Statements

As discussed under Recent Developments, effective for the fiscal year ended December 31, 2001, the Company has determined that the timing and amount of reported revenue from certain data licensing contracts and certain data acquisition contracts warranted revision to the reported results for the nine months ended September 30, 2001 and the year ended December 31, 2000.

The revisions to revenue recognition under the seismic data licensing agreements resulted from a further evaluation of SAB 101 following the change in accounting policy by an industry colleague. The effect of these revisions is to defer revenue previously recognized under certain seismic data licensing agreements until selection of specific data is made by the customer. The deferral in revenue resulted in an increase in deferred revenue. Associated with the deferral of the revenue on these contracts, the Company also deferred the direct costs related to the revenue, which resulted in an increase in prepaid expenses. The Company also recognized a reduction in amortization expense, which is recorded as an adjustment to accumulated amortization, and in income tax expense, which is recorded as an

adjustment to deferred taxes. The change in revenue recognition, effective January 1, 2000, was recorded as a cumulative effect adjustment in 2000, which means that the net effect of applying SAB 101 for periods prior to January 1, 2000 was recorded in the Statement of Operations as one amount, net of taxes. The total effects of all revisions to revenue recognition related to the seismic data licensing arrangements for the nine months ended September 30, 2001 and the year ended December 31, 2000 are summarized in the tables on the following pages.

The revisions also reflect adjustments for the amount and timing of revenue previously recognized under certain data acquisition contracts. In 2001 and 2000, the Company entered into certain acquisition contracts under which the Company and the customer participated in the acquisition services. Under these arrangements, the Company did not assume the sole risk of service throughout the acquisition process. The Company recognized revenue under these contracts consistent with its revenue recognition policy for acquisition contracts. The Company has determined that revenue previously recognized for amounts funded by customers under these contracts should be used to reduce the Company's recorded cost of creating the seismic data. The Company continues to have sole ownership of the newly created data. The reduction of revenue resulting from these revisions also reduced the Company's amortization expense, which is recorded as an adjustment to accumulated amortization, and income tax expense, which is recorded as an adjustment to deferred taxes. The total effects of all revisions to revenue recognition related to certain data acquisition contracts for the nine months ended September 30, 2001 and the year ended December 31, 2000 are summarized in the tables on the following pages.

Accordingly, such financial statements have been restated as follows:

Nine Months Ended September 30, 2001 (Unaudited)

|  | (in '000's except per share amounts) |   |  |                |
|--|--------------------------------------|---|--|----------------|
|  | As<br>Reported                       | Adjustments<br>for<br>Data<br>Licensing<br>Agreements | Adjustments<br>for<br>Data<br>Acquisition<br>Contracts | As<br>Restated |
| Statements of Operations Data:         |                                      |   |  |                |
| Revenue                                | \$ 140,775                           | \$ (31,203)   | \$ (11,491)  | \$ 98,081(1)   |
| Depreciation, depletion & amortization | 61,872                               | (13,433)  | (5,528)  | 42,911         |
| Impairment of oil and gas properties   | 30,038                               | -   | -  | 30,038         |
| Cost of sales                          | 4,182                                | -   | -  | 4,182          |
| SG&A expense                           | 30,998                               | (2,115)   | (57)   | 28,826         |
| Income (loss) from operations          | 13,685                               | (15,655)  | (5,906)  | (7,876)        |
| Interest expense, net                  | (9,515)                              | -   | 72   | (9,443)        |
|  | (1,398)                              | 5,078   | 2,042  | 5,722          |



(Provision) benefit for income taxes

|                    |                   |                   |                   |                   |
|--------------------|-------------------|-------------------|-------------------|-------------------|
|                    | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income (loss). | \$ 2,772          | \$ (10,577)       | \$ (3,792)        | \$ (11,597)       |
|                    | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

Net income (loss) per share:

|         |         |          |          |           |
|---------|---------|----------|----------|-----------|
| Basic   | \$ 0.11 | \$ (.42) | \$ (.15) | \$ (0.46) |
| Diluted | \$ 0.11 | \$ (.42) | \$ (.15) | \$ (0.46) |

Balance Sheet Data:

|  |          |           |         |          |
|--|----------|-----------|---------|----------|
| Cash and cash equivalents                | \$ 5,572 | \$ -      | \$ -    | \$ 5,572 |
| Receivables                              | 58,162   | -         | -       | 58,162   |
| Seismic data library, net                | 401,967  | 30,609(2) | (5,615) | 426,961  |
| Property and equipment, net              | 123,660  | -         | -       | 123,660  |
| Prepaid expenses and deferred charges    | 6,203    | 6,229     | 14      | 12,446   |
| Accounts payable and accrued liabilities | 43,182   | -         | -       | 43,182   |
| Deferred income taxes                    | 24,389   | (17,857)  | (2,042) | 4,490    |
| Deferred revenue                         | 1,093    | 87,683(3) | 233     | 89,009   |
| Retained earnings                        | 132,315  | (33,503)  | (3,792) | 95,020   |
| Accumulated other comprehensive loss     | (2,822)  | 515       | -       | (2,307)  |

- (1) Non-cash revenue and the percentage of total revenue are \$12,408,000 and 12.7%, respectively.
- (2) Represents reduction in accumulated amortization due to deferral of revenue.
- (3) The impact of the data licensing revisions on deferred revenue includes approximately \$57 million related to the cumulative effect of periods prior to 2001.

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Year Ended December 31, 2000

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(in '000's except per share amounts)

|    |   |   |    |
|----|---|---|----|
| As | Adjustments<br>for<br>Data<br>Licensing | Adjustments<br>for<br>Data<br>Acquisition | As |
|----|---|---|----|

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|   | <u>Reported</u>   | <u>Agreements</u> | <u>Contracts</u>  | <u>Restated</u>   |
|---|-------------------|-------------------|-------------------|-------------------|
| Statements of Operations Data:                |                   |                   |                   |                   |
| Revenue                                       | \$ 163,811        | \$ (19,599)       | \$ (5,890)        | \$ 138,322(1)     |
| Depreciation, depletion & amortization        | 73,709            | (8,054)           | (2,758)           | 62,897            |
| Cost of sales                                 | 5,570             | -                 | -                 | 5,570             |
| SG&A expense                                  | 34,790            | (1,476)           | (183)             | 33,131            |
| Other   | 5,352             | -                 | -                 | 5,352             |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income (loss) from operations                 | 44,390            | (10,069)          | (2,949)           | 31,372            |
| Interest expense and other, net               | (12,184)          | -                 | 100               | (12,084)          |
| (Provision) benefit for income taxes          | (11,789)          | 3,215             | 996               | (7,578)           |
| Cumulative effect of accounting change        | -                 | (14,219)          | -                 | (14,219)          |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income (loss)                             | \$ 20,417         | \$ (21,073)       | \$ (1,853)        | \$ (2,509)        |
|   | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income (loss) per share:                  |                   |                   |                   |                   |
| Basic   | \$ 0.85           | \$ (.88)          | \$ (.07)          | \$ (0.10)         |
| Diluted                                       | \$ 0.85           | \$ (.88)          | \$ (.07)          | \$ (0.10)         |
| Balance Sheet Data:                           |                   |                   |                   |                   |
| Cash and cash equivalents                     | \$10,216          | \$ -              | \$ -              | \$10,216          |
| Receivables                                   | 69,740            | -                 | -                 | 69,740            |
| Seismic data library, net                     | 345,201           | 18,855(2)         | (1,453)           | 362,603           |
| Property and equipment, net                   | 145,655           | -                 | -                 | 145,655           |
| Prepaid expenses and deferred charges         | 4,716             | 4,093             | 79                | 8,888             |
| Accounts payable and accrued liabilities      | 49,736            | -                 | -                 | 49,736            |
| Deferred income taxes                         | 30,412            | (11,944)          | (996)             | 17,472            |
| Deferred revenue                              | 2,975             | 55,773(3)         | 1,477             | 60,225            |
| Retained earnings                             | 129,543           | (21,073)          | (1,853)           | 106,617           |
| Accumulated other comprehensive income (loss) | (381)             | 190               | -                 | (191)             |

- (1) Non-cash revenue and the percentage of total revenue are \$7,330,000 and 5.3%, respectively.
- (2) Represents reduction in accumulated amortization due to deferral of revenue.
- (3) The impact of the data licensing revisions on deferred revenue includes approximately \$36 million related to the cumulative effect of periods prior to 2000.

While the above revisions reduced reported revenues and net income for the nine months ended September 30, 2001 and the year ended December 31, 2000, they had no effect on the cash received by the Company during those periods.

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At December 31, 2001, the Company had a deferred revenue balance of \$97,330,000, of which \$47,708,000 resulted from non-cash transactions through which the Company has received ownership of seismic data in lieu of cash. Of the remaining deferred revenue balance of \$49,622,000 at December 31, 2001, approximately \$27,593,000 or 56% has been collected. The total deferred revenue at December 31, 2001, consists of: \$4.4 million deferred revenue existing at December 31, 1999; \$36 million resulting from the cumulative effect for periods prior to January 1, 2000, of the adoption of the new accounting policies; \$19.8 million resulting from the net effect in 2000 of the adoption of the new accounting policies; and \$37.1 million resulting from the net effect in 2001 of the adoption of the new accounting policies. The 2000 and 2001 deferred revenue is net of revenue realized from the selection of data or expiration of contracts during those periods from previously deferred revenue. The deferred revenue will be recognized when selection of the data is made by the customer or upon expiration of the data licensing contracts, whichever occurs first. Deferred revenue will be recognized approximately as follows, although some revenue may be recognized earlier if selection occurs earlier (in thousands):

|                     |           |
|---------------------|-----------|
| 2002                | \$ 25,000 |
| 2003                | 19,000    |
| 2004                | 17,000    |
| 2005 and thereafter | 21,330    |

The remaining approximately \$15,000,000 will be spread throughout the above periods depending upon the customers' needs.

### Significant Accounting Policies

#### Revenue Recognition

#### Revenue from Data Acquisition

Revenue from the creation of new seismic data under the Company's acquisition contracts is recognized using the percentage-of-completion method of accounting based upon costs incurred to date as a percentage of total estimated costs. Under these contracts, the Company creates new seismic data designed in conjunction with its customers and specifically suited to the geology of the area using the most appropriate technology available. The contracts typically require one or more customers to pay between 65% and 75% of the creation costs in exchange for the right to use the resulting data. Customers make periodic payments throughout the creation period, which generally correspond to costs to be incurred. These payments are non-refundable once the costs of creation are incurred. The creation process generally occurs in the following stages: permitting, surveying, drilling, recording and processing. At each stage, the customers receive legally enforceable rights and access to, and the benefits of, the results of all work performed. The customers also receive access to and use of the newly acquired, processed data. The customers may have exclusive access to the work performed and exclusive use of the newly acquired, processed data for a limited term, which is generally less than nine months after final delivery of the 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 long-term (generally twenty years or more) license agreement, which is a separate agreement from the acquisition contract. The Company's acquisition contracts require the customer either to have a license agreement in place or to execute one at the time the acquisition contract is signed. The Company maintains sole ownership of the newly acquired data, which is added to its library, and is free to license the data to other customers when the original customers' exclusivity ends.

#### Revenue from Data Licenses

The Company licenses data from its seismic data library to customers under four basic forms of contracts.

Under the first, the customer licenses and selects data from the data library at the time of contracting.

Under the second, called review and possession contracts, 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.

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Under the third, called library card contracts, 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 lengths of the selection periods under the library card contracts vary.

Under the fourth, called review only contracts, 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 usage of all data delivered to the customer, whether for review only or to hold long-term, is governed by a license agreement, which is a separate agreement from the contracts. The Company's contracts require the customer either to have a license agreement in place or to execute one at the time the contract is signed. The term of the license agreement is generally twenty years or more and governs all data delivered to the customer during the term. Payment terms under the contracts are typically less than eighteen months. All payments due are non-cancelable and all payments made are non-refundable. The customer has complete access to all available data covered by the contracts on the date the contract is executed. The contracts permit selection of the data in its present form and the Company is

under no obligation to make any enhancements, modifications or additions to the data. The customers' rights under the contracts are non-transferable without payment of an additional fee. Copies of the data are available to the customer immediately upon request.

Before 2000, under the Company's interpretation of accounting principles generally accepted in the United States of America in effect at that time, the Company recognized revenue when it had a contract with its customer for a fixed sales price, a license agreement was in place, collectibility was reasonably assured and the seismic data was available for use by the customer. Since January 1, 2000, revenue from licensing of seismic data is recognized when the Company has contracted with the customer for a fixed sales price; a licensing agreement is in place; the customer has selected specific data under the terms of the contract or the contract has expired without full selection having occurred; and collectibility of the sales price is reasonably assured. The Company does not recognize revenue for amounts billed in advance of being earned until these conditions are met. For revenue that is deferred, the Company defers the direct costs related to the revenue. Revenue from licensing of seismic data is presented net of revenue shared with other entities.

#### Revenue from Non-Cash Data Licenses

In certain cases, the Company grants its customer a non-exclusive license to specific, selected data or access to data to be used in its operations (not for resale) in exchange for ownership of seismic data from the customer. Where the customer receives access to data, the customer may then select specific data to hold under a long-term license; the lengths of the selection periods vary, but are generally three to five years. The Company records a data library asset for the seismic data acquired at the time the contract is entered into and defers revenue recognition on the transaction until the customer selects the data. These transactions are accounted for as non-monetary exchanges and are valued at the fair value of the data received or delivered, whichever is more reliably determinable. The Company determines a fair value for the data exchanged utilizing its combined executive experience of over forty years in the industry and considering factors including comparative data generation costs, current license fees and future marketability, and any unique features that may cause exceptions to a regional model. In determining the fair value of the data, the Company considers whether similar cash-based transactions exist in the marketplace to corroborate the value and considers the amount, timing and likelihood of future cash flows from licensing the data acquired. The Company also engages an independent third party to review for fairness the Company's valuations of significant exchange transactions.

#### Revenue from Oil and Gas Operations

The Company uses the sales method of accounting for its oil and gas revenue. Under this method, revenue is recognized based on actual volumes of oil and gas sold to purchasers. The volumes of oil and gas sold may differ from the volumes to which the Company is entitled based on its interests in the properties, which historically, has not been significant.

#### Amortization of Seismic Data Library

In accordance with its business model, the Company undertakes seismic data creation programs and purchases existing seismic data programs in instances where it is expected that the amount of total licensing fees from the program will equal at least twice the program's cost.

The Company uses the income forecast method to amortize the costs of seismic data programs it creates. Under the income forecast method, seismic data costs are amortized based on the proportion of revenue for a period to total revenue, as estimated by management.

The costs of purchased seismic data programs are generally amortized on a straight-line basis over ten years, however, the costs of a significant purchase (greater than 5% of the net book value of the seismic data library) are amortized using the greater of the income forecast method or ten-year straight-line method.

On a periodic basis, the Company evaluates the performance of all of its seismic data programs to ensure that the economic useful life does not exceed ten years. The Company evaluates its revenue trends, as well as industry revenue trends, in order to estimate future revenue from seismic data sales. When economic conditions indicate, the Company may reduce its estimates of future revenue, causing the amortization rate to rise and operating results to decline. The Company also reviews the carrying value of seismic data to assess whether there has been a permanent impairment of value. Any indicated losses are recorded as additional amortization when it is determined that estimated future revenue will not be sufficient to cover the carrying value of the asset.

The amount of seismic data amortization recorded each year fluctuates based on the amount of seismic revenue recognized and the mix of data to which the revenue relates. The data is amortized based on: (i) the income forecast method at varying percentages based on each data program's current and expected future revenue which is generally used for created data or (ii) the ten-year straight-line method which is generally used for purchased data.

### Results of Operations

The following table sets forth selected financial information (in thousands) for the periods indicated, and should be read in conjunction with the discussion below.

|                                      | <u>2001</u> | <u>2000</u> | <u>1999</u> |
|--------------------------------------|-------------|-------------|-------------|
|                                      |             | (Restated)  |             |
| Seismic:                             |             |             |             |
| Revenue                              | \$ 115,238  | \$ 113,887  | \$ 109,671  |
| Amortization                         | (48,216)    | (51,347)    | (49,375)    |
| Cost of sales                        | (1,196)     | (738)       | (296)       |
| Oil and Gas:                         |             |             |             |
| Revenue                              | 21,091      | 24,435      | 19,036      |
| Depletion                            | (10,640)    | (10,376)    | (9,093)     |
| Impairment of oil and gas properties | (40,433)    | -           | -           |
| Cost of sales                        | (4,269)     | (4,832)     | (4,720)     |
| Other depreciation                   | (1,857)     | (1,174)     | (1,156)     |
| Selling, general and administrative  | (38,093)    | (33,131)    | (28,587)    |

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|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Expenses related to delayed DDD Energy, Inc. offering  | -                 | (958)             | -                 |
| Restructuring charge   | -                 | (4,394)           | -                 |
| Net interest expense   | (13,102)          | (12,106)          | (11,077)          |
| Dividend income  | -                 | 22                | -                 |
| Equity in loss of affiliate  | -                 | -                 | (91)              |
| Impairment due to dividend distribution of affiliate stock   | -                 | -                 | (7,794)           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| (Loss) income before provision for income taxes  | (21,477)          | 19,288            | 16,518            |
| Provision (benefit) for income taxes   | (6,484)           | 7,578             | 7,138             |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| (Loss) income before cumulative effect of<br>accounting change   | (14,993)          | 11,710            | 9,380             |
| Cumulative effect on prior years of change in accounting<br>principle for revenue recognition, net of<br>tax | -                 | (14,219)          | -                 |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Net (loss) income  | \$ (14,993)       | \$ (2,509)        | \$ 9,380          |
|  | <u>          </u> | <u>          </u> | <u>          </u> |

Overview

Income before special items, impairment of oil and gas properties and cumulative effect of accounting change was \$11,288,000, \$16,023,000 and \$14,446,000 for the years ended December 31, 2001, 2000 and 1999, respectively. Special items for the year ended December 31, 2000, include a pre-tax restructuring charge of \$4,394,000 related to reduction of management incentive bonus compensation and a pre-tax charge of \$958,000 related to expenses incurred in connection with the delayed DDD Energy, Inc. initial public offering. Special items for the year ended December 31, 1999, include a pre-tax loss of \$7,794,000 related to an impairment due to the dividend distribution of affiliate stock.

Seismic

Oil and gas companies consider seismic data an essential tool for finding hydrocarbons. Oil and gas companies use seismic data in oil and gas exploration and development efforts to increase the probability of drilling success. By properly utilizing seismic data, oil and gas companies can significantly increase drilling success rates and reduce the occurrence of dry holes. By participating in multi-client surveys, oil and gas companies can obtain access to expensive surveys that they could not otherwise afford. Further, seismic data 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.

The Company generates seismic revenue by licensing data from its existing data library and from new data acquisitions conducted for our customers. Revenue from the seismic division was \$115,238,000, \$113,887,000 and \$109,671,000 during 2001, 2000 and 1999, respectively. The increase in revenue between years was due to an increase in revenue from licensing of existing

data from the Company's data library, which was partially offset by a decrease in revenue from new seismic data creation. Additionally, library sales include revenue resulting from the merger and acquisition of some of the Company's oil and gas company customers. In these instances, the data was relicensed due to the nontransferability of the original license.

Data bank amortization amounted to \$48,216,000, \$51,347,000 and \$49,375,000 for the years ended December 31, 2001, 2000 and 1999, respectively. The amount of seismic data amortization fluctuates based on the level of seismic marketing revenue. As a percentage of revenue from licensing seismic data, data bank amortization was 43%, 46% and 45% for 2001, 2000 and 1999, respectively. The change in the percentage between 2000 and 2001 was primarily due to the mix of sales of created and purchased data which is generally amortized on an income forecast and straight line method, respectively.

### Oil and Gas

Net volume and price information for the Company's oil and gas production for the years ended December 31, 2001, 2000 and 1999 is summarized in the following table:

|   | Year Ended December 31, |          |          |
|---|-------------------------|----------|----------|
|   | 2001                    | 2000     | 1999     |
| Natural gas volumes (mmcf)                  | 3,157                   | 4,390    | 5,693    |
| Average natural gas price (\$/mcf)          | \$ 4.74                 | \$ 3.65  | \$ 2.28  |
| Crude oil/condensate volumes (mdbl)         | 278                     | 303      | 346      |
| Average crude oil/condensate price (\$/bbl) | \$ 21.73                | \$ 27.09 | \$ 16.35 |

Oil and gas revenue was \$21,091,000, \$24,435,000 and \$19,036,000 during 2001, 2000 and 1999, respectively. The decrease in oil and gas revenue from 2000 to 2001 resulted from lower production volumes due to property sales and normal production declines, and lower oil prices. These decreases offset the increase in pricing of natural gas from 2000 to 2001. The increase in oil and gas revenue from 1999 to 2000 was due to higher market prices in 2000 offset by lower production volumes. The decline in oil and gas production was primarily due to the effect of the sale of a group of wells in August 2000 and July 1999, some of which were producing, as well as normal production declines on several of the Company's older wells. Production from new wells drilled in 2000 partially offset these declines.

Depletion of oil and gas properties was \$10,640,000, \$10,376,000 and \$9,093,000 for the years ended December 31, 2001, 2000 and 1999, respectively, which amounted to \$2.21, \$1.67 and \$1.17, respectively, per mcf of gas produced during such periods. The rate per mcf varies with the estimate of proved oil and gas reserves of the Company at each quarter end, as well as evaluated property costs. The increases in the rate between years was primarily due to lower proved reserve volumes each year end compared to the previous year end, primarily resulting from the sale of proved reserves and revisions to estimated reserve volumes.

For the quarter ended December 31, 2001, the Company recorded a non-cash impairment of oil and gas



properties totaling \$10,395,000 based on its December 31, 2001 estimated proved reserves valued at March 27, 2002 market prices. The non-cash impairments of oil and gas properties totaled \$40,433,000 for the year ended December 31, 2001. The impairment was primarily due to lower commodity prices.

Oil and gas production costs amounted to \$.88, \$.78 and \$.61, per mcf of gas produced during 2001, 2000 and 1999, respectively. The increase in the rate between 2000 and 2001 was primarily due to higher ad valorem taxes and increases in certain production costs. The increase in the rate between 1999 and 2000 was primarily due to higher workover costs incurred during 2000 and higher production taxes in 2000 due to higher oil and gas prices.

### Corporate and Other

The Company's selling, general and administrative expenses were \$38,093,000 in 2001, \$33,131,000 in 2000 and \$28,587,000 in 1999. The increase between 2000 to 2001 primarily resulted from an increase in overhead costs due to the growth of the Company, including overhead costs associated with its wholly owned subsidiary, Seitel Solutions, and international business development. These increases were partially offset by a decrease in compensation payable on pre-tax profits resulting from the restatement of the Company's financial statements and impairment of oil and gas properties recorded by the Company during 2001. The increase from 1999 to 2000 was primarily due to an increase in fixed costs due to the growth of the Company, as well as an increase in variable expenses related to increased revenue. These increases were partially offset by a decrease in management's incentive compensation resulting from the restructuring that occurred in June 2000. As a percentage of total revenue, selling, general and administrative expenses were 28% in 2001, 24% in 2000 and 22% in 1999.

During the year ended December 31, 2000, the Company charged to expense costs totaling \$958,000 that had been incurred in connection with the proposed initial public offering of its wholly owned subsidiary, DDD Energy. The offering was delayed due to market conditions and management changes.

On June 23, 2000, the Company announced that its management incentive bonus compensation contracts had been restructured to reduce bonuses on pre-tax profits to 8.5% from 17.5%. In connection with the restructuring, the Company issued 375,000 restricted shares of its Common Stock to three members of management and made cash payments totaling \$1,771,000. As a result, the Company recorded a restructuring charge in 2000 totaling \$4,394,000 (\$3,743,000, net of tax) to reflect the cost of the shares issued and the cash payments made. In addition, the Company will, subject to continued employment, make (i) four annual payments of \$187,500, net of taxes, to Herbert Pearlman, former Chairman of the Board of Directors, beginning January 1, 2001; (ii) four annual payments of \$125,000, net of taxes, to Paul Frame, current Chairman of the Board, President and Chief Executive Officer, beginning January 1, 2001; and (iii) payments totaling \$1.4 million, net of taxes, to David Lawi payable over four years beginning January 1, 2001. The agreements provide that the Company will pay withholding taxes of 35% relating to these payments. The Company will also make annual payments of \$850,000 to Horace Calvert beginning July 1, 2000 through May 31, 2004, subject to continued employment. These payments will be charged to expense over the period earned. Selling, general and administrative expenses for 2001 and 2000 include \$1,850,000 and \$1,425,000, respectively, related to these payments.

The Company's interest expense was \$13,898,000 in 2001, \$13,068,000 in 2000 and \$11,791,000 in 1999. The increase from 2000 to 2001 primarily relates to a decrease in the amount of interest capitalized. The increase from 1999 to 2000 primarily relates to \$138 million in Series D, E and F Senior Notes being outstanding for the entire year in 2000, whereas in 1999, these notes were outstanding for 10 1/2 months.

On April 22, 1999, the Board of Directors of Seitel, Inc. declared a dividend to its common stockholders consisting of 1,520,000 shares of the common stock of Eagle Geophysical, Inc. ("Eagle") owned by the Company. The fair market value of the common stock of Eagle held by the Company on the date the dividend was declared was lower than the carrying value of the stock on the Company's balance sheet; therefore, a non-cash, non-recurring, pre-tax impairment, net of bonus effect, of \$7,794,000 was recorded for the year ended December 31, 1999.

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The Company's effective income tax rate was 30.2%, 39.3% and 43.2% for the years ended December 31, 2001, 2000 and 1999, respectively. The decrease in the effective tax rate from 2000 to 2001 was primarily due to foreign tax rate reductions enacted in 2001. The decrease in the effective income tax rate from 1999 to 2000 was primarily due to lower taxes on foreign earnings in 2000.

#### Liquidity and Capital Resources

The Company's cash flow from operations was \$48,487,000, \$78,424,000 and \$72,027,000 for the years ended December 31, 2001, 2000 and 1999, respectively. The decrease from 2000 to 2001 was primarily due to the following: (i) an increase in cash paid to suppliers and employees of approximately \$10 million due to the overall growth of the Company, including Seitel Solutions, and international business development, (ii) an increase in non-cash revenue of approximately \$11 million, (iii) an increase in Federal income taxes paid of approximately \$6 million and (iv) a decrease in cash collected from customers of approximately \$3 million. The increase from 1999 to 2000 was primarily attributable to an increase in cash received from customers resulting from the increase in revenue partially offset by an increase in interest expense and taxes paid.

On June 29, 2001, the Company replaced its existing \$75 million line of credit with a new \$75 million unsecured revolving line of credit facility that matures on June 29, 2004. The facility bears interest at a rate determined by the ratio of the Company's debt to EBITDA (earnings before interest, taxes, depreciation, deletion and amortization). Pursuant to the interest rate pricing structure, the interest rate would be set at LIBOR plus 1.75% or the bank's prevailing prime rate plus 0.75%. As of March 28, 2002, no amounts were outstanding and the Company had no availability on this revolving line of credit.

The Company's wholly owned subsidiary, Olympic Seismic Ltd. ("Olympic"), has a revolving credit facility which allows it to borrow up to \$5 million (Canadian dollars) by way of prime based loans, bankers' acceptances, or letters of credit. Prime based loans and bankers' acceptances bear interest at the rate of the bank's prime rate plus 0.35% per annum and 0.50% per annum, respectively. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The facility is secured by Olympic's assets, but is not guaranteed by Seitel, Inc. or any of its other United States subsidiaries. Available borrowings under the facility are determined as \$2 million (Canadian dollars) plus 75% of trade receivables less than 90 days old, the total not to exceed \$5 million (Canadian dollars). The facility is subject to repayment upon demand and is available from time to time at the Bank's sole discretion. As of March 28, 2002, no amounts were outstanding on this revolving line of credit. Olympic is not a party to any of the debt issued by Seitel, Inc.

On October 15, 2001, the Company completed the first funding, totaling \$82 million, of a private placement of three series of unsecured Senior Notes totaling \$107 million. The second funding, for an additional \$25 million, was

completed on December 27, 2001. The Series G Notes total \$20 million, bear interest at a fixed rate of 7.04% and mature on October 15, 2006. The Series H Notes total \$50 million, bear interest at a fixed rate of 7.19% and mature on October 15, 2008. The Series I Notes total \$37 million, bear interest at a fixed rate of 7.34% and mature on October 15, 2011. Interest on the Series G, H and I Notes is payable semi-annually on April 15 and October 15. As of March 28, 2002, the balance outstanding on the Series G, H and I Notes was \$107 million.

On February 12, 1999, the Company completed a private placement of three series of unsecured Senior Notes totaling \$138 million. The Series D Notes total \$20 million, bear interest at a fixed rate of 7.03% and mature on February 15, 2004, with no principal payments due until maturity. The Series E Notes total \$75 million, bear interest at a fixed rate of 7.28% and mature on February 15, 2009, with annual principal payments of \$12.5 million beginning February 15, 2004. The Series F Notes total \$43 million, bear interest at a fixed rate of 7.43% and mature on February 15, 2009, with no principal payments due until maturity. Interest on the Series D, E and F Notes is payable semi-annually on February 15 and August 15. As of March 28, 2002, the balance outstanding on the Series D, E and F Notes was \$138 million.

On December 28, 1995, the Company completed a private placement of three series of unsecured Senior Notes totaling \$75 million. The Company contemporaneously issued its Series A Notes and Series B Notes, which total \$52.5 million and bear interest at a fixed rate of 7.17%. On April 9, 1996, the Company issued its Series C Notes, which total \$22.5 million and bear interest at a fixed rate of 7.48%. The Series A Notes matured on December 30, 2001. The Series B and Series C Notes mature on December 30, 2002, and require combined annual principal payments of \$10 million which began on December 30, 1998. Interest on the Series B and C Notes is payable semi-annually on June 30 and December 30. As of March 28, 2002, the balance outstanding on the Series B and C Notes was \$10,000,000.

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The financial covenants in the Senior Notes and the Revolving Line of Credit Agreements include, among other restrictions, maintenance of minimum net worth and limitations on total debt, interest coverage, liens, debt issuance and disposition of assets. As a result of the restatement of its financial statements, the Company was not in compliance with certain financial covenants in the Senior Note Agreements dated December 28, 1995 and February 12, 1999 and the Revolving Line of Credit Agreement at September 30, 2001. In addition, as a result of the restatement of its financial statements and the impairment of oil and gas properties recorded in the fourth quarter of 2001, the Company was not in compliance with certain financial covenants in these agreements at December 31, 2001.

The Company has received an amendment from the Senior Note holders with respect to the relevant financial covenants in their agreements. The amendment waives noncompliance with the covenants in the third and fourth quarters of 2001 and increases the ratio of debt to total capitalization through March 31, 2003, after which date the original financial covenants will again be imposed.

The Company has no borrowings under the Revolving Line of Credit as of December 31, 2001. With the existing covenant violation, the Company may not borrow under the Revolving Line of Credit. The Company has begun discussions with the lenders on the Revolving Line of Credit to amend the covenant calculations to bring the Company back into compliance and to permit borrowings under the line of credit facility. Additionally, once the Company is in compliance, it has the ability to increase the amount of the facility to \$150 million with the consent of its lenders.

On August 28, 2001, the Company's wholly owned subsidiary, Seitel Data, Ltd., obtained a term loan totaling

\$10 million for the purchase of certain seismic data which secures the debt. The term of the loan is three years, with maturity on October 1, 2004. The loan bears interest at the rate of LIBOR plus 2.9%. Monthly principal payments total \$208,000. The balance outstanding on this loan on March 28, 2002 was \$8,750,000.

During 2001, the Company entered into capital leases for the purchase of computer and data technology center furniture and equipment. The lease agreements are for terms of approximately two years. Monthly principal and interest payments total \$102,000. The balance outstanding under these capital leases was \$2,111,000 on March 28, 2002.

Subsequent to year end, on January 14, 2002, the Company's wholly owned subsidiary, SEIC Business Trust (the "Trust"), entered into a demand reducing credit facility to borrow \$4 million (Canadian dollars) by way of prime based loans. Payments of \$166,670 (Canadian dollars) are due on the last day of each month. The funds were drawn down on January 30, 2002 to finance the purchase of seismic data. The loans bear interest at the bank's prime rate plus 0.50%. The facility is secured by the Trust's assets and guaranteed by Olympic Seismic Ltd. and SEIC Holdings Ltd. The balance outstanding on this loan on March 28, 2002 was \$2,406,000.

During 2002, Olympic Seismic Ltd. ("Olympic") expects to enter into a sale leaseback agreement on a building and land located in Calgary, Alberta, Canada. The sale is expected to close by the end of April 2002. Proceeds of the sale are expected to be \$3.6 million (Canadian dollars). The term of the lease will be a 20-year capital lease with lease payments of: \$336,000 (Canadian dollars) in years 1-5; \$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.

From January 1, 2001, through March 28, 2002, the Company received \$6,155,000 from the exercise of common stock purchase warrants and options. In connection with these exercises, the Company will also realize approximately \$515,000 in tax savings.

The Company may offer from time to time in one or more series (i) unsecured debt securities, which may be senior or subordinated, (ii) preferred stock and (iii) common stock, or any combination of the foregoing, up to an aggregate of \$41,041,600 pursuant to an effective "shelf" registration statement filed with the SEC. In addition, under another effective "shelf" registration statement filed with the SEC, the Company may offer up to an aggregate of \$200,000,000 of the following securities, in any combination, from time to time in one or more series: (i) unsecured debt securities, which may be senior or unsubordinated; (ii) preferred stock; (iii) common stock, and (iv) trust preferred securities.

During 2001, the Company sold various producing oil and gas wells and associated leaseholds for approximately \$6.2 million, net of revenue and costs.

In November 1999, the Company filed a registration statement with the SEC to accomplish the spin-off of DDD Energy through an initial public offering. The offering was delayed due to market conditions and management changes.

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During 2001, the Company repurchased 100,000 shares of its common stock in the open market at a cost of \$1,405,000, pursuant to a stock repurchase program authorized by the Board of Directors in 1997. The Board has authorized expenditures of up to \$25 million towards the repurchase of its common stock. As of March 28, 2002, the

Company has repurchased a total of 1,110,100 shares of its common stock at a cost of \$12,529,000 since 1997 under this plan.

During 2001, capital expenditures for seismic data, oil and gas property and other property and equipment amounted to \$140,192,000, and \$17,600,000 and \$10,367,000, respectively. Of the \$140,192,000 of seismic data additions in 2001, \$79,803,000 were cash additions and \$60,389,000 were for non-cash additions. These capital expenditures, as well as taxes, interest expenses, cost of sales and general and administrative expenses, were funded by operations, proceeds from the sale of oil and gas properties, proceeds from the exercise of common stock purchase warrants and options, proceeds from the Senior Note offering and amounts available under the Company's line of credit.

Currently, the Company anticipates capital expenditures for 2002 to total approximately \$94 million, of which approximately \$79 million will be for seismic data bank additions, approximately \$4 million will be for computer equipment and data technology center related purchases and approximately \$11 million will be for oil and gas exploration and development efforts. Of the anticipated seismic data additions of \$79 million in 2002, the Company estimates that \$54 million will be cash additions and \$25 million will be non-cash additions. The Company believes its current cash balances, revenue from operating sources, and proceeds from the exercise of common stock purchase warrants and options should be sufficient to fund the currently anticipated 2002 capital expenditures, requirements for operating and general and administrative expenses and debt repayments. If these sources are not sufficient to cover the Company's anticipated expenditures or if the Company were to increase its planned capital expenditures for 2002, the Company could attempt to obtain additional debt or equity financing during 2002; however, there can be no assurance that the Company would be able to accomplish any such debt or equity financing on satisfactory terms. If such debt or equity financing is not available on satisfactory terms, the Company could reduce its current capital budget or any proposed increases to its capital budget and operating and administrative expenses, and fund expenditures with cash flow generated from operating sources.

As noted above, the Company is currently unable to borrow under its Revolving Line of Credit because it is not in compliance with a debt covenant. The Company is currently in discussion with its lenders to amend the Revolving Line of Credit to bring it into compliance and to permit borrowing under the line of credit facility. Once an amendment is achieved and credit is available under the line, the Company could use borrowings under the Revolving Line of Credit to fund the items discussed above.

#### Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, "Business Combinations," effective for business combinations effected after June 30, 2001 and No. 142, "Goodwill and Other Intangible Assets," effective for fiscal years beginning after December 15, 2001. Under the new rules, goodwill and intangible assets deemed to have indefinite lives will no longer be amortized but will be subject to annual impairment tests in accordance with the Statements. Other intangible assets will continue to be amortized over their useful lives. The Company will apply the new rules on accounting for goodwill and other intangible assets beginning in the first quarter of 2002.

In July 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations." This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated

asset retirement costs. This statement applies to all entities. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. This Statement is effective for financial statements issued for fiscal years beginning after June 15, 2002.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "*Accounting for the Impairment or Disposal of Long-Lived Assets*," effective for fiscal years beginning after December 15, 2001. This statement supercedes SFAS No. 121, "*Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of*," and provides a single accounting model for long-lived assets to be disposed of.

The Company does not believe the adoption of these standards will have a material impact on the Company's financial position or results of operations.

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### Related Party Transactions

The Company owed Helm Capital Group, Inc. and its subsidiaries ("Helm"), a company that has an executive officer who is a former director of the Company, \$49,000 and \$16,000 as of December 31, 2001 and 2000, respectively, for sales of seismic data they jointly own and for general and administrative expenses paid by Helm on behalf of the Company. The Company incurred charges of \$175,000, \$117,000 and \$115,000, for these general and administrative expenses during 2001, 2000 and 1999, respectively. Management believes that these expenses, which were specifically related to the Company's business, represented costs which would have been incurred in similar amounts by the Company if such services that were performed by Helm were performed by an unaffiliated entity.

During 2001, the chief executive officer received advances against bonus and commission payments that were contingent upon achieving \$10 million in pre-tax profits during 2001. The chief financial officer received advances against customary and anticipated bonus payments. The pre-tax profits threshold was not met in 2001. The Company determined that advances previously paid but not earned or awarded would be repaid pursuant to promissory notes. The chief executive officer and the chief financial officer will deliver promissory notes to the Company in a principal amount equal to \$2,572,730 and \$621,293, respectively. These amounts are included in notes and other receivables. The promissory notes will be repaid over five years; however, the balance owed under the promissory notes will be reduced by 20% in any year in which the pre-tax profits threshold of \$10 million is met.

The Company guarantees borrowings up to \$750,000 made by its chief executive officer under a line of credit. The Company is only obligated to make payment in the event of default by its chief executive officer. The Company has a contractual right of offset against any salary, bonus, commission or other amounts due from the Company to its chief executive officer for any amounts paid by the Company pursuant to this guaranty. At December 31, 2001, \$590,000 was outstanding on this line of credit. The Company did not make any payments under this guaranty during 2001 or 2000.

In October 2001, the Company guaranteed an institutional loan to its chief operating officer and general counsel. The original principal of \$600,000 will be paid annually, based on amortization of 120 months, but is payable in full in October 2006. The Company also agreed to make payments of principal and interest on the loan during the

officer's employment by the Company. As long as the officer remains in the employ of the Company, his obligation to repay shall be forgiven ratably over 120 months; however, under certain conditions of termination, he will be required to reimburse the Company a pro rata portion of amounts paid by the Company on the indebtedness. Such proration is based on length of employment. The Company has a contractual right of offset against any compensation due from the Company to the officer for any amounts paid by the Company on the indebtedness.

Risk Factors

*Any investment in our securities involves risk. Investors should carefully consider, in addition to the other information contained in this report, the risks described below before making any investment decision.*

Our business could be adversely affected by low exploration, development and production spending by oil and gas companies and by low oil and gas prices.

*Any investment in our securities involves risk. Investors should carefully consider, in addition to the other information contained in this report, the risks described below before making any investment decision.*

Our business could be adversely affected by low exploration, development and production spending by oil and gas companies and by low oil and gas prices.

Our seismic business depends upon exploration, development and production spending by oil and gas companies. Low oil and gas prices could result in decreased exploration, development and production spending by oil and gas companies, which could affect our seismic data business. Any future decline could result in decreased revenue from our oil and gas exploration and production business.

We invest significant amounts of money in acquiring and processing seismic data for our data library with only partial underwriting of the costs by customers.

We invest significant amounts of money in acquiring and processing new seismic data to add to our data library, which is generally funded by current and future data licensing fees. The amounts of these future data licensing fees are uncertain and depend on a variety of factors, including the market prices of oil and gas, customer demand for seismic data in our library, availability of similar data from competitors and governmental regulations affecting oil and gas exploration. Many of these factors are beyond our control. In addition, the timing of these sales can vary greatly from period to period. Technological or regulatory changes or other developments could adversely affect the value of the data.

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

Most of the seismic data in our seismic data library covers areas along the U.S. Gulf Coast, offshore in the U.S. Gulf of Mexico or in Canada. Also, most of our existing interests in oil and gas properties are located along the coast of the U.S. Gulf of Mexico. Because of this geographic concentration, our results of operations could be adversely affected by events relating primarily to one of these regions even if conditions in the oil and gas industry worldwide were favorable. Some examples of possible events that would adversely affect the U.S. Gulf Coast region would be changes in governmental regulations adversely affecting offshore drilling in the U.S. Gulf of Mexico, shortages of drilling or other necessary equipment in this region, or increases in gas transportation costs from this region to the Northeastern U.S., where much of the gas produced in this region is consumed.

The amounts we amortize from our data library each period may fluctuate, and these fluctuations can affect our reported results of operations.

We amortize the cost of our seismic data library based in part on our estimates of future sales of data. These estimates may vary from period to period depending upon market developments and our expectations. Substantial changes in amortization rates can have a significant effect on our reported results of operations.

Drilling hazards and dry holes could affect our oil and gas activities.

We may not discover commercial quantities of oil and gas when we participate in drilling wells. Our oil and gas operations could be adversely affected by the occurrence of drilling hazards. These include:

- \* cratering;
- \* explosions;
- \* uncontrollable flows of oil, gas or well fluids;
- \* fires;
- \* pollution; and
- \* other environmental risks.

Some of these hazards can cause personal injury and loss of life, severe damage to and destruction of property and equipment, environmental damage and suspension of operations. We usually do not act as operator in our oil and gas drilling business and depend on our partners to minimize these operating risks.

We have recorded write-downs because of low oil and gas prices and may be required to do so again in the



future. Future write-downs would result in a charge to our earnings and possible losses.

Under SEC oil and gas accounting rules, we may have to write-down our assets if oil and gas prices decline significantly or if we have significant downward adjustments to our oil and gas reserves. We recorded a \$40,433,000 pre-tax, \$26,281,000 after tax, non-cash write-down of the carrying value of our proved oil and gas properties for the year ended December 31, 2001 due to low gas prices. The impairment of the \$10,395,000 recorded in the fourth quarter of 2001 was based on our December 31, 2001 estimated proved reserves valued at March 27, 2002 market prices. If oil and gas prices fall further, or if we have significant downward reserve adjustments in the future, it is possible that additional write-downs will occur again. These write-downs would result in a charge to our earnings and possible losses, but would not impact cash flows from operating activities.

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Our debt agreements may limit our flexibility in responding to changing market conditions or in pursuing business opportunities.

Our debt agreements contain restrictions and requirements relating to, among other things:

- \* additional borrowings;
- \* maintaining financial ratios;
- \* granting liens on our assets;
- \* selling assets;
- \* paying dividends; and
- \* merging.

These restrictions and requirements may limit our flexibility in responding to market conditions or in pursuing business opportunities that we believe would have a positive effect on our business.

Extensive governmental regulation of our business affects our daily operations.

Our seismic data customers are subject to extensive governmental regulation. In addition, our oil and gas exploration and production operations are subject to regulations. These regulations, among other things:

- \* govern environmental quality and pollution control;  
and
- \* limit rates of production.

New laws or regulations or changes to existing laws or regulations affecting the oil and gas industry could reduce customer demand for our seismic data or increase the operating costs of our oil and gas business.

Loss of key personnel could adversely affect our business.

We depend on a relatively small group of management and technical personnel. The loss of one or more of these individuals could have a material adverse effect on our business.

Changes in accounting principles may affect our reported operating results and stock price.

As a public company with securities registered under the Securities Exchange Act of 1934, we prepare our financial statements in accordance with generally accepted accounting principles. As discussed in Recent Developments, we have modified our revenue recognition policies to adopt a more conservative revenue recognition model, and in accordance with SAB 101, we have restated our earnings for 2000 and the nine months ended September 30, 2001. This change may make it more difficult for investors to compare our historical operating results against our future operating results and may adversely affect our stock price.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The Company is exposed to market risk, including adverse changes in commodity prices, interest rates and foreign currency exchange rates as discussed below.

Commodity Price Risk

The Company produces and sells natural gas, crude oil, condensate and natural gas liquids. The Company currently sells most of its oil and gas production under price sensitive or market contracts. As a result, the Company's financial results can be significantly affected as oil and gas prices fluctuate. The Company has a price risk management program that utilizes derivative financial instruments, principally natural gas swaps, to reduce the price risks associated with fluctuations in natural gas prices. However, these types of contracts also limit the benefits the Company would realize if prices increase. Realized gains or losses from the Company's price risk management activities are recognized in oil and gas production revenue when the associated production occurs. These contracts usually are placed with major derivative dealers that the Company believes are minimal credit risks.

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During 2000 and 1999, the Company recognized net hedging losses of \$1,692,000 and \$308,000, respectively. As of December 31, 2001 and 2000, the Company did not have any open commodity price hedges.

Interest Rate Risk

The Company may enter into various financial instruments, such as interest rate swaps, to manage the impact of changes in interest rates. Currently, the Company has no open interest rate swap or interest rate lock agreements. Therefore, the Company's exposure to changes in interest rates primarily results from its short-term and long-term debt with both fixed and floating interest rates. The following table presents principal or notional

amounts (stated in thousands) and related average interest rates by year of maturity for the Company's debt obligations and their indicated fair market value at December 31, 2001:

|  | 2002 | 2003 | 2004 | 2005 | 2006 | THERE-<br>AFTER | TOTAL | FAIR<br>VALUE |
|--|------|------|------|------|------|-----------------|-------|---------------|
|  |      |      |      |      |      |                 |       |               |
|  |      |      |      |      |      |                 |       |               |
|  |      |      |      |      |      |                 |       |               |
|  |      |      |      |      |      |                 |       |               |
|  |      |      |      |      |      |                 |       |               |
|  |      |      |      |      |      |                 |       |               |
|  |      |      |      |      |      |                 |       |               |
|  |      |      |      |      |      |                 |       |               |
|  |      |      |      |      |      |                 |       |               |
|  |      |      |      |      |      |                 |       |               |

Debt:

Variable Rate

\$  
3,819  
\$  
2,500  
\$  
4,375  
\$  
-  
\$

\$

-

\$

10,694

\$

10,694

Average Interest Rate

4.79%

5.02%

5.02%

-

-

4.94%

-

Fixed Rate

\$

10,000

36

\$

-

\$

32,500

\$

12,500

\$

32,500

\$

167,500

\$

255,000

\$

284,554

Average Interest Rate

7.31%

-

7.13%

7.28%

7.13%

7.30%

7.26%

-

The following table presents principal or notional amounts (stated in thousands) and related average interest rates by year of maturity for the Company's debt obligations and their indicated fair market value at December 31, 2000:

|                       | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2004</u> | <u>2005</u> | <u>THERE-<br/>AFTER</u> | <u>TOTAL</u> | <u>FAIR<br/>VALUE</u> |
|-----------------------|-------------|-------------|-------------|-------------|-------------|-------------------------|--------------|-----------------------|
| Debt:                 |             |             |             |             |             |                         |              |                       |
| Variable Rate         | \$ 40,000   | \$ -        | \$ -        | \$ -        | \$ -        | \$ -                    | \$ 40,000    | \$ 40,000             |
| Average Interest Rate | 7.39%       | -           | -           | -           | -           | -                       | 7.39%        | -                     |
| Fixed Rate            | \$ 18,333   | \$ 10,000   | \$ -        | \$ 32,500   | \$ 12,500   | \$ 93,000               | \$ 166,333   | \$ 173,828            |
| Average Interest Rate | 7.25%       | 7.31%       | -           | 7.13%       | 7.28%       | 7.35%                   | 7.29%        | -                     |

#### Foreign Currency Exchange Rate Risk

The Company conducts business in the Canadian dollar and pounds sterling and is therefore subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing and investing transactions. As of December 31, 2001, the Company did not have any open forward exchange contracts. Exposure from market rate fluctuations related to activities in the Cayman Islands, where the Company's functional currency is pounds sterling, is not material at this time.

#### 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 14(a) (1) and (2) below.

#### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING

AND FINANCIAL DISCLOSURE

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NONE

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required to be set forth in this Item is incorporated by reference to a similarly titled heading in the Company's definitive proxy statement relating to the 2002 annual meeting of its stockholders to be filed with the Securities and Exchange Commission not later than 120 days after the end of the fiscal year covered by this Form 10-K (hereinafter the "Proxy Statement").

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ITEM 11. EXECUTIVE COMPENSATION

The information required to be set forth in this Item is incorporated by reference to a similarly titled heading in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF BENEFICIAL OWNERS AND MANAGEMENT

The information required to be set forth in this Item is incorporated by reference to a similarly titled heading in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required to be set forth in this Item is incorporated by reference to a similarly titled heading in the Proxy Statement.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) Documents filed as part of this Report

Page

(1) Financial Statements:

F-1

Reports of Independent Public Accountants

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|   |     |
|---|-----|
| <u>Consolidated Balance Sheets</u> as of December 31, 2001<br>and 2000  | F-3 |
| <u>Consolidated Statements of Operations</u> for the<br>years ended December 31, 2001,<br>2000, and 1999          | F-5 |
| <u>Consolidated Statements of Stockholders' Equity</u> for<br>the years ended December 31,<br>2001, 2000 and 1999 | F-6 |
| <u>Consolidated Statements of Cash Flows</u> for the years<br>ended December 31, 2001, 2000<br>and 1999           | F-7 |
| <u>Notes to Consolidated Financial Statements</u>   | F-8 |

(2) All schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes to the financial statements.

(3) Exhibits:

- 3.1 Certificate of Incorporation of the Company filed May 7, 1982 and Amendment to Certificate of Incorporation filed April 25, 1984 (1)
- 3.2 Amendment to Certificate of Incorporation filed August 4, 1987 (3)
- 3.3 Amendment to Certificate of Incorporation filed January 18, 1989 (4)
- 3.4 Amendment to Certificate of Incorporation filed July 13, 1989 (5)
- 3.5 Amendment to Certificate of Incorporation filed August 3, 1993 (11)
- 3.6 Amendment to Certificate of Incorporation filed November 21, 1997 (22)
- 3.7 Amended and Restated By-Laws of Seitel, Inc. effective July 26, 2000 (30)
- 4.1 Specimen of Common Stock Certificate (1)



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- 4.2 Form of Warrant Certificate granted to certain employees and one Director of the Company in December 1990 and expiring in December 2001 (8)
  - 4.3 Form of Promissory Note for Employee Stock Purchase dated July 21, 1992 (10)
  - 4.4 Form of Subscription Agreement for Employee Stock Purchase dated July 21, 1992 (10)
- 
- 4.5 Form of Pledge for Employee Stock Purchase dated July 21, 1992 (10)
  - 4.6 Form of Warrant Certificate granted under the 1994 Warrant Plans (14)
  - 4.7 Form of Warrant Certificate granted under the 1995 Warrant Reload Plan (16)
  - 4.8 Form of Executive Warrant Certificate granted to certain employees of the Company in November 1997 and expiring in November 2002 (22)
  - 4.9 Form of Bonus Warrant Certificate granted to an employee of the Company in November 1997 and expiring in November 2002 (22)
  - 4.10 Form of Departure Warrant granted to certain employees of the Company in August 1997 (24)
  - 4.11 Form of Employment Warrant granted to an employee of the Company in April 1998 and expiring in April 2008 (24)
  - 4.12 Form of Employment Warrant granted to an employee of the Company in April 1998 and expiring in April 2008 (24)
  - 4.13 Amended and Restated 1998 Employee Stock Purchase Plan (27)
  - 4.14 Form of Employment Warrant granted to an employee of the Company in November 1999 and expiring in November 2009 (29)
  - 10.1 1993 Incentive Stock Option Plan of the Company (11)
  - 10.2 Amendment No. 1 to the Seitel, Inc. 1993 Incentive Stock Option Plan (15)
  - 10.3 Statement of Amendments effective November 29, 1995, to the Seitel, Inc. 1993 Incentive Stock Option Plan (18)

- 10.4 Statement of Amendments effective April 22, 1996, to the Seitel, Inc. 1993 Incentive Stock Option Plan (18)
  - 10.5 Amendment to the Seitel, Inc. 1993 Incentive Stock Option Plan effective December 31, 1996 (20)
  - 10.6 Amendment to Limit Options Granted to a Single Participant under the Seitel, Inc. 1993 Incentive Stock Option Plan (22)
  - 10.7 Amendment to Increase Number of Shares Available for Granting Options under the Seitel, Inc. 1993 Incentive Stock Option Plan (22)
  - 10.8 Non-Employee Directors' Stock Option Plan of the Company (13)
  - 10.9 Amendment to the Seitel, Inc. Non-Employee Directors' Stock Option Plan effective December 31, 1996 (20)
  - 10.10 Seitel, Inc. Non-Employee Directors' Deferred Compensation Plan (18)
  - 10.11 Non-Employee Directors' Retirement Plan (27)
  - 10.12 Seitel, Inc. Amended and Restated 1995 Warrant Reload Plan (19)
  - 10.13 Amendment to the Seitel, Inc. Amended and Restated 1995 Warrant Reload Plan effective December 31, 1996 (20)
  - 10.14 2000 Stock Option Plan of the Company (31)
- 
- 10.15 Seitel, Inc. 2001 Inducement Stock Option Plan adopted January 1, 2001 (35)
  - 10.16 Seitel, Inc. 2001 Non-Officer Stock Option Plan adopted June 5, 2001 (35)
  - 10.17 Memorandum of Understanding between the Company and Triangle Geophysical Company dated as of June 7, 1984 (1)
  - 10.18 Lease Agreement by and between the Company and Commonwealth Computer Advisors, Inc. (2)
  - 10.19 The Company's 401(k) Plan adopted January 1, 1998 (22)

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- 10.20 Executive Services Agreement dated April 3, 1990 between the Company and Helm Resources, Inc. (7)
- 10.21 Employment Agreement effective as of January 1, 1991 between the Company and Paul A. Frame, Jr. (9)
- 10.22 Amendment to Employment Agreement dated effective as of January 1, 1998 between the Company and Paul A. Frame, Jr. (22)
- 10.23 Paul A. Frame's Employment Contract Amendment No. 2 dated as of June 26, 2000 (30)
- 10.24 Employment Agreement effective as of January 1, 1991 between the Company and Horace A. Calvert (9)
- 10.25 Amendment to Employment Agreement dated effective as of January 1, 1998 between the Company and Horace A. Calvert (22)
- 10.26 Horace A. Calvert's Amended and Restated Employment Agreement dated as of April 1, 2000 (30)
- 10.27 Employment Agreement effective as of January 1, 1991 between the Company and Herbert M. Pearlman (9)
- 10.28 Amendment to Employment Agreement dated effective as of January 1, 1998 between the Company and Herbert M. Pearlman (22)
- 10.29 Herbert M. Pearlman's Employment Contract Amendment No. 2 dated as of June 26, 2000 (30)
- 10.30 Employment Agreement effective as of January 1, 1991 between the Company and David S. Lawi (9)
- 10.31 Amendment to Employment Agreement dated effective as of January 1, 1998 between the Company and David S. Lawi (22)
- 10.32 David S. Lawi's Employment Contract Amendment No. 2 dated as of June 26, 2000 (30)
- 10.33 Letter to David S. Lawi from Seitel, Inc. dated June 26, 2000 regarding his October 2, 1998 Promissory Note (30)

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- 10.34 David S. Lawi's Promissory Note dated as of June 26, 2000 (30)
- 10.35 Employment Agreement effective as of January 1, 1993 between the Company and Debra D. Valice (12)
- 10.36 Amendment to Employment Agreement dated effective as of January 1, 1998 between the Company and Debra D. Valice (22)
- 
- 10.37 Amendment to Employment Agreement dated effective as of June 10, 1998 between the Company and Debra D. Valice (23)
- 10.38 Joint Venture Agreement dated April 5, 1990 by and between Seitel Offshore Corp., a wholly owned subsidiary of the Company, and Digicon Data Inc., a wholly owned subsidiary of Digicon Geophysical Corp. (6)
- 10.39 Revolving Credit Agreement dated as of July 22, 1996, among Seitel, Inc. and The First National Bank of Chicago (18)
- 10.40 First Amendment to Seitel, Inc. Revolving Credit Agreement dated as of August 30, 1996 among the Company and The First National Bank of Chicago (19)
- 10.41 Second Amendment to Revolving Credit Agreement dated as of July 22, 1996, among Seitel, Inc. and The First National Bank of Chicago (21)
- 10.42 Ratable Note in the amount of \$20,000,000 among Seitel, Inc. and Bank One, Texas, N.A. dated as of May 1, 1997 (21)
- 10.43 Ratable Note in the amount of \$30,000,000 among Seitel, Inc. and The First National Bank of Chicago dated as of May 1, 1997 (21)
- 10.44 Third Amendment to Revolving Credit Agreement dated as of March 16, 1998 among Seitel, Inc. and The First National Bank of Chicago (22)
- 10.45 Ratable Note in the amount of \$40,000,000 among Seitel, Inc. and The First National Bank of Chicago dated March 16, 1998 (22)

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- 10.46 Ratable Note in the amount of \$35,000,000 among Seitel, Inc. and Bank One, Texas, N.A. dated as of March 16, 1998 (22)
- 10.47 Amendment No. 4, dated as of August 10, 1999, among Seitel, Inc., a Delaware Corporation, the Lenders executing this Amendment and the First National Bank of Chicago, as Agent for the Lenders (27)
- 10.48 Amendment No. 5, dated as of March 16, 2001, among Seitel, Inc., a Delaware Corporation, the Lenders executing this Amendment and Bank One, NA (33)
- 10.49 Amendment No. 6, dated as of May 11, 2001, among Seitel, Inc., a Delaware Corporation, the Lenders executing this Agreement and Bank One, NA (34)
- 10.50 Credit Agreement dated as of June 29, 2001, among Seitel, Inc. and Bank One, NA as Agent and LC Issuer and Comerica Bank - Texas as Syndication Agent (35)
- 10.51 Ratable Note in the amount of \$25,000,000 among Seitel, Inc. and Comerica Bank-Texas (35)
- 10.52 Ratable Note in the amount of \$15,000,000 among Seitel, Inc. and Guaranty Bank (35)
- 10.53 Incentive Compensation Agreement (10)
- 10.54 Note Purchase Agreement dated as of December 28, 1995, between the Company and the Series A Purchasers, the Series B Purchasers and the Series C Purchasers (17)
- 10.55 First Amendment to Note Purchase Agreement dated as of February 12, 1999 between the Company and Senior Noteholders as of December 28, 1995 (26)
- 10.56 Second Amendment, dated as of July 14, 1999, to the Separate Note Purchase Agreements, dated as of December 28, 1995, among Seitel, Inc. and the Noteholders (27)
- 
- 10.57 Third Amendment, dated as of November 22, 1999, to the Separate Note Purchase Agreements, dated as of December 28, 1995, among Seitel, Inc. and the Noteholders (28)
- 10.58 Fourth Amendment, dated as of October 15, 2001, to the Separate Note Purchase Agreements, dated as of December 28, 1995, among Seitel, Inc. and the Noteholders\*

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- 10.59 Fifth Amendment, dated as of March 27, 2002, to the Separate Note Purchase Agreements, dated as of December 28, 1995, among Seitel, Inc. and the Noteholders\*
- 10.60 Revolving Credit Agreement, dated as of November 9, 1999, between Olympic Seismic Ltd. and Royal Bank of Canada (28)
- 10.61 Amendment, dated as of March 2, 2000, to the Revolving Credit Agreement, dated as of November 9, 1999, between Olympic Seismic Ltd. and Royal Bank of Canada (28)
- 10.62 Revolving Credit Agreement dated as of December 11, 1998, between the Company and Suntrust Bank, Atlanta (25)
- 10.63 Note Purchase Agreement dated as of February 12, 1999, between the Company and the Series D Purchasers, the Series E Purchasers and the Series F Purchasers (25)
- 10.64 First Amendment, dated as of July 14, 1999, to the Separate Note Purchase Agreements, dated as of February 12, 1999, among Seitel, Inc. and the Noteholders (27)
- 10.65 Second Amendment, dated as of November 22, 1999, to the Separate Note Purchase Agreements, dated as of February 12, 1999, among Seitel, Inc. and the Noteholders (28)
- 10.66 Third Amendment, dated as of October 15, 2001, to the Separate Note Purchase Agreements, dated as of February 12, 1999, among Seitel, Inc. and the Noteholders\*
- 10.67 Fourth Amendment, dated as of March 27, 2002, to the Separate Note Purchase Agreements, dated as of February 12, 1999, among Seitel, Inc. and the Noteholders\*
- 10.68 Note Purchase Agreement dated as of October 15, 2001, between the Company and the Series G Purchasers, the Series H Purchasers and the Series I Purchasers (36)
- 10.69 Executive Retention Agreement with Kevin S. Fiur dated October 12, 2001 \*
- 16.1 Concurrence letter of Arthur Andersen LLP dated December 6, 2000 (32)
- 21.1 Subsidiaries of the Registrant \*
- 23.1 Consent of Ernst & Young LLP \*

23.2 Consent of Arthur Andersen LLP \*

23.3 Consent of Garb Grubbs Harris & Associates, Inc.\*

(b) Reports on Form 8-K filed during the year ended December 31, 2001:

The Company filed a Form 8-K on August 8, 2001 disclosing the appointment of a new officer of a wholly owned subsidiary and possible litigation by the Company against the former president of the subsidiary.

The Company filed a Form 8-K on October 16, 2001 disclosing the completion of the funding of a private placement of Unsecured Senior Notes with institutional investors.

\* Filed herewith

- 
- (1) Incorporated by reference to the Company's Registration Statement, as amended, on Form S-1, No. 2-92572 as filed with the Securities and Exchange Commission on August 3, 1984.
  - (2) Incorporated by reference to Post-Effective Amendment No. 2 to the Company's Registration Statement on Form S-2, File No. 33-32838, as filed with the Securities and Exchange Commission on October 10, 1991.
  - (3) Incorporated by reference to the Company's Registration Statement, as amended, on Form S-2, No. 33-21300 as filed with the Securities and Exchange Commission on April 18, 1988.
  - (4) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1988.
  - (5) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1989.
  - (6) Incorporated by reference to the Company's Form 8 amending the Company's Annual Report on Form 10-K for the year ended December 31, 1989.

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- (7) Incorporated by reference to the Company's Registration Statement, as amended, on Form S-2, No. 33-34217 as filed with the Commission on April 6, 1990.
- (8) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1990.
- (9) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1991.
- (10) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992.
- (11) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1993.
- (12) Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 1993.
- (13) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1994.
- (14) Incorporated by reference to the Company's Registration Statement on Form S-8, No. 33-89934 as filed with the Securities and Exchange Commission on March 2, 1995.
- (15) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1995.
- (16) Incorporated by reference to the Company's Registration Statement on Form S-8, No. 333-01271 as filed with the Securities and Exchange Commission on February 28, 1996.
- (17) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
- (18) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1996.
- (19) Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 1996.
- (20) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1996.



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- (21) Incorporated by reference to the Company's Form 10-Q for the quarter ended March 31, 1997.
  - (22) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1997.
  - (23) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 1998.
  - (24) Incorporated by reference to the Company's Registration Statement on Form S-8, No. 333-64557 as filed with the Securities and Exchange Commission on September 29, 1998.
  - (25) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1998.
  - (26) Incorporated by reference to the Company's Form 10-Q for the quarter ended March 31, 1999.
- 
- (27) Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 1999.
  - (28) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1999.
  - (29) Incorporated by reference to the Company's Form 10-Q for the quarter ended March 31, 2000.
  - (30) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 2000.
  - (31) Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 2000.
  - (32) Incorporated by reference to the Company's Form 8-K filed on December 7, 2000.
  - (33) Incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 2000.
  - (34) Incorporated by reference to the Company's Form 10-Q for the quarter ended March 31, 2001.

- (35) Incorporated by reference to the Company's Form 10-Q for the quarter ended June 30, 2001.
  - (36) Incorporated by reference to the Company's Form 10-Q for the quarter ended September 30, 2001.
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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/ Paul A. Frame

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Paul A. Frame  
Chairman of the Board of Directors  
and President

Date: March 29, 2002

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

|     | <u>Signature</u>                         | <u>Title</u>   | <u>Date</u>    |
|-----|--|--|----------------|
| /s/ | Paul A. Frame<br><hr/> Paul A. Frame     | Chairman of the Board of Directors, President,<br>Chief Executive Officer and Director     | March 29, 2002 |
| /s/ | Kevin S. Fiur<br><hr/> Kevin S. Fiur     | Executive Vice President, Chief Operating<br>Officer,<br>General Counsel and Director      | March 29, 2002 |
| /s/ | Debra D. Valice<br><hr/> Debra D. Valice | Executive Vice President, Chief Financial<br>Officer,<br>Secretary, Treasurer and Director | March 29, 2002 |

|     |   |                          |                |
|-----|---|--------------------------|----------------|
| /s/ | <u>Walter M. Craig, Jr.</u><br>Walter M. Craig, Jr. | Director                 | March 29, 2002 |
| /s/ | <u>William Lerner</u><br>William Lerner             | Director                 | March 29, 2002 |
| /s/ | <u>John Stieglitz</u><br>John Stieglitz             | Director                 | March 29, 2002 |
| /s/ | <u>Fred S. Zeidman</u><br>Fred S. Zeidman           | Director                 | March 29, 2002 |
| /s/ | <u>Marcia H. Kendrick</u><br>Marcia H. Kendrick     | Chief Accounting Officer | March 29, 2002 |

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors and Management of Seitel, Inc.:

We have audited the accompanying consolidated balance sheets of Seitel, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the two years in the period ended December 31, 2001. 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 auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seitel, Inc. and subsidiaries at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As discussed in Note B to the accompanying consolidated financial statements, the Company has restated its financial statements for the year ended December 31, 2000.

**HNT  
&  
YDG  
LLP**

Houston, Texas  
March 29, 2002

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**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS**

To Seitel, Inc.:

We have audited the accompanying consolidated statements of operations, stockholders' equity and cash flows of Seitel, Inc. (a Delaware corporation) and subsidiaries for the year ended December 31, 1999. 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the results of operations and cash flows of Seitel, Inc. and subsidiaries for the year ended December 31, 1999, in conformity with

accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

Houston, Texas  
February 25, 2000

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

|  | December 31, |                             |
|--|--------------|-----------------------------|
|  | 2001         | 2000                        |
|  |              | (Restated)<br>See Note<br>B |
| <b>ASSETS</b>  |              |                             |
| Cash and equivalents   | \$ 25,223    | \$ 10,216                   |
| Receivables  |              |                             |
| Trade, less allowance for doubtful accounts of \$500 and \$661 |              |                             |
| at December 31, 2001 and 2000, respectively                    | 59,243       | 68,924                      |
| Notes and other  | 4,245        | 816                         |
| Seismic data library   | 839,228      | 699,036                     |
| Less: Accumulated amortization                                 | (383,383)    | (336,433)                   |

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|   |                   |                   |
|---|-------------------|-------------------|
| Net seismic data library  | 455,845           | 362,603           |
| Property and equipment, at cost:  |                   |                   |
| Oil and gas properties, full-cost method of accounting,<br>including \$23,242 and \$45,908 not<br>being amortized at<br>December 31, 2001 and 2000,<br>respectively | 205,510           | 206,726           |
| Furniture, fixtures and other   | 20,099            | 9,945             |
|   | <u>225,609</u>    | <u>216,671</u>    |
| Less: Accumulated depreciation, depletion and<br>amortization   | (123,741)         | (71,016)          |
|   | <u>101,868</u>    | <u>145,655</u>    |
| Net property and equipment  | 101,868           | 145,655           |
| Investment in marketable securities   | 2,501             | 2,029             |
| Prepaid expenses, deferred charges and other assets   | 12,544            | 8,888             |
|   | <u>        </u>   | <u>        </u>   |
| TOTAL ASSETS  | <u>\$ 661,469</u> | <u>\$ 599,131</u> |

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

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

|                                      | December 31, |                             |
|--------------------------------------|--------------|-----------------------------|
|                                      | <u>2001</u>  | <u>2000</u>                 |
| LIABILITIES AND STOCKHOLDERS' EQUITY |              | (Restated)<br>See Note<br>B |
| Accounts payable                     | \$ 30,936    | \$ 35,136                   |

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|   |                   |                   |
|---|-------------------|-------------------|
| Accrued liabilities   | 15,925            | 14,600            |
| Employee compensation payable   | 2,344             | 5,435             |
| Income taxes payable  | 2,646             | 6,075             |
| Debt  |                   |                   |
| Senior Notes  | 255,000           | 166,333           |
| Line of credit  | 1,319             | 40,000            |
| Term loans  | 9,375             | -                 |
| Obligations under capital leases  | 2,656             | 265               |
| Deferred income taxes   | 351               | 17,472            |
| Deferred revenue  | 97,330            | 60,225            |
|   | <u>417,882</u>    | <u>345,541</u>    |
| Total Liabilities   |                   |                   |
|   | <u>417,882</u>    | <u>345,541</u>    |
| CONTINGENCIES AND COMMITMENTS   |                   |                   |
| STOCKHOLDERS' EQUITY  |                   |                   |
| Preferred stock, par value \$.01 per share; authorized 5,000,000 shares; none issued  | -                 | -                 |
| Common stock, par value \$.01 per share; authorized 50,000,000 shares; issued and outstanding 25,810,603 and 25,306,517 at December 31, 2001 and 2000, respectively | 258               | 253               |
| Additional paid-in capital  | 166,456           | 159,543           |
| Retained earnings   | 91,624            | 106,617           |
| Treasury stock, 735,918 and 635,918 shares at cost at December 31, 2001 and 2000, respectively  | (9,072)           | (7,667)           |
| Notes receivable from officers and employees for stock purchase   | (3,776)           | (4,965)           |
| Accumulated other comprehensive loss  | (1,903)           | (191)             |
|   | <u>243,587</u>    | <u>253,590</u>    |
| TOTAL STOCKHOLDERS' EQUITY  |                   |                   |
|   | <u>243,587</u>    | <u>253,590</u>    |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY  | \$ 661,469        | \$ 599,131        |
|   | <u>\$ 661,469</u> | <u>\$ 599,131</u> |

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

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SEITEL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

Year Ended December 31,

|   | 2001            | 2000<br>(Restated)<br>See Note<br>B | 1999          |
|---|-----------------|-------------------------------------|---------------|
| REVENUE <sup>(1)</sup>  | \$ 136,329      | \$ 138,322                          | \$ 128,707    |
| EXPENSES  |                 |                                     |               |
| Depreciation, depletion and amortization  | 60,713          | 62,897                              | 59,624        |
| Impairment of oil and gas properties  | 40,433          | -                                   | -             |
| Cost of sales   | 5,465           | 5,570                               | 5,016         |
| Selling, general and administrative expenses  | 38,093          | 33,131                              | 28,587        |
| Expenses related to delayed DDD Energy, Inc. offering   | -               | 958                                 | -             |
| Restructuring charge  | -               | 4,394                               | -             |
|   | <u>144,704</u>  | <u>106,950</u>                      | <u>93,227</u> |
| (LOSS) INCOME FROM OPERATIONS   | (8,375)         | 31,372                              | 35,480        |
| Interest expense  | (13,898)        | (13,068)                            | (11,791)      |
| Interest income   | 796             | 962                                 | 714           |
| Dividend income   | -               | 22                                  | -             |
| Equity in loss of affiliate   | -               | -                                   | (91)          |
| Impairment due to dividend distribution of affiliate stock  | -               | -                                   | (7,794)       |
|   | <u>(21,477)</u> | <u>19,288</u>                       | <u>16,518</u> |
| (Loss) income before provision for income taxes and<br>cumulative effect of accounting change                                   | (21,477)        | 19,288                              | 16,518        |
| (Benefit) provision for income taxes  | (6,484)         | 7,578                               | 7,138         |
|   | <u>(14,993)</u> | <u>11,710</u>                       | <u>9,380</u>  |
| (Loss) income before cumulative effect of accounting change   | (14,993)        | 11,710                              | 9,380         |
| Cumulative effect on prior years of change in accounting<br>principle for revenue recognition, net of tax benefit of<br>\$8,859 | -               | (14,219)                            | -             |
|   | <u>(14,993)</u> | <u>(2,509)</u>                      | <u>9,380</u>  |
| NET (LOSS) INCOME   | \$ (14,993)     | \$ (2,509)                          | \$ 9,380      |
| Earnings (loss) per share:  |                 |                                     |               |
| Basic:  |                 |                                     |               |
| (Loss) income before cumulative effect of<br>accounting change  | \$ (.60)        | \$ .49                              | \$ .39        |
| Cumulative effect on prior years of change in<br>accounting<br>principle for revenue<br>recognition, net of tax                 | -               | (.59)                               | -             |



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|  |           |           |          |
|--|-----------|-----------|----------|
| Net (loss) income  | \$ ( .60) | \$ ( .10) | \$ .39   |
| Diluted:   |           |           |          |
| (Loss) income before cumulative effect of accounting change  | \$ ( .60) | \$ .49    | \$ .39   |
| Cumulative effect on prior years of change in accounting principle for revenue recognition, net of tax | -         | (.59)     | -        |
| Net (loss) income  | \$ ( .60) | \$ ( .10) | \$ .39   |
| Pro forma for change in accounting principle: <sup>(2)</sup>   |           |           |          |
| Net income   |           | \$ 11,710 | \$ 3,106 |
| Net income per common share:   |           |           |          |
| Basic  |           | \$ .49    | \$ .13   |
| Diluted  |           | \$ .49    | \$ .13   |
| Weighted average number of common and common equivalent shares:  |           |           |          |
| Basic  | 24,986    | 23,909    | 23,863   |
| Diluted  | 24,986    | 24,090    | 24,063   |

(1) Non-cash revenue and the percentage of total revenue for the years ended December 31, 2001, 2000 and 1999 are \$18,219,000 (13.4%), \$7,330,000 (5.3%) and \$8,989,000 (7.0%), respectively.

(2) Pro forma disclosure of earnings and earnings per share information gives effect to the 2000 change in accounting principle for revenue recognition on certain data licenses as described in Note B as if it had been in effect for all periods presented.

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

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SEITEL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(In thousands, except share amounts)

Notes

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| Comprehensive<br>Income  | Common Stock |        | Additional         | Retained   | Treasury Stock |            | Receivable<br>from<br>Officers &<br>Employees | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|--|--------------|--------|--------------------|------------|----------------|------------|---|---|
|  | Shares       | Amount | Paid-In<br>Capital | Earnings   | Shares         | Amount     |   |   |
| Balance,<br>December<br>31, 1998   | 23,804,508   | \$ 238 | \$ 141,826         | \$ 107,102 | (175,818)      | \$ (2,977) | \$ (8,651)                                    | 49  |
| Net proceeds<br>from<br>issuance<br>of common<br>stock   | 481,287      | 5      | 5,126              | -          | -              | -          | -   | -   |
| Tax<br>reduction<br>from<br>exercise<br>of stock<br>options                                      | -            | -      | 597                | -          | -              | -          | -   | -   |
| Treasury<br>stock<br>purchased   | -            | -      | -                  | -          | (504,700)      | (3,302)    | -   | -   |
| Payments<br>received on<br>notes<br>receivable<br>from<br>officers and<br>employees              | -            | -      | -                  | -          | -              | -          | 1,736   | -   |
| Distribution<br>of Eagle<br>Geo-<br>physical,<br>Inc. shares                                     | -            | -      | -                  | (6,365)    | -              | -          | -   | -   |
| Net income \$  | 9,380        | -      | -                  | 9,380      | -              | -          | -   | -   |
| Foreign<br>currency<br>translation<br>adjustments  | (695)        | -      | -                  | -          | -              | -          | -   | (695)   |
| Unrealized<br>loss on<br>marketable<br>securities<br>net of<br>income<br>tax benefit<br>of \$526 | (1,045)      | -      | -                  | -          | -              | -          | -   | (1,045)   |

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|   |            |            |     |         |         |           |         |         |         |
|---|------------|------------|-----|---------|---------|-----------|---------|---------|---------|
| Comprehensive income  | \$ 7,640   |            |     |         |         |           |         |         |         |
| Balance, December 31, 1999  |            | 24,285,795 | 243 | 147,549 | 110,117 | (680,518) | (6,279) | (6,915) | (1,691) |
| Net proceeds from issuance of common stock                                  |            | 1,020,722  | 10  | 10,180  | -       | -         | -       | -       | -       |
| Tax reduction from exercise of stock options                                |            | -          | -   | 1,814   | -       | -         | -       | -       | -       |
| Treasury stock purchased  |            | -          | -   | -       | -       | (330,400) | (4,849) | -       | -       |
| Issuance of common stock in connection with restructuring                   |            | -          | -   | -       | (991)   | 375,000   | 3,461   | -       | -       |
| Payments received on notes receivable from officers and employees           |            | -          | -   | -       | -       | -         | -       | 1,950   | -       |
| Net loss  | \$ (2,509) | -          | -   | -       | (2,509) | -         | -       | -       | -       |
| Foreign currency translation adjustments                                    | 837        | -          | -   | -       | -       | -         | -       | -       | 837     |
| Unrealized gain on marketable securities net of income tax expense of \$333 | 663        | -          | -   | -       | -       | -         | -       | -       | 663     |

|  |             |            |     |         |          |           |         |         |         |
|--|-------------|------------|-----|---------|----------|-----------|---------|---------|---------|
| Comprehensive loss   | \$ (1,009)  |            |     |         |          |           |         |         |         |
| Balance, December 31, 2000 (Restated, see Note B)                          |             | 25,306,517 | 253 | 159,543 | 106,617  | (635,918) | (7,667) | (4,965) | (191)   |
| Net proceeds from issuance of common stock                                 |             | 504,086    | 5   | 6,398   | -        | -         | -       | -       | -       |
| Tax reduction from exercise of stock options                               |             | -          | -   | 515     | -        | -         | -       | -       | -       |
| Treasury stock purchased   |             | -          | -   | -       | -        | (100,000) | (1,405) | -       | -       |
| Payments received on notes receivable from officers and employees          |             | -          | -   | -       | -        | -         | -       | 1,189   | -       |
| Net loss   | \$ (14,993) | -          | -   | -       | (14,993) | -         | -       | -       | -       |
| Foreign currency translation adjustments                                   | (1,733)     | -          | -   | -       | -        | -         | -       | -       | (1,733) |
| Unrealized gain on marketable securities net of income tax expense of \$14 | 21          | -          | -   | -       | -        | -         | -       | -       | 21      |
| Comprehensive loss   | \$ (16,705) |            |     |         |          |           |         |         |         |

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Balance, December 31, 2001

25,810,603

\$

258

\$

166,456

\$

91,624

(735,918

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\$

(9,072

)

\$

(3,776

)

\$

(1,903

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

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SEITEL, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

|   | Year Ended December 31, |            |           |
|---|-------------------------|------------|-----------|
|   | 2001                    | 2000       | 1999      |
| Cash flows from operating activities:   |                         | (Restated) |           |
| Reconciliation of net (loss) income to net cash provided by operating activities: |                         |            |           |
| Net (loss) income   | \$ (14,993)             | \$ (2,509) | \$ 9,380  |
| Depreciation, depletion and amortization  | 60,584                  | 62,914     | 59,624    |
| Impairment of oil and gas properties  | 40,433                  | -          | -         |
| Equity in loss of affiliate   | -                       | -          | 91        |
| Impairment due to dividend distribution of affiliate stock                        | -                       | -          | 7,794     |
| Cumulative effect of change in accounting principle, net of tax                   | -                       | 14,219     | -         |
| Restructuring charge  | -                       | 2,470      | -         |
| Deferred income tax provision (benefit)   | (17,121)                | (6,494)    | 5,501     |
| Non-cash sales  | (18,219)                | (7,330)    | (8,989)   |
| (Increase) decrease in receivables  | 8,427                   | (6,474)    | (2,851)   |
| (Increase) decrease in other assets   | (2,929)                 | (1,736)    | 402       |
| Decrease (increase) in deferred revenue   | (4,134)                 | 10,184     | (2,104)   |
| Decrease (increase) in accounts payable and other liabilities                     | (3,561)                 | 13,180     | 3,179     |
| Net cash provided by operating activities   | 48,487                  | 78,424     | 72,027    |
| Cash flows from investing activities:   |                         |            |           |
| Cash invested in seismic data   | (71,922)                | (55,423)   | (125,727) |
| Cash invested in oil and gas properties   | (19,591)                | (16,352)   | (27,857)  |
| Cash paid to acquire property and equipment                                       | (7,653)                 | (2,319)    | (1,073)   |
| Net proceeds from sale of oil and gas properties                                  | 6,235                   | 12,946     | 11,657    |

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|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Investment in marketable securities                                | -                 | -                 | (3,043)           |
| Deferred offering costs  | -                 | (925)             | (80)              |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Net cash used in investing activities                              | (92,931)          | (62,073)          | (146,123)         |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Cash flows from financing activities:                              |                   |                   |                   |
| Borrowings under line of credit agreements                         | 112,771           | 64,436            | 91,314            |
| Principal payments under line of credit agreements                 | (151,440)         | (64,936)          | (136,314)         |
| Borrowings on term loan  | 10,000            | -                 | -                 |
| Principal payments on term loans                                   | (625)             | (33)              | (139)             |
| Principal payments under capital lease obligations                 | (110)             | (41)              | (28)              |
| Proceeds from issuance of senior notes                             | 107,000           | -                 | 138,000           |
| Principal payments under senior notes                              | (18,333)          | (18,334)          | (18,333)          |
| Proceeds from issuance of common stock                             | 6,437             | 10,221            | 5,167             |
| Costs of debt and equity transactions                              | (1,148)           | (31)              | (1,571)           |
| Repurchase of common stock   | (1,405)           | (4,849)           | (3,302)           |
| Loans to officers, employee and director                           | (3,194)           | (591)             | -                 |
| Payments on notes receivable from officers, employees and director | 1,302             | 1,951             | 1,736             |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Net cash provided by (used in) financing activities                | 61,255            | (12,207)          | 76,530            |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Effect of exchange rate changes                                    | (1,804)           | 884               | (407)             |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Net increase (decrease) in cash and equivalents                    | 15,007            | 5,028             | 2,027             |
| Cash and equivalents at beginning of period                        | 10,216            | 5,188             | 3,161             |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Cash and equivalents at end of period                              | \$ 25,223         | 10,216            | \$ 5,188          |
|  | <u>          </u> | <u>          </u> | <u>          </u> |

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

DECEMBER 31, 2001

#### NOTE A--SIGNIFICANT ACCOUNTING POLICIES

**Nature of Operations:** Seitel, Inc. (the "Company") is a leading diversified energy company providing seismic data and related geophysical services to the oil and gas industry and directly participating in exploration for development and ownership of natural gas and crude oil reserves. The majority of the Company's seismic surveys cover onshore and offshore U.S. Gulf Coast region, the Rocky Mountain region and Canada. The Company's oil and gas exploration, development and production activities are on properties located primarily in the onshore Gulf Coast region and California. Since September 2000, the Company has been developing proprietary software, technology, and business methods through its wholly owned subsidiary, Seitel Solutions, that will enable its clients to access and interact, via a standard web browser and the Internet, with its seismic data library. During the years ended December 31, 2001, 2000 and 1999, Seitel Solutions had no significant operations.

In the course of its operations, the Company is subject to certain risk factors, including, but not limited to, the following: competition, industry conditions, volatility of oil and gas prices, operating risks, dependence of key personnel, geographic concentration of operations and compliance with governmental regulations.

**Use of Estimates:** The preparation of these consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of certain estimates by management in determining the Company's assets, liabilities, revenues and expenses. Actual results could differ from those estimates. Seismic data library amortization is determined using estimates of ultimate revenues from licensing of the seismic data. Refer to the seismic data library discussion below for additional information on seismic data library amortization. Depreciation, depletion and amortization of oil and gas properties and the impairment of oil and gas properties are determined using estimates of proved oil and gas reserves and the present value of estimated cash flows therefrom. There are numerous uncertainties in estimating the quantity of proved reserves and in projecting the future rates of production and timing of development expenditures. Refer to Note S, "Supplemental Oil and Gas Information" for additional information regarding the process of estimating proved oil and gas reserve quantities and related values.

**Basis of Presentation:** The accompanying consolidated financial statements include the accounts of Seitel, Inc., the accounts of its wholly owned subsidiaries and the Company's pro rata share of its investments in joint ventures. Investments in less than majority owned companies over which the Company has the ability to exercise significant influence are accounted for using the equity method. All material intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the amounts in the prior years' 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. As a result, the Company believes that the use of an unclassified balance sheet results in improved financial reporting.

The Company changed its presentation of cash flows from operating activities from the direct method to the



indirect method as allowed in Statement of Financial Accounting Standards No. 95.

## **Revenue Recognition:**

### Revenue from Data Acquisition

Revenue from the creation of new seismic data under the Company's acquisition contracts is recognized using the percentage-of-completion method of accounting based upon costs incurred to date as a percentage of total estimated costs. Under these contracts, the Company creates new seismic data designed in conjunction

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with its customers and specifically suited to the geology of the area using the most appropriate technology available. The contracts typically require one or more customers to pay between 65% and 75% of the creation costs in exchange for the right to use the resulting data. Customers make periodic payments throughout the creation period, which generally correspond to costs to be incurred. These payments are non-refundable once the costs of creation are incurred. The creation process generally occurs in the following stages: permitting, surveying, drilling, recording and processing. At each stage, the customers receive legally enforceable rights and access to, and the benefits of, the results of all work performed. The customers also receive access to and use of the newly acquired, processed data. The customers may have exclusive access to the work performed and exclusive use of the newly acquired, processed data for a limited term, which is generally less than nine months after final delivery of the 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 long-term (generally twenty years or more) license agreement, which is a separate agreement from the acquisition contract. The Company's acquisition contracts require the customer either to have a license agreement in place or to execute one at the time the acquisition contract is signed. The Company maintains sole ownership of the newly acquired data, which is added to its library, and is free to license the data to other customers when the original customers' exclusivity ends.

### Revenue from Data Licenses

The Company licenses data from its seismic data library to customers under four basic forms of contracts.

Under the first, the customer licenses and selects data from the data library at the time of contracting.

Under the second, called review and possession contracts, 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.

Under the third, called library card contracts, 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 lengths of the selection periods under the library card contracts vary.

Under the fourth, called review only contracts, 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 usage of all data delivered to the customer, whether for review only or to hold long-term, is governed by a license agreement, which is a separate agreement from the contracts. The Company's contracts require the customer either to have a license agreement in place or to execute one at the time the contract is signed. The term of the license agreement is generally twenty years or more and governs all data delivered to the customer during the term. Payment terms under the contracts are typically less than eighteen months. All payments due are non-cancelable and all payments made are non-refundable. The customer has complete access to all available data covered by the contracts on the date the contract is executed. The contracts permit selection of the data in its present form and the Company is under no obligation to make any enhancements, modifications or additions to the data. The customers' rights under the contracts are non-transferable without payment of an additional fee. Copies of the data are available to the customer immediately upon request.

Before 2000, under the Company's interpretation of accounting principles generally accepted in the United States of America in effect at that time, the Company recognized revenue when it had a contract with its customer for a fixed sales price, a licensing agreement was in place, collectibility was reasonably assured and the seismic data was available for use by the customer. Since January 1, 2000, revenue from licensing of seismic data is recognized when the Company has contracted with the customer for a fixed sales price; a licensing agreement is in place; the customer has selected specific data under the terms of the contract or the contract has expired without full selection having occurred; and collectibility of the sales price is reasonably assured. The Company does not recognize revenue for amounts billed in advance of being earned until these conditions are met. For revenue that is deferred, the Company defers the direct costs related to the revenues. Revenue from licensing of seismic data is presented net of revenue shared with other entities.

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#### Revenue from Non-Cash Data Licenses

In certain cases, the Company grants its customer a non-exclusive license to specific, selected data or access to data to be used in its operations (not for resale) in exchange for ownership of seismic data from the customer. Where the customer receives access to data, the customer may then select specific data to hold under a long-term license; the lengths of the selection periods vary, but are generally three to five years. The Company records a data library asset for the seismic data acquired at the time the contract is entered into and defers revenue recognition on the transaction until the customer selects the data. These transactions are accounted for as non-monetary exchanges and are valued at the fair value of the data received or delivered, whichever is more reliably determinable. The Company determines a fair value for the data exchanged utilizing its combined executive experience of over forty years in the industry and considering factors including comparative data generation costs, current license fees and future marketability, and any unique features that may cause exceptions to a regional model. In determining the fair value of the data, the Company considers whether similar cash-based transactions exist in the marketplace to corroborate the value and considers the amount, timing and likelihood of future cash flows from licensing the data acquired. The Company also engages an independent third party to review for fairness the Company's valuations of significant exchange transactions. The Company's valuations of all significant exchange transactions (those valued at greater than \$800,000) during 2001 were found to be fair by the independent third party evaluators.

In 2001, 2000 and 1999, the Company recorded seismic data library assets of \$57,045,000, \$12,435,000 and \$8,989,000, respectively, from non-monetary exchanges of seismic data, including exchanges in which the Company and the customer issued

cash payments.

In 2001, 2000 and 1999, the Company recognized revenue of \$14,875,000, \$4,049,000 and \$8,989,000, respectively from non-monetary exchanges of seismic data, including exchanges in which the Company and the customer issued cash payments.

#### Revenue from Oil and Gas Operations

The Company uses the sales method of accounting for its oil and gas revenue. Under this method, revenue is recognized based on actual volumes of oil and gas sold to purchasers. The volumes of oil and gas sold may differ from the volumes to which the Company is entitled based on its interests in the properties, which historically, has not been significant.

**Seismic Data Library:** Costs incurred in the creation of proprietary seismic data, including the direct and incremental costs of Company personnel engaged in project management and design, are capitalized. The Company uses the income forecast method to amortize the costs of seismic data programs it creates. Under the income forecast method, seismic data costs are amortized based on the proportion of revenue for a period to total revenue, as estimated by management. The Company also purchases existing seismic data programs from other companies. The costs of purchased seismic data programs are generally amortized on a straight-line basis over ten years, however, the costs of a significant purchase (greater than 5% of the net book value of the seismic data library) are amortized using the greater of the income forecast method or ten-year straight-line method.

On a periodic basis, the Company evaluates the performance of all of its seismic data programs to ensure that the economic useful life does not exceed ten years. The Company evaluates its revenue trends, as well as industry revenue trends, in order to estimate future revenue from seismic data sales. When economic conditions indicate, the Company may reduce its estimates of future revenue, causing the amortization rate to rise and operating results to decline. The Company also reviews the carrying value of seismic data to assess whether there has been a permanent impairment of value. Any indicated losses are recorded as additional amortization when it is determined that estimated future revenue would not be sufficient to cover the carrying value of the asset.

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Net seismic data library at December 31, 2001 and 2000 was comprised of the following (in thousands):

|                                | December 31, |            |
|--------------------------------|--------------|------------|
|                                | 2001         | 2000       |
|                                |              | (Restated) |
| 2D data created by the Company | \$ 4,496     | \$ 8,524   |
| 3D data created by the Company | 325,430      | 310,522    |
| Data purchased by the Company  | 125,919      | 43,557     |

|                          |    |         |    |         |
|--------------------------|----|---------|----|---------|
| Net seismic data library | \$ | 455,845 | \$ | 362,603 |
|--------------------------|----|---------|----|---------|

The amount of seismic data amortization recorded each year fluctuates based on the amount of seismic revenue recognized and the mix of data to which the revenue relates. The data is amortized based on: (i) the income forecast method at varying percentages based on each data program's current and expected future revenue which is generally used for created data or (ii) the ten-year straight-line method which is generally used for purchased data.

**Oil and Gas Properties:** The Company accounts for its oil and gas exploration and production activities using the full-cost method of accounting. Under this method, all costs associated with acquisition, exploration and development of oil and gas reserves are capitalized, including salaries, benefits and other internal costs, directly attributable to these activities. Costs associated with production and general corporate activities are expensed in the period incurred. For the years ended December 31, 2001, 2000 and 1999, exploration and development related overhead costs of \$2,385,000, \$1,809,000 and \$1,938,000, respectively, have been capitalized to oil and gas properties. Interest costs related to unproved properties and certain properties under development are also capitalized to oil and gas properties. For the years ended December 31, 2001, 2000 and 1999, interest costs of \$2,583,000, \$2,936,000 and \$3,101,000, respectively, have been capitalized to oil and gas properties.

No gains or losses are recognized upon the sale of oil and gas properties unless a significant portion of the Company's proved oil and gas reserves are sold (generally greater than 25 percent). Instead, proceeds from the sale of oil and gas properties are accounted for as a reduction of capitalized costs. The Company sold various producing oil and gas wells, representing less than 25 percent of its proved oil and gas reserves each year, and associated leaseholds during 2001, 2000 and 1999 for proceeds, net of revenue and costs, totaling \$6.2 million, \$12.9 million and \$11.7 million, respectively.

Depreciation, depletion and amortization ("DD&A") expense is calculated quarterly using the units-of-production method based upon production and estimates of proved reserves. Estimated future development costs and site restoration, dismantlement and abandonment costs, net of salvage values, are included in the amortization base. Capitalized costs associated with the acquisition and evaluation of unproved properties and certain properties under development are not included in the amortization base until these costs are evaluated.

Capitalized costs of oil and gas properties, net of accumulated DD&A and deferred income taxes, are limited to the present value, discounted at 10 percent, of future net cash flows from estimated proved oil and gas reserves, based on current economic and operating conditions, plus the lower of cost or fair value of unproved properties, adjusted for the effects of related income taxes. If capitalized costs exceed this limit, the excess is charged to impairment of oil and gas properties. During 2001, the Company recorded non-cash impairments of oil and gas properties totaling \$40,433,000. The impairment of \$10,395,000 recorded in the fourth quarter of 2001 was based on December 31, 2001 estimated proved reserves valued at March 27, 2002 market prices.

Substantially all of the Company's exploration and development activities are conducted jointly with others and, accordingly, the Company's oil and gas property balance reflects only its proportionate interest in such activities.

**Other Property and Equipment:** Depreciation of other property and equipment is calculated using the straight-line method over the estimated useful lives of the assets of three to five years.

**Marketable Equity Securities:** The Company accounts for its marketable equity securities in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and 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 (loss) included in stockholders' equity until realized. For the purpose of computing realized gains and

losses, cost is identified on a specific identification basis.

At December 31, 2001 and 2000, total unrealized gains on marketable securities were \$753,000 and \$996,000, respectively, and total unrealized losses on marketable securities were \$718,000 and \$0, respectively. The deferred tax expense on the net gains was \$14,000 and \$333,000 at December 31, 2001 and 2000, respectively, resulting in a net increase of \$21,000 and \$663,000, respectively, to other comprehensive income.

**Debt Issue Costs:** Debt issue costs related to the Company's Senior Notes and line of credit are included in prepaid expenses, deferred charges and other assets in the consolidated balance sheet. Such costs are amortized over the scheduled maturities of the debt. As of December 31, 2001 and 2000, unamortized debt issue costs were \$1,745,000 and \$1,457,000, respectively.

**Income Taxes:** 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, 2001, accumulated net earnings of non-U.S. subsidiaries for which no U.S. federal taxes have been provided were \$6.1 million.

**Software Development Costs:** In accordance with SFAS No 86, "*Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*," software development costs are expensed as incurred until technological feasibility has been established, at which time such costs are capitalized until the product is available for general release. Software development costs capitalized include direct labor costs and overhead costs attributed to programmers and software engineers working on products after they reach technological feasibility but before they are generally available for sale or use. Capitalized costs are amortized over the estimated product life of three to five years using the greater of the straight-line method or the ratio of current product revenues to total projected future revenues. Software development costs capitalized in 2001 were \$489,000 and are included in furniture, fixtures and other property. As of December 31, 2001, the product was not available for sale or use.

**Foreign Currency Translation:** For subsidiaries whose functional currency 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 (loss) in stockholders' equity. Any gains or losses realized on transactions or monetary assets or liabilities in currencies other than the functional currency are included in net income in the current period. Transaction gains (losses) totaling \$(315,000), \$(233,000) and \$455,000 for the years ended December 31, 2001, 2000 and 1999, respectively, are included in selling general and administrative expenses in the consolidated statements of operations.

**Use of Derivatives:** The Company may enter into various derivative instruments to manage commodity price fluctuations and foreign exchange risks. Derivatives are limited in use and are entered into for purposes of hedging cash flows and not speculative purposes. The Company may enter into foreign exchange contracts to hedge certain foreign currency denominated assets or liabilities and currency commitments.

On January 1, 2001, the Company adopted SFAS No. 133, as amended, "*Accounting for Derivative Instruments and Hedging Activities*." Effective with the adoption of SFAS No. 133, all derivatives are recognized on the balance sheet and measured at fair value. If the derivative does not qualify as a hedge or is not designated as a hedge, the gain or loss on the derivative is recognized currently in earnings. If the derivative qualifies for hedge accounting, the gain or loss on the derivative is either recognized in income along with an offsetting adjustment to the basis of the item being hedged or deferred in other comprehensive income to the extent the hedge is effective. The adoption of SFAS No. 133 did not have a material impact on the Company's financial position or results of operations.

**Earnings per Share:** In accordance with SFAS No. 128, "Earnings Per Share," basic earnings per share is computed based on the weighted average shares of common stock outstanding during the periods. Diluted earnings per share is computed based on the weighted average shares of common stock plus the assumed issuance of common stock for all potentially dilutive securities. The computations for basic and diluted net income per share for the years 2001, 2000 and 1999 consist of the following (in thousands except per share amounts):

|  | Year Ended December 31, |            |          |
|--|-------------------------|------------|----------|
|  | 2001                    | 2000       | 1999     |
|  |                         | (Restated) |          |
| (Loss) income before cumulative effect of accounting change  | \$ (14,993)             | \$ 11,710  | \$ 9,380 |
| Cumulative effect on prior years of change in accounting principle for revenue recognition, net of tax | -                       | (14,219)   | -        |
| Net (loss) income  | \$ (14,993)             | \$ (2,509) | \$ 9,380 |
| Basic weighted average shares  | 24,986                  | 23,909     | 23,863   |
| Effect of dilutive securities: <sup>(1)</sup>  |                         |            |          |
| Options and warrants   | -                       | 181        | 200      |
| Diluted weighted average shares  | 24,986                  | 24,090     | 24,063   |
| Earnings (loss) per share:   |                         |            |          |
| Basic:   |                         |            |          |
| (Loss) income before cumulative effect of accounting change  | \$ (.60)                | \$ .49     | \$ .39   |
| Cumulative effect on prior years of change in accounting principle for revenue recognition, net of tax | -                       | (.59)      | -        |
| Net (loss) income  | \$ (.60)                | \$ (.10)   | \$ .39   |
| Diluted:   |                         |            |          |
| (Loss) income before cumulative effect of accounting change  | \$ (.60)                | \$ .49     | \$ .39   |
| Cumulative effect on prior years of change in accounting principle for revenue recognition, net of tax | -                       | (.59)      | -        |
| Net (loss) income  | \$ (.60)                | \$ (.10)   | \$ .39   |

- (1) A weighted average year-to-date number of options and warrants to purchase 2,680,000, 6,379,000 and 5,517,000 shares of common stock were outstanding during 2001, 2000 and 1999, respectively, but were not included in the computation of diluted per share net income because they were anti-dilutive.

Stock-Based Compensation

: The Company accounts for employee stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees." Reference is made to Note J, "Stock Options and Warrants," for a summary of the pro forma effect of SFAS No. 123, "Accounting for Stock-Based Compensation" on the Company's results of operations in 2001, 2000 and 1999.

**Fair Value of Financial Instruments:** SFAS No. 107, "Disclosures about Fair Value of Financial Instruments," requires disclosure of the fair value of certain financial instruments. The estimated fair value amounts have been determined by the Company using available market data and valuation methodologies. The book values of cash and equivalents, receivables and accounts payable approximate their fair value as of

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December 31, 2001 and 2000, because of the short-term maturity of these instruments. Based upon the rates available to the Company, the fair value of the Senior Notes approximates \$284,554,000 and \$173,828,000 as of December 31, 2001 and 2000, respectively. The book value of the Company's revolving lines of credit and the term loans approximates fair value due to the variable interest rates under the line.

**Impairment of Long-Lived Assets:** In accordance with SFAS No. 121, "Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be realizable. If an evaluation is required, the estimated future undiscounted cash flows associated with the asset are compared to the asset's carrying amount to determine if an impairment of such asset is necessary. The effect of any impairment would be to expense the difference between the fair value of such asset and its carrying value. There were no such impairments recorded under SFAS No. 121 in 2001, 2000 or 1999.

**Accounting For Sales of Stock By Subsidiary Companies:** The Company recognizes gains or losses on sales of stock by its subsidiary companies when such sales are not made as part of a larger plan of corporate reorganization. Such gains or losses are based upon the difference between the book value of the Company's investment in the subsidiary immediately after the sale and the historical book value of the Company's investment immediately prior to the sale.

**Comprehensive Income:** In accordance with SFAS No. 130, "Reporting Comprehensive Income," the Company has reported comprehensive income in the consolidated statements of stockholders' equity for the three years ended December 31, 2001. 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.

**Allowance for Doubtful Accounts:** Activity in the Company's allowance for doubtful accounts receivable consists of the following (in thousands):

| December 31, |      |
|--------------|------|
| 2001         | 2000 |

|  |        |          |
|--|--------|----------|
| Balance at beginning of period   | \$ 661 | \$ 1,183 |
| Additions to costs and expenses  | 30     | 300      |
| Deductions for uncollectible receivables written off,<br>net of recoveries | (191)  | (822)    |
| Balance at end of period   | \$ 500 | \$ 661   |

## NOTE B--RESTATEMENT OF FINANCIAL STATEMENTS

Effective for the fiscal year ended December 31, 2001, the Company has determined that the timing and amount of reported revenue from certain data licensing contracts and certain data acquisition contracts warranted revision to the reported results for the nine months ended September 30, 2001 and the year ended December 31, 2000.

The revisions to revenue recognition under the seismic data licensing agreements resulted from a further evaluation of the Securities and Exchange Commission's Staff Accounting Bulletin No. 101 (SAB 101), "*Revenue Recognition in Financial Statements*," following the change in accounting policy by an industry colleague. The effect of these revisions is to defer revenue previously recognized under certain seismic data licensing agreements until selection of specific data is made by the customer. The deferral in revenue resulted in an increase in deferred revenue. Associated with the deferral of the revenue on these contracts, the Company also deferred the direct costs related to the revenue, which resulted in an increase in prepaid expenses. The Company also recognized a reduction in amortization expense, which is recorded as an adjustment to accumulated amortization, and in income tax expense, which is recorded as an adjustment to deferred taxes. The change in revenue recognition effective January 1, 2000, was recorded as a cumulative effect adjustment in 2000, which means that the net effect of applying SAB 101 for periods prior to January 1, 2000 was recorded in the Statement of Operations as one amount, net of taxes. The total effects of all revisions to revenue recognition related to the seismic data licensing arrangements for the nine months ended September 30, 2001 and the year ended December 31, 2000 are summarized in the tables on the following pages.

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The revisions also reflect adjustments for the amount and timing of revenue previously recognized under certain data acquisition contracts. In 2001 and 2000, the Company entered into certain acquisition contracts under which the Company and the customer participated in the acquisition services. Under these arrangements, the Company did not assume the sole risk of service throughout the acquisition process. The Company recognized revenue under these contracts consistent with its revenue recognition policy for acquisition contracts. The Company has determined that revenue previously recognized for amounts funded by customers under these contracts should be used to reduce the Company's recorded cost of creating the seismic data. The Company continues to have sole ownership of the newly created data. The reduction of revenue resulting from these revisions also reduced the Company's amortization expense, which is recorded as an adjustment to accumulated amortization, and income tax expense, which is recorded as an adjustment to deferred taxes. The total effects of all revisions to revenue recognition related to certain data acquisition contracts for the nine months ended September 30, 2001 and the year ended December 31, 2000 are summarized in the tables on the following pages.



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Accordingly, such financial statements have been restated as follows:

Nine Months Ended September 30, 2001 (Unaudited)

(in '000's except per share amounts)

|  | As<br>Reported | Adjustments<br>for<br>Data<br>Licensing<br>Agreements | Adjustments<br>for<br>Data<br>Acquisition<br>Contracts | As<br>Restated |
|--|----------------|---|--|----------------|
| Statements of Operations Data:         |                |   |  |                |
| Revenue                                | \$ 140,775     | \$ (31,203)   | \$ (11,491)  | \$ 98,081(1)   |
| Depreciation, depletion & amortization | 61,872         | (13,433)  | (5,528)  | 42,911         |
| Impairment of oil and gas properties   | 30,038         | -   | -  | 30,038         |
| Cost of sales                          | 4,182          | -   | -  | 4,182          |
| SG&A expense                           | 30,998         | (2,115)   | (57)   | 28,826         |
| Income (loss) from operations          | 13,685         | (15,655)  | (5,906)  | (7,876)        |
| Interest expense and other, net        | (9,515)        | -   | 72   | (9,443)        |
| (Provision) benefit for income taxes   | (1,398)        | 5,078   | 2,042  | 5,722          |
| Net income (loss)                      | \$ 2,772       | \$ (10,577)   | \$ (3,792)   | \$ (11,597)    |
| Net income (loss) per share:           |                |   |  |                |
| Basic                                  | \$ 0.11        | \$ (.42)  | \$ (.15)   | \$ (0.46)      |
| Diluted                                | \$ 0.11        | \$ (.42)  | \$ (.15)   | \$ (0.46)      |

## Balance Sheet Data:

|  |          |           |         |          |
|--|----------|-----------|---------|----------|
| Cash and cash equivalents                | \$ 5,572 | \$ -      | \$ -    | \$ 5,572 |
| Receivables                              | 58,162   | -         | -       | 58,162   |
| Seismic data library, net                | 401,967  | 30,609(2) | (5,615) | 426,961  |
| Property and equipment, net              | 123,660  | -         | -       | 123,660  |
| Prepaid expenses and deferred charges    | 6,203    | 6,229     | 14      | 12,446   |
| Accounts payable and accrued liabilities | 43,182   | -         | -       | 43,182   |
| Deferred income taxes                    | 24,389   | (17,857)  | (2,042) | 4,490    |
| Deferred revenue                         | 1,093    | 87,683(3) | 233     | 89,009   |
| Retained earnings                        | 132,315  | (33,503)  | (3,792) | 95,020   |
| Accumulated other comprehensive loss     | (2,822)  | 515       | -       | (2,307)  |

- (1) Non-cash revenue and the percentage of total revenue are \$12,408,000 and 12.7%, respectively.
- (2) Represents reduction in accumulated amortization due to deferral of revenue.
- (3) The impact of the data licensing revisions on deferred revenue includes approximately \$57 million related to the cumulative effect of periods prior to 2001.

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Year Ended December 31, 2000

(in '000's except per share amounts)

|                                | As<br>Reported    | Adjustments<br>for<br>Data<br>Licensing<br>Agreements | Adjustments<br>for<br>Data<br>Acquisition<br>Contracts | As<br>Restated    |
|--------------------------------|-------------------|---|--|-------------------|
|                                | <u>          </u> | <u>          </u>                                     | <u>          </u>                                      | <u>          </u> |
| Statements of Operations Data: |                   |   |  |                   |
| Revenue                        | \$ 163,811        | \$ (19,599)   | \$ (5,890)   | \$ 138,322(1)     |

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|  |                   |                   |                   |                   |
|--|-------------------|-------------------|-------------------|-------------------|
| Depreciation, depletion and amortization | 73,709            | (8,054)           | (2,758)           | 62,897            |
| Cost of sales                            | 5,570             | -                 | -                 | 5,570             |
| SG&A expense                             | 34,790            | (1,476)           | (183)             | 33,131            |
| Other                                    | 5,352             | -                 | -                 | 5,352             |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Income (loss) from operations            | 44,390            | (10,069)          | (2,949)           | 31,372            |
| Interest expense and other, net          | (12,184)          | -                 | 100               | (12,084)          |
| (Provision) benefit for income taxes     | (11,789)          | 3,215             | 996               | (7,578)           |
| Cumulative effect of accounting change   | -                 | (14,219)          | -                 | (14,219)          |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |
| Net income (loss)                        | \$ 20,417         | \$ (21,073)       | \$ (1,853)        | \$ (2,509)        |
|  | <u>          </u> | <u>          </u> | <u>          </u> | <u>          </u> |

Net income (loss) per share:

|         |         |          |          |           |
|---------|---------|----------|----------|-----------|
| Basic   | \$ 0.85 | \$ (.88) | \$ (.07) | \$ (0.10) |
| Diluted | \$ 0.85 | \$ (.88) | \$ (.07) | \$ (0.10) |

Balance Sheet Data:

|   |           |           |         |           |
|---|-----------|-----------|---------|-----------|
| Cash and cash equivalents                     | \$ 10,216 | \$ -      | \$ -    | \$ 10,216 |
| Receivables                                   | 69,740    | -         | -       | 69,740    |
| Seismic data library, net                     | 345,201   | 18,855(2) | (1,453) | 362,603   |
| Property and equipment, net                   | 145,655   | -         | -       | 145,655   |
| Prepaid expenses and deferred charges         | 4,716     | 4,093     | 79      | 8,888     |
| Accounts payable and accrued liabilities      | 49,736    | -         | -       | 49,736    |
| Deferred income taxes                         | 30,412    | (11,944)  | (996)   | 17,472    |
| Deferred revenue                              | 2,975     | 55,773(3) | 1,477   | 60,225    |
| Retained earnings                             | 129,543   | (21,073)  | (1,853) | 106,617   |
| Accumulated other comprehensive income (loss) | (381)     | 190       | -       | (191)     |

(1) Non-cash revenue and the percentage of total revenue are \$7,330,000 and 5.3%, respectively.

(2) Represents reduction in accumulated amortization due to deferral of revenue.

- (3) The impact of the data licensing revisions on deferred revenue includes approximately \$36 million related to the cumulative effect of periods prior to 2000. Of the \$36 million of revenue deferred by the change in accounting principle for revenue recognition at the beginning of 2000, \$14.8 million was recognized as revenue in 2001 and \$12.6 million was recognized as revenue in 2000.

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## NOTE C--INCOME TAXES

The discussion of income taxes herein does not include the income tax effects of the cumulative effect of the change in accounting method explained in Note B of these consolidated financial statements.

Income (loss) before provision for income taxes for each of the three years ended December 31, 2001 is comprised of the following (in thousands):

|         | 2001               | 2000             | 1999             |
|---------|--------------------|------------------|------------------|
|         | (Restated)         |                  |                  |
| U.S.    | \$ (22,693)        | \$ 13,575        | \$ 6,894         |
| Foreign | 1,216              | 5,713            | 9,624            |
|         | <u>\$ (21,447)</u> | <u>\$ 19,288</u> | <u>\$ 16,518</u> |

The provision (benefit) for income taxes for each of the three years ended December 31, 2001, is comprised of the following (in thousands):

|           | 2001            | 2000           | 1999         |
|-----------|-----------------|----------------|--------------|
|           | (Restated)      |                |              |
| Current:  |                 |                |              |
| Federal   | \$ 9,894        | \$ 13,839      | \$ 1,456     |
| State     | 202             | 230            | 156          |
| Foreign   | 541             | 3              | 25           |
|           | <u>10,637</u>   | <u>14,072</u>  | <u>1,637</u> |
| Deferred: |                 |                |              |
| Federal   | (17,108)        | (8,454)        | 1,678        |
| Foreign   | (13)            | 1,960          | 3,823        |
|           | <u>(17,121)</u> | <u>(6,494)</u> | <u>5,501</u> |

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|                |         |                   |                   |                   |
|----------------|---------|-------------------|-------------------|-------------------|
| Tax provision: | Federal | (7,214)           | 5,385             | 3,134             |
|                | State   | 202               | 230               | 156               |
|                | Foreign | 528               | 1,963             | 3,848             |
|                |         | <u>          </u> | <u>          </u> | <u>          </u> |
|                |         | \$ (6,484)        | \$ 7,578          | \$ 7,138          |
|                |         | <u>          </u> | <u>          </u> | <u>          </u> |

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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):

|  | <u>2001</u>       | <u>2000</u>       | <u>1999</u>       |
|--|-------------------|-------------------|-------------------|
|  |                   | (Restated)        |                   |
| Statutory Federal income tax             | \$ (7,517)        | \$ 6,751          | \$ 5,781          |
| State income tax, less Federal benefit   | 131               | 150               | 101               |
| Tax difference on foreign earnings       | 525               | (116)             | 913               |
| Restructuring charge not fully benefited | -                 | 887               | -                 |
| Reduction in foreign tax rates           | (422)             | -                 | -                 |
| Non-deductible expense and other, net    | 799               | (94)              | 343               |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Income tax expense                       | \$ (6,484)        | \$ 7,578          | \$ 7,138          |
|  | <u>          </u> | <u>          </u> | <u>          </u> |

The components of the net deferred income tax asset (liability) reflected in the Company's consolidated balance sheets at December 31, 2001 and 2000 were as follows (in thousands):

|   | Deferred Tax Assets<br>(Liabilities) at December 31, |                   |
|---|--|-------------------|
|   | <u>2001</u>  | <u>2000</u>       |
|   |  | (Restated)        |
| Deferred Revenue                            | \$ 15,241  | \$ 13,754         |
| Alternative minimum tax credit carryforward | 210  | 549               |
| Canadian net operating loss carryforward    | 4,729  | 960               |
| Partnership earnings                        | 1,043  | 1,327             |
| Foreign tax credits                         | 191  | 191               |
| Investment tax credits                      | 44   | 44                |
| Other                                       | 1,447  | 2,115             |
|   | <u>          </u>                                    | <u>          </u> |
| Total deferred tax assets                   | 22,905   | 18,940            |

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|  |                   |                   |
|--|-------------------|-------------------|
| Less: Valuation allowance                          | (235)             | (44)              |
|  | <u>          </u> | <u>          </u> |
| Deferred tax assets, net of<br>valuation allowance | 22,670            | 18,896            |
|  | <u>          </u> | <u>          </u> |
| Depreciation, depletion and amortization           | (20,968)          | (33,314)          |
| Other  | (2,053)           | (3,054)           |
|  | <u>          </u> | <u>          </u> |
| Total deferred tax liabilities                     | (23,021)          | (36,368)          |
|  | <u>          </u> | <u>          </u> |
| Net deferred tax liability                         | \$ (351)          | \$ (17,472)       |
|  | <u>          </u> | <u>          </u> |

As of December 31, 2001, the Company has an alternative minimum tax (AMT) credit carryforward of approximately \$210,000 which can be used to offset regular Federal income taxes payable in future years. The AMT credit has an indefinite carryforward period. As of December 31, 2001, the Company has Canadian net operating loss (NOL) carryforwards of approximately \$18,106,000 which can be used to offset Canadian income taxes payable in future years. The NOL carryforwards will expire in periods through 2008.

In connection with the exercise of non-qualified stock options and common stock purchase warrants by employees during 2001, 2000 and 1999, the Company received \$515,000, \$1,814,000 and \$597,000, respectively, in Federal income tax savings which has been reflected as a credit to additional paid-in capital.

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NOTE D--DEBT

The following is a summary of the Company's debt at December 31, 2001 and 2000 (in thousands):

|   | December 31, |             |
|---|--------------|-------------|
|   | <u>2001</u>  | <u>2000</u> |
| Senior notes, Series A, 7.17%, maturing in equal<br>amounts of \$8,333 through 2001 | \$ -         | \$ 8,333    |
| Senior notes, Series B, 7.17%, maturing in equal<br>amounts of \$5,500 through 2002 | 5,500        | 11,000      |
| Senior notes, Series C, 7.48%, maturing in equal<br>amounts of \$4,500 through 2002 | 4,500        | 9,000       |
| Senior notes, Series D, 7.03%, maturing in 2004                                     | 20,000       | 20,000      |

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|   |            |            |
|---|------------|------------|
| Senior notes, Series E, 7.28%, maturing in equal amounts of \$12,500 beginning 2004 through 2009                    | 75,000     | 75,000     |
| Senior notes, Series F, 7.43%, maturing in 2009   | 43,000     | 43,000     |
| Senior notes, Series G, 7.04%, maturing in 2006   | 20,000     | -          |
| Senior notes, Series H, 7.19%, maturing in 2008   | 50,000     | -          |
| Senior notes, Series I, 7.34%, maturing in 2011   | 37,000     | -          |
| Parent revolving credit agreement, maturing in 2004   | -          | 40,000     |
| Subsidiary revolving credit agreement (average 4.35% at December 31, 2001)  | 1,319      | -          |
| Term loan, variable rate ranging from 5.02% to 6.65% in 2001, maturing \$2,500 in 2002 and 2003 and \$4,375 in 2004 | 9,375      | -          |
|   | \$ 265,694 | \$ 206,333 |

**Senior Notes:** The Company has issued through private placement, nine series of unsecured Senior Notes totaling \$320 million, of which \$255 million is outstanding at December 31, 2001. Interest on the Series A, B and C Senior Notes is payable semi-annually on June 30 and December 30, interest on the Series D, E and F Senior Notes is payable semi-annually on February 15 and August 15, and interest on the Series G, H and I Notes is payable semi-annually on April 15 and October 15. Accrued interest of \$5,018,000 is included in accrued liabilities at December 31, 2001.

**Lines of Credit:** On June 29, 2001, the Company replaced its existing \$75 million line of credit with a new \$75 million unsecured revolving line of credit facility that matures on June 29, 2004. The facility bears interest at a rate determined by the ratio of the Company's debt to EBITDA (earnings before interest, taxes, depreciation, deletion and amortization). Pursuant to the interest rate pricing structure, the interest rate would be set at LIBOR plus 1.75% or the bank's prevailing prime rate plus 0.75%. As of December 31, 2001, no amounts were outstanding and the Company had no availability on this revolving line of credit.

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The Company's wholly owned subsidiary, Olympic Seismic Ltd. ("Olympic"), has a revolving credit facility which allows it to borrow up to \$5 million (Canadian dollars) by way of prime based loans, bankers' acceptances or letters of credit. Prime based loans and bankers' acceptances bear interest at the rate of the bank's prime rate plus 0.35% per annum and 0.50% per annum, respectively. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The facility is secured by Olympic's assets, but is not guaranteed by Seitel, Inc. or any of its other United States subsidiaries. Available borrowings under the facility are determined as \$2 million (Canadian dollars) plus 75% of trade receivables less than 90 days old, the total not to exceed \$5 million (Canadian dollars). The facility is subject to repayment upon demand and is available from time to time at the Bank's sole discretion. Olympic had a balance outstanding under this line of credit at December 31, 2001 of \$1,319,000.

**Term Loans:** On August 28, 2001, the Company's wholly-owned subsidiary, Seitel Data, Ltd., obtained a term loan totaling \$10 million for the purchase of certain seismic data which secures the debt. The loan is for a term of three years, maturing on October 1, 2004, and bears interest at the rate of LIBOR plus 2.9%. Monthly principal payments total \$208,000. The balance outstanding on this loan on December 31, 2001 was \$9,375,000.

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The financial covenants in the Senior Notes and the Revolving Line of Credit Agreements include, among other restrictions, maintenance of minimum net worth and limitations on total debt, interest coverage, liens, debt issuance and disposition of assets. As a result of the restatement of its financial statements, the Company was not in compliance with certain financial covenants in the Senior Note Agreements dated December 28, 1995 and February 12, 1999 and the Revolving Line of Credit Agreement at September 30, 2001. In addition, as a result of the restatement of its financial statements and the impairment of oil and gas properties recorded in the fourth quarter of 2001, the Company was not in compliance with certain financial covenants in these agreements at December 31, 2001.

The Company has received an amendment from the Senior Note holders with respect to the relevant financial covenants in their agreements. The amendment waives noncompliance with the covenants in third and fourth quarters of 2001 and increases the ratio of debt to total capitalization through March 31, 2003, after which date the original financial covenants will again be imposed. Management has projected operations for fiscal 2002 and believes that the Company will be in compliance with the amended covenants during such period. In the event it would fail to meet these or other covenants, the Company may need to obtain additional waivers or amendments to the agreements from its lenders.

The Company has no borrowings under the Revolving Line of Credit as of December 31, 2001. With the existing covenant violation, the Company may not borrow under the Revolving Line of Credit. The Company has begun discussions with the lenders on the Revolving Line of Credit to amend the covenant calculations to bring the Company back into compliance and to permit borrowing under the line of credit facility. Additionally, once the Company is in compliance, it has the ability to increase the amount of the facility to \$150 million with the consent of its lenders.

Aggregate maturities of the Company's debt over the next five years and thereafter are as follows: \$13,819,000 in 2002; \$2,500,000 in 2003, \$36,875,000 in 2004, \$12,500,000 in 2005, \$32,500,000 in 2006 and \$167,500,000 thereafter.

### NOTE E--LEASE OBLIGATIONS

Assets recorded under capital leases obligations of \$2,641,000 and \$239,000 at December 31, 2001 and 2000, respectively, are included in property and equipment.

The Company leases office space under operating leases, some of which include renewal options. Rental expense for 2001, 2000 and 1999 was approximately \$1,170,000, \$1,148,000 and \$1,112,000, respectively.

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Future minimum lease payments for the five years subsequent to December 31, 2001 and in the aggregate are as follows (in thousands):

|      | Capital<br>Leases | Operating<br>Leases |
|------|-------------------|---------------------|
| 2002 | \$ 1,390          | \$ 1,586            |



|  |          |          |
|--|----------|----------|
| 2003   | 1,366    | 1,288    |
| 2004   | 332      | 1,245    |
| 2005   | -        | 1,242    |
| 2006   | -        | 1,088    |
|  | <hr/>    | <hr/>    |
| Total minimum lease payments                   | 3,088    | \$ 6,449 |
| Less amount representing interest              | (432)    | <hr/>    |
|  | <hr/>    |          |
| Present value of net minimum<br>lease payments | \$ 2,656 |          |
|  | <hr/>    |          |

## NOTE F--CONTINGENCIES AND COMMITMENTS

The Company has employment agreements with certain of its key employees and other incentive compensation arrangements that commit it to commissions based on revenue, bonuses based on pre-tax profits, and other amounts based on seismic data program and oil and gas project profitability. Part III of the Company's Form 10-K contains a more complete discussion of these contractual obligations.

The Company guarantees borrowings up to \$750,000 made by its chief executive officer under a line of credit. The Company is only obligated to make payment in the event of default by its chief executive officer. The Company has a contractual right of offset against any salary, bonus, commission or other amounts due from the Company to its chief executive officer for any amounts paid by the Company pursuant to this guaranty. At December 31, 2001, \$590,000 was outstanding on this line of credit. The maximum amount outstanding on this line of credit during 2001 was \$690,000. The Company did not make any payments under this guaranty during 2001 or 2000.

In October 2001, the Company guaranteed an institutional loan to its chief operating officer and general counsel. The original principal of \$600,000 will be paid annually, based on amortization of 120 months, but is payable in full in October 2006. The Company also agreed to make payments of principal and interest on the loan during the officer's employment by the Company. As long as the officer remains in the employ of the Company, his obligation to repay shall be forgiven ratably over 120 months; however, under certain conditions of termination, he will be required to reimburse the Company a pro rata portion of amounts paid by the Company on the indebtedness. Such proration is based on length of employment. The Company has a contractual right of offset against any compensation due from the Company to the officer for any amounts paid by the Company on the indebtedness.

The Company is involved from time to time in or threatened with litigation and is subject to governmental and regulatory controls arising in the ordinary course of business. It is the opinion of the Company's management that all claims and litigation involving the Company are not likely to have a material adverse effect on its financial position or results of operations.

The Company, as an owner of oil and gas properties, is subject to various federal, state and local laws and regulations relating to discharge of materials into, and protection of, the environment. These laws and regulations may, among other things, impose liability on the lessee under an oil and gas lease for the cost of pollution clean-up resulting from operations and subject the lessee to liability for pollution damages. The Company maintains insurance coverage, which it believes is customary in the industry, although it is not fully insured against all environmental risks. The Company is not aware of any environmental claims existing as of December 31, 2001, which would have a material impact on its financial position or results of operations.

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**NOTE G--FINANCIAL INSTRUMENTS AND OFF-BALANCE-SHEET RISK**

The Company has a price risk management program that utilizes derivative financial instruments, principally natural gas swaps, to reduce the price risk associated with fluctuations in natural gas prices. The derivative financial instruments called for the Company to receive or make payments based upon the differential between a fixed and a variable commodity price as specified in the contract. As a result of these activities, the Company recognized net hedging losses of \$1,692,000 and \$308,000 for the years ended December 31, 2000 and 1999, respectively. As of December 31, 2001 and 2000, the Company did not have any open commodity price hedges.

The Company may enter into foreign exchange contracts to hedge a portion of its foreign currency exchange risk related to its Canadian activities. As of December 31, 2000, the Company had forward exchange contracts totaling \$4 million (Canadian dollars) at an exchange rate into U.S. dollars of .6925 maturing in equal amounts of \$1 million (Canadian dollars) each month from January 2001 to April 2001. The estimated fair market value of open foreign exchange contracts as of December 31, 2000 was \$100,000. As of December 31, 2001 and 1999, the Company did not have any open foreign exchange contracts.

**NOTE H--COMMON STOCK**

In December 1997, the Company's Board of Directors approved the expenditure of up to \$25 million to repurchase the Company's common stock. As of December 31, 2001, the Company has repurchased 1,110,100 shares of common stock at a cost of \$12,529,000 under this plan.

The Company may offer from time to time in one or more series (i) unsecured debt securities, which may be senior or subordinated, (ii) preferred stock and (iii) common stock or any combination of the foregoing, up to an aggregate of \$41,041,600 pursuant to an effective "shelf" registration statement filed with the SEC. In addition, under another effective "shelf" registration statement filed with the SEC, the Company may offer up to an aggregate of \$200,000,000 of the following securities, in any combination, from time to time in one or more series: (1) unsecured debt securities, which may be senior or subordinated; (2) preferred stock; (3) common stock, and (4) trust preferred securities.

On July 21, 1992, the Company granted ten-year loans at an interest rate of 4% to most of its employees for the purchase of 800,000 shares of the Company's common stock at the then market price of \$2.69 per share. Payment of 5% of the original principal balance plus accrued interest are due annually August 1, with a balloon payment of the remaining principal and interest due August 1, 2002. On October 2, 1998, the Company granted five-year loans at an interest rate of 4% to most of its employees for the purchase of 794,300 shares of the Company's common stock at the then market price of \$10.31 per share. Payment of 60% of the loan amount plus accrued interest is being made in equal monthly, quarterly or annual payments, as applicable, and a balloon payment of the remaining 40% is due on October 2, 2003. The Company recorded related compensation expense due to the below market interest rate on these loans of \$65,000, \$98,000 and \$114,000 for the years ended December 31, 2001, 2000 and 1999, respectively. During 2001, 2000 and 1999, the Company received \$1,189,000, \$1,950,000 and \$1,736,000, respectively, as principal payments on these recourse notes. The stock certificates are held by the Company as collateral until payment is received.

**NOTE I--PREFERRED STOCK**

The Company is authorized by its Amended Certificate of Incorporation to issue 5,000,000 shares of preferred stock, the terms and conditions to be determined by the Board of Directors in creating any particular series. As of December 31, 2001, no preferred stock had been issued.

## NOTE J--STOCK OPTIONS AND WARRANTS

The Company maintains various stock option plans under which the Company's officers, directors and employees may be granted options or warrants to purchase the Company's common stock. The exercise price, term and other conditions applicable to each option or warrant granted under the Company's plans are generally determined by the Compensation Committee at the time of grant and may vary with each option or warrant granted. All options and warrants issued under the Company's plans are issued at or above the market price of the Company's common stock as of the date of issuance, have a term of no more than ten years and vest under varying schedules in accordance with the terms of the respective option or warrant agreements.

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The following summarizes information with regard to the stock option and warrant plans for the years ended December 31, 2001, 2000 and 1999 (shares in thousands):

|                                    | 2001   |                                 | 2000    |                                 | 1999   |                                 |
|------------------------------------|--------|---------------------------------|---------|---------------------------------|--------|---------------------------------|
|                                    | Shares | Weighted Average Exercise Price | Shares  | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year   | 7,226  | \$ 13.43                        | 6,853   | \$ 13.01                        | 6,768  | \$ 12.99                        |
| Granted                            | 2,437  | 13.75                           | 1,694   | 13.89                           | 878    | 12.98                           |
| Exercised                          | (504)  | 9.74                            | (1,021) | 10.16                           | (481)  | 10.75                           |
| Cancelled                          | (316)  | 12.96                           | (300)   | 18.02                           | (312)  | 11.87                           |
| Outstanding at end of year         | 8,843  | 13.55                           | 7,226   | 13.43                           | 6,853  | 13.01                           |
| Options exercisable at end of year | 5,919  |                                 | 5,817   |                                 | 5,626  |                                 |
| Available for grant at end of year | 1,274  |                                 | 1,395   |                                 | 1,636  |                                 |

The following table summarizes information for the options and warrants outstanding at December 31, 2001 (shares in thousands):

| Options Outstanding           |                              |                           | Options Exercisable           |                           |
|-------------------------------|------------------------------|---------------------------|-------------------------------|---------------------------|
| Number of Options Outstanding | Weighted Average Contractual | Weighted Average Exercise | Number of Options Exercisable | Weighted Average Exercise |
|                               |                              |                           |                               |                           |

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| Range of Exercise Prices | at 12/31/01 | Life in Years | Price    | at 12/31/01 | Price   |
|--------------------------|-------------|---------------|----------|-------------|---------|
| \$ 3.88 - \$ 11.38       | 2,101       | 9.15          | \$ 10.83 | 315         | \$ 9.97 |
| \$ 11.50 - \$ 13.50      | 1,363       | 4.54          | 12.31    | 1,128       | 12.15   |
| \$ 13.54 - \$ 13.73      | 3,184       | 3.04          | 13.73    | 3,079       | 13.73   |
| \$ 13.75 - \$ 17.56      | 1,898       | 5.32          | 16.28    | 1,163       | 16.06   |
| \$ 17.59 - \$ 22.13      | 297         | 4.50          | 19.12    | 234         | 19.08   |
| \$ 3.88 - \$ 22.13       | 8,843       | 5.26          | 13.55    | 5,919       | 13.90   |

The Company applies APB Opinion No. 25 and related interpretations in accounting for its stock-based compensation plans. APB Opinion No. 25 generally does not require compensation costs to be recorded on options which have exercise prices at least equal to the market price of the stock on the date of grant. Accordingly, no compensation cost has been recognized for the Company's stock-based plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the optional accounting method prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation," the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

|                                   |             | 2001        | 2000        | 1999     |
|-----------------------------------|-------------|-------------|-------------|----------|
|                                   |             |             | (Restated)  |          |
| Net (loss) income                 | As reported | \$ (14,993) | \$ (2,509)  | \$ 9,380 |
|                                   | Pro forma   | \$ (24,339) | \$ (11,791) | \$ 5,331 |
| Basic (loss) earnings per share   | As reported | \$ (.60)    | \$ (.10)    | \$ .39   |
|                                   | Pro forma   | \$ (.97)    | \$ (.49)    | \$ .22   |
| Diluted (loss) earnings per share | As reported | \$ (.60)    | \$ (.10)    | \$ .39   |
|                                   | Pro forma   | \$ (.97)    | \$ (.49)    | \$ .22   |

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The fair value of each option grant was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions for 2001, 2000 and 1999, respectively: (1) risk-free interest rates ranging from 2.77% to 5.35%, 5.02% to 6.06% and 5.56% to 6.73%, (2) dividend yield of 0%, 0% and 0%; (3) stock price volatility ranging from 234.55% to 399.84%, 248.45% to 401.22% and 47.84% to 482.90%, and (4) expected option lives ranging from 1.15 to 10 years, 2.78 to 10 years and .67 to 10 years. The weighted-average fair value of options granted during 2001, 2000 and 1999 was \$13.51, \$13.78 and \$12.57 per option, respectively, for options granted at fair market value and \$7.13 per option for options granted above fair market value in 1999. The pro forma amounts shown above may not be representative of future results because the SFAS No. 123 method of accounting has not been applied to options granted prior to January 1, 1995.

NOTE K--NON-EMPLOYEE DIRECTORS' PLANS

The Company has a Non-Employee Directors' Deferred Compensation Plan which permits each non-employee director to elect to receive annual director fees in the form of stock options and to defer receipt of any director fees in a deferred cash account or as deferred shares. As of December 31, 2001, 60,000 shares have been reserved for issuance under this plan and directors have accumulated 16,391 deferred shares in their accounts of which 1,312 shares have been distributed and 15,079 will be distributed in future years.

In 1999, the Company's Board of Directors adopted the Non-Employee Directors' Retirement Plan which provides that each non-employee director with 10 or more years of continuous service is eligible to receive a retirement benefit based on a formula defined in the plan. A portion of the retirement benefit fluctuates based on the fair market value of the Company's stock. As a result in 2001 the Company recorded a reduction of \$32,000 in the retirement benefit related to this plan. A portion of the retirement benefit fluctuates based on the fair market value of the Company's stock. As a result, in 2001 the Company recorded a reduction of \$32,000 in the retirement benefit related to this plan. The Company expensed \$82,000 and \$18,000 related to this plan in 2000 and 1999, respectively.

#### NOTE L-RESTRUCTURING

On June 23, 2000, the Company announced that its management incentive bonus compensation contracts had been restructured to reduce bonuses on pre-tax profits to 8.5% from 17.5%. In connection with the restructuring, the Company issued 375,000 restricted shares of its Common Stock to three members of management and made cash payments totaling \$1,771,000. As a result, the Company recorded a restructuring charge in 2000 totaling \$4,394,000 (\$3,743,000 net of tax) to reflect the cost of the shares issued and the cash payments made. In addition, the Company will, subject to continued employment, make (i) four annual payments of \$187,500, net of taxes, to Herbert Pearlman, former Chairman of the Board of Directors, beginning January 1, 2001; (ii) four annual payments of \$125,000, net of taxes, to Paul Frame, current Chairman of the Board, President and Chief Executive Officer, beginning January 1, 2001; and (iii) payments totaling \$1.4 million, net of taxes, to David Lawi payable over four years beginning January 1, 2001. The withholding taxes on these payments will total 35%. The Company will also make annual payments of \$850,000 to Horace Calvert beginning July 1, 2000 through May 31, 2004, subject to continued employment. These payments will be charged to expense over the period earned. For the years ended December 31, 2001 and 2000, \$1,850,000 and \$1,425,000, respectively, was included in selling, general and administrative expense related to these payments.

#### NOTE M--INVESTMENT IN EAGLE GEOPHYSICAL, INC.

On April 22, 1999, the Board of Directors of Seitel, Inc. declared to its common stockholders a dividend consisting of 1,520,000 shares of the common stock of Eagle Geophysical, Inc. ("Eagle") owned by the Company. The dividend was declared at the rate of approximately 0.064 shares of Eagle common stock for each share of Seitel, Inc. common stock owned as of the close of business on the record date of May 18, 1999. The fair market value of the common stock of Eagle held by the Company on the date this dividend was declared was lower than the carrying value of the stock on the Company's balance sheet; therefore, a non-cash, non-recurring, pre-tax impairment, net of bonus effect, of \$7,794,000 was recorded for the year ended December 31, 1999.

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#### NOTE N--RELATED PARTY TRANSACTIONS

The Company owed Helm Capital Group, Inc. and its subsidiaries ("Helm"), a company that has an executive officer who is a former director of the Company, \$49,000 and \$16,000 as of December 31, 2001 and 2000, respectively, for sales of seismic data

they jointly own and for general and administrative expenses paid by Helm on behalf of the Company. The Company incurred charges of \$175,000, \$117,000 and \$115,000, for these general and administrative expenses during 2001, 2000 and 1999, respectively. Management believes that these expenses, which were specifically related to the Company's business, represented costs which would have been incurred in similar amounts by the Company if such services that were performed by Helm were performed by an unaffiliated entity.

During 2001, the chief executive officer received advances against bonus and commission payments that were contingent upon achieving \$10 million in pre-tax profits during 2001. The chief financial officer received advances against customary and anticipated bonus payments. The pre-tax profits threshold was not met in 2001. The Company determined that advances previously paid but not earned or awarded would be repaid pursuant to promissory notes. The chief executive officer and the chief financial officer will deliver promissory notes to the Company in a principal amount equal to \$2,572,730 and \$621,293, respectively. These amounts are included in notes and other receivables. The promissory notes will be repaid over five years; however, the balance owed under the promissory notes will be reduced by 20% in any year in which the pre-tax profits threshold of \$10 million is met.

The Company guarantees borrowings up to \$750,000 made by its chief executive officer under a line of credit. The Company is only obligated to make payment in the event of default by its chief executive officer. The Company has a contractual right of offset against any salary, bonus, commission or other amounts due from the Company to its chief executive officer for any amounts paid by the Company pursuant to this guaranty. At December 31, 2001, \$590,000 was outstanding on this line of credit. The Company did not make any payments under this guaranty during 2001 or 2000.

In October 2001, the Company guaranteed an institutional loan to its chief operating officer and general counsel. The original principal of \$600,000 will be paid annually, based on amortization of 120 months, but is payable in full in October 2006. The Company also agreed to make payments of principal and interest on the loan during the officer's employment by the Company. As long as the officer remains in the employ of the Company, his obligation to repay shall be forgiven ratably over 120 months; however, under certain conditions of termination, he will be required to reimburse the Company a pro rata portion of amounts paid by the Company on the indebtedness. Such proration is based on length of employment. The Company has a contractual right of offset against any compensation due from the Company to the officer for any amounts paid by the Company on the indebtedness.

#### NOTE O--MAJOR CUSTOMERS

No single customer accounted for 10% or more of revenue during the years 2001, 2000 and 1999.

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.

#### NOTE P--STATEMENT OF CASH FLOW INFORMATION

For purposes of the statement of cash flows, the Company considers all highly liquid investments or debt instruments with original maturity of three months or less to be cash equivalents.

Operating cash flows reported in the consolidated statements of cash flows do not reflect effects of changes in inventory levels because the Company reports no inventories and classifies cash expenditures for its seismic data library as an investing, rather than an operating, activity.

Income taxes paid during 2001, 2000 and 1999 were \$13,404,000, \$6,716,000 and \$1,754,000, respectively. Interest paid, net of amounts capitalized, during 2001, 2000 and 1999 was \$11,975,000, \$13,003,000 and \$8,926,000, respectively.

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

1. During 2001, 2000 and 1999, the Company had non-cash additions to its seismic data library totaling \$60,389,000, \$15,716,000 and \$8,989,000, respectively. Of these amounts, \$57,045,000, \$12,435,000 and \$8,989,000 resulted from non-exclusive licensing of data in exchange for ownership of data during 2001, 2000 and 1999, respectively. The balance of \$3,344,000 and \$3,281,000 for 2001 and 2000, respectively, resulted from non-cash additions related to certain data creation costs, which were offset against amounts due from the customer for data license fees. This remaining balance is also included in non-cash sales in the Consolidated Statements of Cash Flows.
2. During 2001 and 2000, capital lease obligations totaling \$2,501,000 and \$283,000, respectively, were incurred when the Company entered into leases for property and equipment.
3. During 1999, the Company declared to its common stockholders a dividend consisting of 1,520,000 shares of common stock of Eagle owned by the Company with a fair market value of \$6,365,000.

NOTE Q--INDUSTRY SEGMENTS

Segment information has been prepared in accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information". The Company operates in two reportable segments - seismic and exploration and production. The long-term financial performance of each of the reportable segments is affected by similar economic conditions. The accounting policies of the segments are the same as those described in Footnote A to these consolidated financial statements. The Company evaluates performance of each reportable segment based on operating income before selling, general and administrative expenses, interest income and expense, income taxes, non-recurring items and accounting changes.

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Financial information by reportable segment for the three years ended December 31, 2001, was as follows (in thousands):

| Seismic | Exploration<br>and<br>Production | Total<br>Segments |
|---------|----------------------------------|-------------------|
|---------|----------------------------------|-------------------|

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| <u>2001</u>                              |            |           |            |
|--|------------|-----------|------------|
| Revenue from external purchasers         | \$ 115,238 | \$ 21,091 | \$ 136,329 |
| Depreciation, depletion and amortization | 48,216     | 10,640    | 58,856     |
| Impairment of oil and gas properties     | -          | 40,433    | 40,433     |
| Cost of sales                            | 1,196      | 4,269     | 5,465      |
| Segment operating income                 | 65,826     | (34,251)  | 31,575     |
| Assets                                   | 556,971    | 93,932    | 650,903    |
| Capital expenditures (a)                 | 145,421    | 17,786    | 163,207    |
| <u>2000</u>                              |            |           |            |
| (Restated)                               |            |           |            |
| Revenue from external purchasers         | \$ 113,887 | \$ 24,435 | \$ 138,322 |
| Depreciation, depletion and amortization | 51,347     | 10,376    | 61,723     |
| Cost of sales                            | 738        | 4,832     | 5,570      |
| Segment operating income                 | 61,802     | 9,227     | 71,029     |
| Assets                                   | 444,453    | 149,113   | 593,566    |
| Capital expenditures (a)                 | 70,072     | 14,955    | 85,027     |
| <u>1999</u>                              |            |           |            |
| Revenue from external purchasers         | \$ 109,671 | \$ 19,036 | \$ 128,707 |
| Depreciation, depletion and amortization | 49,375     | 9,093     | 58,468     |
| Cost of sales                            | 296        | 4,720     | 5,016      |
| Segment operating income                 | 60,000     | 5,223     | 65,223     |
| Assets                                   | 391,849    | 157,925   | 549,774    |
| Capital expenditures (a)                 | 116,525    | 22,318    | 138,843    |

(a) Includes other ancillary equipment.

The following geographic information for the three years ended December 31, 2001 pertains to the Company's seismic segment (in thousands):

|                                 | United States | Canada    | Other Foreign Countries | Total      |
|---------------------------------|---------------|-----------|-------------------------|------------|
| <u>2001</u>                     |               |           |                         |            |
| Revenue from external customers | \$ 91,250     | \$ 23,988 | \$ -                    | \$ 115,238 |
| Assets                          | 479,868       | 75,746    | 1,357                   | 556,971    |
| <u>2000</u>                     |               |           |                         |            |
| (Restated)                      |               |           |                         |            |
| Revenue from external customers | \$ 86,942     | \$ 26,900 | \$ 45                   | \$ 113,887 |
| Assets                          | 386,167       | 56,857    | 1,429                   | 444,453    |
| <u>1999</u>                     |               |           |                         |            |



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|                                 |           |           |       |            |
|---------------------------------|-----------|-----------|-------|------------|
| Revenue from external customers | \$ 83,532 | \$ 26,139 | \$ -  | \$ 109,671 |
| Assets                          | 347,672   | 42,654    | 1,523 | 391,849    |

All exploration and production activities are conducted in the United States.

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The following table reconciles segment information to consolidated totals: (in thousands)

|  | December 31,      |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | 2001              | 2000              | 1999              |
|  |                   | (Restated)        |                   |
| Depreciation, depletion and amortization:                            |                   |                   |                   |
| Total reportable segment depreciation,<br>depletion and amortization | \$ 58,856         | \$ 61,723         | \$ 58,468         |
| Corporate and other  | 1,857             | 1,174             | 1,156             |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Total consolidated depreciation,<br>depletion and<br>amortization    | \$ 60,713         | \$ 62,897         | \$ 59,624         |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Income before income taxes:  |                   |                   |                   |
| Total reportable segment operating<br>income                         | \$ 31,575         | \$ 71,029         | \$ 65,223         |
| Selling general and<br>administrative expense                        | (38,093)          | (33,131)          | (28,587)          |
| Expenses related to delayed<br>DDD Energy, Inc.<br>offering          | -                 | (958)             | -                 |
| Restructuring charge   | -                 | (4,394)           | -                 |
| Interest expense, net  | (13,102)          | (12,106)          | (11,077)          |
| Dividend income  | -                 | 22                | -                 |
| Equity in earnings (loss) of affiliate                               | -                 | -                 | (91)              |
| Impairment due to dividend<br>distribution of affiliate<br>stock     | -                 | -                 | (7,794)           |
| Eliminations and other   | (1,857)           | (1,174)           | (1,156)           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |

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|                                      |                             |                             |                             |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| (Loss) income before<br>income taxes | \$ (21,477)                 | \$ 19,288                   | \$ 16,518                   |
|                                      | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Assets:                              |                             |                             |                             |
| Total reportable segment assets      | \$ 650,903                  | \$ 593,566                  | \$ 549,774                  |
| Corporate and other                  | 10,566                      | 5,565                       | 6,145                       |
|                                      | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Total consolidated assets            | \$ 661,469                  | \$ 599,131                  | \$ 555,919                  |
|                                      | <u>                    </u> | <u>                    </u> | <u>                    </u> |

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NOTE R--QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2001 and 2000.

| (In thousands, except per share amounts)       | Quarter Ended               |                             |                             |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
|  | March 31                    | June 30                     | Sept. 30                    | Dec. 31                     |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| <u>2001</u>                                    |                             |                             |                             |                             |
| (first three quarters restated) <sup>(1)</sup> |                             |                             |                             |                             |
| Revenue  | \$ 38,324                   | \$ 30,451                   | \$ 29,306                   | \$ 38,248                   |
| Gross profit (loss) <sup>(2)</sup>             | 20,491                      | 7,429                       | (6,970)                     | 8,768                       |
| Provision (benefit) for income taxes           | 2,653                       | (1,660)                     | (6,715)                     | (762)                       |
| Net income (loss)                              | 4,031                       | (3,218)                     | (12,410)                    | (3,396)                     |
| Earnings (loss) per share: <sup>(3)</sup>      |                             |                             |                             |                             |
| Basic  | .16                         | (.13)                       | (.50)                       | (.14)                       |
| Diluted  | .15                         | (.13)                       | (.50)                       | (.14)                       |
| <u>2000</u>                                    |                             |                             |                             |                             |
| (restated) <sup>(1)</sup>                      |                             |                             |                             |                             |
| Revenue  | \$ 28,040                   | \$ 33,177                   | \$ 37,247                   | \$ 39,858                   |

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|   |          |         |        |        |
|---|----------|---------|--------|--------|
| Gross profit <sup>(2)</sup>               | 13,630   | 15,931  | 18,951 | 21,343 |
| Provision for income taxes                | 1,303    | 2,099   | 2,524  | 1,652  |
| Cumulative effect of accounting change    | (14,219) | -       | -      | -      |
| Net (loss) income                         | (11,664) | (1,425) | 4,607  | 5,973  |
| Earnings (loss) per share: <sup>(3)</sup> |          |         |        |        |
| Basic                                     | (.49)    | (.06)   | .19    | .25    |
| Diluted                                   | (.49)    | (.06)   | .19    | .24    |

- 
- (1) The amounts for the first three quarters of 2001 and the four quarters of 2000 have been restated consistent with the disclosure in Note B.
- (2) Gross profit represents revenue less data bank amortization, depletion of oil and gas properties, impairment of oil and gas properties and cost of sales.
- (3) The sum of the individual quarterly earnings per share may not agree with the year to date earnings per share as each period's computation is based on the weighted average number of common shares outstanding during the period.

#### Non-Monetary Transactions

Effective September 30, 2001, and prior to the change in accounting policy for revenue recognition discussed in Note B, the Company changed its presentation with respect to certain exchange transactions. In these transactions, the Company sold the customer a non-exclusive license to data from its library and in turn purchased seismic data from the customer. The Company and the customer each issued cash payments for the transaction amount. Prior to September 30, 2001, the sale of the license was recorded as cash revenue and the purchase of data was recorded as cash invested in seismic data. As of September 30, 2001, the presentation of these transactions was changed from a cash transaction to a non-monetary transaction because the data license and the data purchase were with the same customer. As a result of this change in presentation, the \$39.4 million in non-monetary transactions reported for the nine months ended September 30, 2001 in the

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statement of cash flows included \$11.1 million related to transactions which occurred in the first and second quarters of 2001 in which the Company and its customer each issued cash payments. The following table summarizes the non-monetary transactions as reported and as revised (in thousands):

Prior to Restatement

| Quarter Ended      | As Reported      | Amounts<br>Related to<br>Change in<br>Presentation | As Revised<br>for Change in<br>Presentation |
|--------------------|------------------|--|---|
| March 31, 2001     | \$ 7,824         | \$ 4,741   | \$ 12,565                                   |
| June 30, 2001      | 1,672            | 6,407  | 8,079                                       |
| September 30, 2001 | 29,917           | (11,148)   | 18,769                                      |
|                    | <u>\$ 39,413</u> | <u>\$ -</u>  | <u>\$ 39,413</u>                            |

Following the restatement for the nine months ended September 30, 2001 and under the Company's newly adopted revenue recognition policy, revenue under certain data licensing contracts is deferred until selection of the data is made. The result of the deferral is to reduce the amount of revenue currently recognized. Had the new revenue recognition policy been adopted at the time of issuance of the Company's quarterly financial statements, the quarterly revenue totals reported for non-monetary transactions would have been as follows (in thousands):

| Quarter Ended      | As Restated      |
|--------------------|------------------|
| March 31, 2001     | \$ 4,363         |
| June 30, 2001      | 3,330            |
| September 30, 2001 | 4,715            |
| December 31, 2001  | 5,811            |
| Total              | <u>\$ 18,219</u> |

#### NOTE S--SUPPLEMENTAL OIL AND GAS INFORMATION (UNAUDITED)

The following information concerning the Company's oil and gas operations is presented in accordance with SFAS No. 69, "Disclosures about Oil and Gas Producing Activities."

**Oil and Gas Reserves:** Proved oil and gas reserves represent estimated quantities of natural gas, crude oil, condensate and natural gas liquids that geological and engineering data demonstrate, with reasonable certainty, to be recoverable in future years from known reservoirs under economic and operating conditions existing at the time the estimates were made. Proved developed reserves are proved reserves expected to be recovered through wells and equipment in place and under operating methods being utilized at the time the estimates were made.

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The following table sets forth estimates of proved reserves and proved developed reserves of natural gas and crude oil (including condensate and natural gas liquids) attributable to the Company's interest in oil and gas properties. The reserve estimates presented herein were prepared by the independent petroleum engineering firm of Garb Grubbs Harris & Associates, Inc. (formerly Forrest A. Garb & Associates, Inc.) in accordance with guidelines established by the SEC. It should be noted that these reserve quantities are estimates and may be subject to substantial upward or downward revisions. The estimates are based on the most current and reliable information available; however, additional information obtained through future production and experience and additional development of existing reservoirs may significantly alter previous estimates of proved reserves.

|                                      | Oil<br>(Mbbbl)    | Gas<br>(MMcf)     |
|--------------------------------------|-------------------|-------------------|
|                                      | <u>          </u> | <u>          </u> |
| Proved reserves at December 31, 1998 | 7,338             | 74,059            |
| Revisions of previous estimates      | (1,494)           | (6,978)           |
| Purchases of reserves in place       | 118               | 6,600             |
| Sales of reserves in place           | (1,307)           | (11,336)          |
| Extensions and discoveries           | 152               | 5,405             |
| Production                           | (346)             | (5,693)           |
|                                      | <u>          </u> | <u>          </u> |
| Proved reserves at December 31, 1999 | 4,461             | 62,057            |
| Revisions of previous estimates      | (795)             | (20,999)          |
| Purchases of reserves in place       | 133               | 697               |
| Sales of reserves in place           | (57)              | (2,059)           |
| Extensions and discoveries           | 339               | 6,285             |
| Production                           | (303)             | (4,390)           |
|                                      | <u>          </u> | <u>          </u> |
| Proved reserves at December 31, 2000 | 3,778             | 41,591            |
| Revisions of previous estimates      | (427)             | (1,543)           |
| Sales of reserves in place           | (324)             | (1,268)           |
| Extensions and discoveries           | 160               | 1,706             |
| Production                           | (278)             | (3,157)           |
|                                      | <u>          </u> | <u>          </u> |
| Proved reserves at December 31, 2001 | 2,909             | 37,329            |
|                                      | <u>          </u> | <u>          </u> |
| Proved developed reserves -          |                   |                   |
| December 31, 1998                    | 5,265             | 37,844            |

|                   |       |        |
|-------------------|-------|--------|
| December 31, 1999 | 2,355 | 19,608 |
| December 31, 2000 | 2,149 | 12,376 |
| December 31, 2001 | 1,450 | 11,440 |

The proved reserves disclosed above exclude proved sulfur reserves of 80,000 long tons, 164,000 long tons and 260,000 long tons at December 31, 2001, 2000 and 1999, respectively. The proved reserves are subject to a net profits interest equivalent to 1,007 MMcf of natural gas and 33 MBbl of crude oil at December 31, 2001.

**Capitalized Costs of Oil and Gas Properties:** As of December 31, 2001 and 2000, the Company's capitalized costs of oil and gas properties were as follows (in thousands):

|   | December 31, |            |
|---|--------------|------------|
|   | 2001         | 2000       |
| Unproved properties   | \$ 23,242    | \$ 45,908  |
| Proved properties   | 182,268      | 160,818    |
| Total capitalized costs                                       | 205,510      | 206,726    |
| Less: Accumulated depreciation,<br>depletion and amortization | (116,140)    | (65,068)   |
| Net capitalized costs   | \$ 89,370    | \$ 141,658 |

Of the total costs excluded from the amortization calculation as of December 31, 2001, \$9,043,000 was incurred during 2001, \$2,452,000 was incurred during 2000, \$7,177,000 was incurred during 1999, \$4,307,000 was incurred during 1998, and \$263,000 was incurred during 1997. The Company cannot accurately predict when these costs will be included in the amortization base, but it is expected that these costs will be evaluated in the next three to five years.

**Costs Incurred in Oil and Gas Activities:** The following table sets forth the Company's costs incurred for oil and gas activities for the years ended December 31, 2001, 2000 and 1999 (in thousands):

|                            | 2001              | 2000              | 1999              |
|----------------------------|-------------------|-------------------|-------------------|
|                            | <u>          </u> | <u>          </u> | <u>          </u> |
| Acquisition of properties: |                   |                   |                   |
| Evaluated                  | \$ -              | \$ -              | \$ -              |
| Unevaluated                | 9,858             | 6,951             | 8,303             |
| Exploration costs          | 4,211             | 2,641             | 12,789            |
| Development costs          | 3,531             | 5,175             | 847               |
|                            | <u>          </u> | <u>          </u> | <u>          </u> |
| Total costs incurred       | \$ 17,600         | \$ 14,767         | \$ 21,939         |
|                            | <u>          </u> | <u>          </u> | <u>          </u> |

**Results of Operations for Oil and Gas Producing Activities:** The following table sets forth the results of operations for oil and gas producing activities for the years ended December 31, 2001, 2000 and 1999 (in thousands):

|  | 2001              | 2000              | 1999              |
|--|-------------------|-------------------|-------------------|
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Revenue                                  | \$ 21,011         | \$ 24,226         | \$ 18,637         |
| Production costs                         | (4,260)           | (4,821)           | (4,706)           |
| Depreciation, depletion and amortization | (10,640)          | (10,376)          | (9,093)           |
| Impairment of oil and gas properties     | (40,433)          | -                 | -                 |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| (Loss) income before income taxes        | (34,322)          | 9,029             | 4,838             |
| Income tax benefit (expense)             | (12,013)          | (3,160)           | (1,693)           |
|  | <u>          </u> | <u>          </u> | <u>          </u> |
| Results of operations                    | \$ (22,309)       | \$ 5,869          | \$ 3,145          |
|  | <u>          </u> | <u>          </u> | <u>          </u> |

In addition to the revenue and production costs disclosed above, the Company had revenues from sulfur sales and related production costs of \$80,000 and \$9,000, respectively, for the year ended December 31, 2001, \$209,000 and \$11,000, respectively, for the year ended December 31, 2000, and \$399,000 and \$14,000, respectively, for the year ended December 31, 1999.

**Standardized Measure of Discounted Future Net Cash Flows Relating to Proved Oil and Gas Reserves:**

The following table sets forth the standardized measure of the discounted future net cash flows attributable to the Company's proved oil and gas reserves as prescribed by SFAS No. 69. Future cash inflows were computed by applying year-end prices of oil and gas to the estimated future production of proved oil and gas reserves. Future prices actually received may differ from the estimates in the standardized measure.

Future production and development costs represent the estimated future expenditures (based on current costs) to be incurred in developing and producing the proved reserves, assuming continuation of existing economic conditions. Future income tax expenses were computed by applying statutory income tax rates to the difference between pre-tax net cash flows relating to the Company's proved oil and gas reserves and the tax basis of proved oil and gas properties, adjusted for tax credits and allowances. The resulting annual net cash flows were then discounted to present value amounts by applying a 10 percent annual discount factor.

Although the information presented is based on the Company's best estimates of the required data, the methods and assumptions used in preparing the data were those prescribed by the Financial Accounting Standards Board. Although not market sensitive, they were specified in order to achieve uniformity in assumptions and to provide for the use of reasonably objective data. It is important to note here that this information is neither fair market value nor the present value of future cash flows and it does not reflect changes in oil and gas prices experienced since the respective year-end. It is primarily a tool designed by the FASB to allow for a reasonable comparison of oil and gas reserves and changes therein through the use of a standardized method. Accordingly, the Company cautions that this data should not be used for other than its intended purpose.

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Management does not rely upon the following information in making investment and operating decisions. The Company, along with its partners, bases such decisions upon a wide range of factors, including estimates of probable as well as proved reserves, and varying price and cost assumptions considered more representative of a range of possible economic conditions that may occur in the future.

|   | December 31, |                |            |
|---|--------------|----------------|------------|
|   | 2001         | 2000           | 1999       |
|   |              | (in thousands) |            |
| Cash inflows  | \$ 152,452   | \$ 503,950     | \$ 247,158 |
| Production costs  | (26,404)     | (56,470)       | (56,308)   |
| Development costs   | (37,038)     | (40,815)       | (37,099)   |
| Income taxes  | (15,624)     | (115,108)      | (36,554)   |
| Future net cash flows   | 73,386       | 291,557        | 117,197    |
| 10 percent annual discount  | (34,266)     | (125,181)      | (45,133)   |
| Standardized measure of discounted future net cash flows <sup>(1)</sup><br><sub>(2)</sub> | \$ 39,120    | \$ 166,376     | \$ 72,064  |

(1) Estimated future net cash flows before income tax expense, discounted at 10 percent per annum, totaled approximately \$47,269,000, \$232,693,000 and \$94,796,000 as of December 31, 2001, 2000 and 1999, respectively.

(2) The above table excludes future net cash flows before income taxes of \$0, \$3,660,000 and \$5,029,000, and discounted future net cash flows before income taxes of \$0, \$1,955,000 and \$2,854,000, as of December 31, 2001, 2000 and 1999, respectively, related to proved sulfur reserves.



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The following are the principal sources of changes in the standardized measure of discounted future net cash flows for the years ended December 31, 2001, 2000 and 1999 (in thousands):

|   | 2001       | 2000       | 1999      |
|---|------------|------------|-----------|
| Standardized measure, beginning of year   | \$ 166,376 | \$ 72,064  | \$ 81,543 |
| Extensions and discoveries, net of related costs                                      | 5,573      | 45,001     | 13,001    |
| Sales of oil and gas produced, net of production costs                                | (16,751)   | (19,405)   | (13,931)  |
| Net changes in prices and production costs  | (163,972)  | 231,194    | 26,992    |
| Change in future development costs  | 1,366      | (214)      | (9,608)   |
| Development costs incurred during the period that reduced<br>future development costs | 1,618      | 3,087      | 227       |
| Revision of previous quantity estimates   | (5,374)    | (108,365)  | (19,232)  |
| Purchases of reserves in place  | -          | 1,222      | 6,222     |
| Sales of reserves in place  | (10,429)   | (7,855)    | (23,402)  |
| Accretion of discount   | 23,269     | 9,480      | 10,765    |
| Net change in income taxes  | 58,169     | (43,586)   | 3,375     |
| Change in production rates and other  | (20,725)   | (16,247)   | (3,888)   |
| Standardized measure, end of year   | \$ 39,120  | \$ 166,376 | \$ 72,064 |

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EXHIBIT  
INDEX

| Exhibit | Title   | Page<br>Number |
|---------|---|----------------|
| 10.58   | Fourth Amendment, dated October 15, 2001, to the Separate Note Purchase Agreements, dated as of December 28, 1995, among Seitel, Inc. and the Noteholders | 69             |

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|       |  |     |
|-------|--|-----|
| 10.59 | Fifth Amendment, dated March 27, 2002, to the Separate Note Purchase Agreements, dated as of December 28, 1995, among Seitel, Inc. and the Noteholders   | 74  |
| 10.66 | Third Amendment, dated October 15, 2001, to the Separate Note Purchase Agreements, dated as of February 12, 1999, among Seitel, Inc. and the Noteholders | 80  |
| 10.67 | Fourth Amendment, dated March 27, 2002, to the Separate Note Purchase Agreements, dated as of February 12, 1999, among Seitel, Inc. and the Noteholders  | 85  |
| 10.69 | Executive Retention Agreement with Kevin S. Fiur dated October 12, 2001  | 91  |
| 21.1  | Subsidiaries of the Registrant   | 96  |
| 23.1  | Consent of Ernst & Young LLP   | 99  |
| 23.2  | Consent of Arthur Andersen LLP   | 101 |
| 23.3  | Consent of Garb Grubbs Harris & Associates, Inc.   | 103 |

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