

SEITEL INC
Form 10-Q
May 14, 2008

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-Q

T QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2008

OR

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

Commission File Number: 333-144844

SEITEL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

76-0025431
(I.R.S. Employer
Identification No.)

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

77043
(Zip Code)

Registrant's telephone number, including area code:

(713) 881-8900

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

Yes **T** No **O**

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer," "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

Yes No

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

Yes No

As of May 12, 2008, there were 100 shares of the Company's common stock, par value \$.001 per share outstanding.

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[\(Index\)](#)**PART I - FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS****SEITEL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS***(In thousands, except share and per share amounts)*

| | (Unaudited) March 31, 2008 | December 31, 2007 |
|--|----------------------------------|----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 37,149 | \$ 43,333 |
| Restricted cash | 111 | 110 |
| Receivables | | |
| Trade, net of allowance for doubtful accounts of \$685 and \$688, respectively | 35,517 | 51,915 |
| Notes and other, net of allowance for doubtful accounts of \$225 and \$238, respectively | 196 | 2,190 |
| Net seismic data library, net of accumulated amortization of \$181,869 and \$140,742, respectively | 339,044 | 349,039 |
| Net property and equipment, net of accumulated depreciation and amortization of \$2,959 and \$2,335, respectively | 10,120 | 10,996 |
| Investment in marketable securities | 4,920 | 4,224 |
| Prepaid expenses, deferred charges and other | 20,931 | 22,263 |
| Intangible assets, net of accumulated amortization of \$6,949 and \$5,515, respectively | 49,430 | 51,785 |
| Goodwill | 203,366 | 207,246 |
| TOTAL ASSETS | \$ 700,784 | \$ 743,101 |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | |
| LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 40,430 | \$ 49,325 |
| Income taxes payable | 2,393 | 948 |
| Debt | | |
| Senior Notes | 402,312 | 402,333 |
| Notes payable | 290 | 300 |
| Obligations under capital leases | 3,668 | 3,848 |
| Deferred revenue | 40,623 | 48,151 |
| Deferred income taxes | 13,503 | 17,238 |
| TOTAL LIABILITIES | 503,219 | 522,143 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDER'S EQUITY | | |

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| | | | |
|---|-------------------|-----------|----------------|
| Common stock, par value \$.001 per share; 100 shares authorized, issued and outstanding at March 31, 2008 and December 31, 2007 | | | |
| Additional paid-in capital | 266,591 | | 264,805 |
| Retained deficit | (95,539) | | (77,113) |
| Accumulated other comprehensive income | 26,513 | | 33,266 |
| TOTAL STOCKHOLDER'S EQUITY | 197,565 | | 220,958 |
| TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY | \$ 700,784 | \$ | 743,101 |

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

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

| | SUCCESSOR PERIOD | | PREDECESSOR PERIOD |
|--|--------------------------------------|---------------------------------------|--|
| | Three Months Ended March 31, 2008 | February 14, 2007 - March 31, 2007 | January 1, 2007 - February 13, 2007 |
| REVENUE | \$ 47,382 | \$ 17,298 | \$ 19,010 |
| EXPENSES: | | | |
| Depreciation and amortization | 44,855 | 22,233 | 11,485 |
| Cost of sales | 114 | 9 | 8 |
| Selling, general and administrative | 10,435 | 4,434 | 3,577 |
| Merger | 357 | 445 | 17,457 |
| | 55,761 | 27,121 | 32,527 |
| LOSS FROM OPERATIONS | (8,379) | (9,823) | (13,517) |
| Interest expense, net | (9,895) | (9,185) | (2,284) |
| Foreign currency exchange gains (losses) | (846) | 179 | (102) |
| Other income | - | - | 12 |
| Loss before income taxes | (19,120) | (18,829) | (15,891) |
| Provision (benefit) for income taxes | (694) | (3,997) | 452 |
| NET LOSS | \$ (18,426) | \$ (14,832) | \$ (16,343) |

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

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

| | SUCCESSOR PERIOD | | | PREDECESSOR PERIOD |
|---|--------------------|--|---------------------|--------------------|
| | Three Months Ended | | February 14, 2007 - | January 1, 2007 - |
| | March 31, 2008 | | March 31, 2007 | February 13, 2007 |
| Net loss | \$ (18,426) | | \$ (14,832) | \$ (16,343) |
| Unrealized gains on securities held as available for sale, net of tax | 696 | | - | - |
| Foreign currency translation adjustments | (7,449) | | 1,863 | 7 |
| Comprehensive loss | \$ (25,179) | | \$ (12,969) | \$ (16,336) |

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

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SEITEL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (Unaudited)

(In thousands, except share amounts)

| | Shares | Common Stock Amount | Additional Paid-In Capital | Retained Earnings (Deficit) | Accumulated Other Comprehensive Income |
|----------------------------|--------|------------------------|----------------------------------|-----------------------------------|---|
| Balance, December 31, 2007 | 100 | \$ - | \$ 264,805 | \$ (77,113) | \$ 33,266 |

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| | | | | | |
|--|-----|------|------------|-------------|-----------|
| Amortization of stock-based compensation costs | - | - | 1,786 | - | - |
| Net loss | - | - | - | (18,426) | - |
| Foreign currency translation adjustments | - | - | - | - | (7,449) |
| Unrealized gain on marketable securities, net of tax | - | - | - | - | 696 |
| Balance, March 31, 2008 | 100 | \$ - | \$ 266,591 | \$ (95,539) | \$ 26,513 |

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

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

(In thousands)

| | SUCCESSOR PERIOD | | PREDECESSOR PERIOD |
|--|--------------------------------------|---------------------------------------|--|
| | Three Months Ended March 31, 2008 | February 14, 2007 - March 31, 2007 | January 1, 2007 - February 13, 2007 |
| Cash flows from operating activities: | | | |
| Reconciliation of net loss to net cash provided by operating activities: | | | |
| Net loss | \$ (18,426) | \$ (14,832) | \$ (16,343) |
| Depreciation and amortization | 44,855 | 22,233 | 11,485 |
| Deferred income tax provision (benefit) | (2,299) | (6,151) | 302 |
| Amortization of deferred financing costs | 393 | 4,126 | 148 |
| Amortization of debt discount (premium) | (21) | (10) | 70 |
| Amortization of stock-based compensation | 1,786 | 1,178 | 6,673 |
| Amortization of favorable facility lease | 71 | 31 | - |
| Allowance for collection of trade receivables | 23 | 6 | - |
| Reversal of allowance for notes receivables | - | - | (274) |
| Non-cash compensation expense | - | - | 32 |
| Non-cash revenue | (5,411) | (636) | (88) |
| Decrease (increase) in receivables | 15,800 | (8,491) | 9,074 |
| Decrease (increase) in other assets | 40 | 775 | (521) |
| Increase (decrease) in deferred revenue | (10,201) | 6,619 | (7,767) |
| Increase (decrease) in accounts payable and other liabilities | (9,105) | (9,393) | 2,819 |
| Net cash provided by (used in) operating activities of continuing operations | 17,505 | (4,545) | 5,610 |
| Cash flows from investing activities: | | | |
| Cash invested in seismic data | (24,201) | (7,722) | (8,369) |
| Cash paid to acquire property and equipment | (49) | (26) | (60) |

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| | | | |
|--|----------|-------------|----------|
| Increase in restricted cash | (1) | (1) | - |
| Net cash used in investing activities | (24,251) | (7,749) | (8,429) |
| Cash flows from financing activities: | | | |
| Issuance of 9.75% Senior Notes | - | 400,000 | - |
| Repayment of 11.75% Senior Notes | - | (233,352) | - |
| Contributed capital | - | 153,473 | - |
| Purchase of Seitel stock | - | (386,556) | - |
| Principal payments on notes payable | (10) | (4) | (3) |
| Principal payments on capital lease obligations | (33) | (6) | (6) |
| Borrowings on line of credit | 261 | 53 | 119 |
| Payments on line of credit | (261) | (53) | (119) |
| Cost of debt and equity transactions | - | (16,272) | - |
| Purchase of common stock subsequently retired | - | - | (400) |
| Payments on notes receivable from officers and employees | - | 274 | - |
| Net cash used in financing activities | \$ (43) | \$ (82,443) | \$ (409) |

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

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

(In thousands)

| | Three Months Ended March 31, 2008 | SUCCESSOR PERIOD | February 14, 2007 - March 31, 2007 | PREDECESSOR PERIOD January 1, 2007 - February 13, 2007 |
|---|---|---------------------|--|---|
| Effect of exchange rate changes | \$ 605 | | \$ 736 | \$ 46 |
| Net decrease in cash and equivalents | (6,184) | | (94,001) | (3,182) |
| Cash and cash equivalents at beginning of period | 43,333 | | 104,208 | 107,390 |
| Cash and cash equivalents at end of period | \$ 37,149 | | \$ 10,207 | \$ 104,208 |
| Supplemental disclosure of cash flow information: | | | | |
| Cash paid during the period for: | | | | |
| Interest | \$ 19,689 | | \$ 1,848 | \$ 11,207 |
| Income taxes | \$ 44 | | \$ 544 | \$ 1 |
| Supplemental schedule of non-cash investing activities: | | | | |
| Additions to seismic data library | \$ 9,769 | | \$ 1,562 | \$ (7) |

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

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SEITEL, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)
March 31, 2008

NOTE A-ORGANIZATION

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

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

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

The Company also entered into an Amended and Restated Loan and Security Agreement with Wells Fargo Foothill, Inc. with a maximum credit amount of \$25.0 million, subject to certain borrowing base limitations. All obligations are unconditionally guaranteed by the Company's domestic subsidiaries that are not borrowers under the new facility, subject to customary exceptions, exclusions and release mechanisms. The new facility is secured by a lien on substantially all of the Company's domestic assets, including equity interests in the company's U.S. subsidiaries.

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

NOTE B-BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Seitel, Inc. and its subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring

adjustments) considered necessary for a fair presentation have been included. In preparing the Company's financial statements, a number of estimates and assumptions are made by management that affect the accounting for and recognition of assets, liabilities, revenues and expenses. The condensed consolidated balance sheet of the Company as of December 31, 2007, has been derived from the audited balance sheet of the Company as of that date. These financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2007 contained in the Company's Annual Report on Form 10-K.

Although the Company continues as the same legal entity after the Merger, the consolidated financial statements for 2007 are presented for two periods: January 1, 2007 through February 13, 2007 (the "Predecessor Period" or "Predecessor," as context requires) and February 14, 2007 through March 31, 2007 (the "Successor Period" or "Successor," as context requires), which relate to the period preceding the Merger and the period succeeding the Merger, respectively. The consolidated financial statements for the Successor Period reflect the acquisition of the Company under the purchase method of accounting in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." The results between these periods are not comparable to the Predecessor due to the difference in the basis of presentation of purchase accounting as compared to historical cost.

NOTE C-REVENUE RECOGNITION

Revenue from Data Acquisition

The Company generates revenue when it creates a new seismic survey that is initially licensed by one or more of its customers to use the resulting data. The initial licenses usually provide the customer with a limited exclusivity period, which will normally last for six months after final delivery of the processed data. The payments for the initial exclusive licenses are sometimes referred to as underwriting or prefunding. Customers make periodic payments throughout the creation period, which generally correspond to costs incurred and work performed. These payments are non-refundable.

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

The Company outsources the substantial majority of the work required to complete data acquisition projects to third party contractors. The Company's payments to these third party contractors comprise the substantial majority of the total estimated costs of the project and are paid throughout the creation period. A typical survey includes specific activities required to complete the survey, each of which has value to the customers. Typical activities, that often occur concurrently, include:

- permitting for land access, mineral rights, and regulatory approval;
- surveying;
- drilling for the placement of energy sources;
- recording the data in the field; and
- processing the data.

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

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

Revenue from Non-Exclusive Data Licenses

The Company recognizes a substantial portion of its revenue from data licenses sold after any exclusive license period. These are sometimes referred to as resale licensing revenue, post acquisition license sales or shelf sales.

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

- Specific license contract - The customer licenses and selects data from the data library at the time the contract is entered into and holds this license for a long-term period.
- Library card license contract - The customer initially receives only access to data. The customer may then select specific data, from the collection of data to which it has access, to hold long-term under its license agreement. The length of the selection periods under the library card contracts is limited in time and varies from customer to customer.
- Review and possession license contract - The customer obtains the right to review a certain quantity of data for a limited period of time. During the review period, the customer may select specific data from that available for review to hold long-term under its license agreement. Any data not selected for long-term licensing must be returned to the Company at the end of the review period.
- Review only license contract - The customer obtains rights to review a certain quantity of data for a limited period of time, but does not obtain the right to select specific data to hold long-term.

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

- that all customers must also execute a master license agreement that governs the use of all data received under our non-exclusive license contracts;
- the specific payment terms, generally ranging from 30 days to 12 months, and that such payments are non-cancelable and non-refundable;
- the actual data that is accessible to the customer; and
- that the data is licensed in its present form, where is and as is and the Company is under no obligation to make any enhancements, modifications or additions to the data unless specific terms to the contrary are included.

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

- the Company has an arrangement with the customer that is validated by a signed contract;
- the sales price is fixed and determinable;
- collection is reasonably assured;
- the customer has selected the specific data or the contract has expired without full selection; and
- the license term has begun.

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

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

Revenue from Non-Monetary Exchanges

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

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

In non-monetary exchange transactions, the Company records a data library asset for the seismic data received or processed at the time the contract is entered into or the data is completed, as applicable, and recognizes revenue on the transaction in equal value in accordance with its policy on revenue from data licenses, which is, when the data is selected by the customer, or revenue from data acquisition, as applicable. The data license to the customer is in the form of one of the four basic forms of non-exclusive license contracts discussed above. These transactions are valued at the fair value of the data received or delivered, whichever is more readily determinable.

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

- First, the Company considers the value of the data or services received from the customer. In determining the value of the data received, the Company considers the age, quality, current demand and future marketability of the data and, in the case of 3D seismic data, the cost that would be required to create the data. In addition, the Company applies a limitation on the value it assigns per square mile on the data received. In determining the value of the services received, the Company considers the cost of such similar services that it could obtain from a third party provider.
- Second, the Company determines the value of the license granted to the customer. The range of cash transactions by the Company for licenses of similar data during the prior six months are evaluated. In evaluating the range of cash transactions, the Company does not consider transactions that are disproportionately high or low.
- Third, the Company obtains concurrence from an independent third party on the portfolio of all non-monetary exchanges for data of \$500,000 or more in order to support the Company's valuation of the data received. The Company obtains this concurrence on an annual basis, usually in connection with the preparation of its annual financial statements.

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

| | Three Months Ended March 31, 2008 | SUCCESSOR PERIOD | February 14, 2007 - March 31, 2007 | PREDECESSOR PERIOD |
|---|---|---------------------|--|--|
| | | | | January 1, 2007 - February 13, 2007 |
| Seismic data library additions | \$ 9,769 | | \$ 1,562 | \$ (7) |
| Revenue recognized on specific data licenses and selections of data | 1,689 | | 621 | 71 |
| Revenue recognized related to acquisition contracts | 3,722 | | 15 | 11 |
| Revenue recognized related to data management services | - | | - | 6 |

Revenue from Seitel Solutions

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

NOTE D-SEISMIC DATA LIBRARY

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

Costs of Seismic Data Library

For purchased seismic data, the Company capitalizes the purchase price of the acquired data.

For data received through a non-monetary exchange, the Company capitalizes an amount equal to the fair value of the data received by the Company or the fair value of the license granted to the customer, whichever is more readily determinable. See Note C for discussion of the process used to determine fair value.

For internally created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data. Such costs include salaries and benefits of the Company's processing personnel and certain other costs incurred for the benefit of the processing activity. The Company believes that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for internal data processing were \$581,000, \$237,000 and \$265,000 for the three months ended March 31, 2008 (Successor Period), for the period February 14, 2007 to March 31, 2007 (Successor Period), and for the period January 1, 2007 to February 13, 2007 (Predecessor Period), respectively.

Data Library Amortization

The Company amortizes its seismic data library investment using the greater of the amortization that would result from the application of the income forecast method subject to a minimum amortization rate or a straight-line basis over the useful life of the data. With respect to each survey in the data library, the straight-line policy is applied from the time such survey is available for licensing to customers on a non-exclusive basis, since some data in the library may not be licensed until an exclusivity period (usually six months) has lapsed.

The Company applies the income forecast method by forecasting the ultimate revenue expected to be derived from a particular data library component over the estimated useful life of each survey comprising part of such component. This forecast is made by the Company annually and reviewed quarterly. If, during any such review, the Company determines that the ultimate revenue for a library component is expected to be significantly different than the original estimate of total revenue for such library component, the Company revises the amortization rate attributable to future revenue from each survey in such component. The lowest amortization rate the Company applies using the income forecast method is 70%. In addition, in connection with the forecast reviews and updates, the Company evaluates the recoverability of its seismic data library investment, and if required under SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," records an impairment charge with respect to such investment. See discussion on "*Seismic Data Library Impairment*" below.

The actual aggregate rate of amortization depends on the specific seismic surveys licensed and selected by the Company's customers during the period and the amount of straight-line amortization recorded. The income forecast amortization rates can vary by component and, as of April 1, 2008, range from 70% to 73% with a weighted average of 70.0%. For those seismic surveys which have been fully amortized, no amortization expense is required on revenue recorded.

The greater of the income forecast or straight-line amortization policy is applied quarterly on a cumulative basis at the individual survey level. In connection with the Merger, this policy was also applied at February 13, 2007 (for the Predecessor Period). Under this policy, the Company first records amortization using the income forecast method. The cumulative amortization recorded for each survey is then compared with the cumulative straight-line amortization. If the cumulative straight-line amortization is higher for any specific survey, additional amortization expense is recorded, resulting in accumulated amortization being equal to the cumulative straight-line amortization for such survey. This requirement is applied regardless of future-year revenue estimates for the library component of which the survey is a part and does not consider the existence of deferred revenue with respect to the library component or to any survey.

Seismic Data Library Impairment

The Company evaluates its seismic data library investment by grouping individual surveys into components based on its operations and geological and geographical trends, resulting in the following data library segments for purposes of evaluating impairments: (I) Gulf of Mexico offshore comprised of the following components: (a) multi-component data, (b) ocean bottom cable data, (c) shelf data, (d) deep water data, and (e) value-added products; (II) North America onshore comprised of the following components: (a) Texas Gulf Coast, (b) Northern, Eastern and Western Texas, (c) Southern Louisiana/Mississippi, (d) Northern Louisiana, (e) Rocky Mountains, (f) North Dakota, (g) other United States, (h) Canada and (i) value-added products, and (III) international data outside North America. The Company believes that these library components constitute the lowest levels of independently identifiable cash flows.

As events or conditions require, the Company evaluates the recoverability of its seismic data library investment in accordance with SFAS No. 144. The Company evaluates its seismic data library investment for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company considers the level of sales performance in each component compared to projected sales, as well as industry conditions, among others, to be key factors in determining when its seismic data investment should be evaluated for impairment. In evaluating sales performance of each component, the Company generally considers five consecutive quarters of actual performance below forecasted sales to be an indicator of potential impairment.

In accordance with SFAS No. 144, the impairment evaluation is based first on a comparison of the undiscounted future cash flows over each component's remaining estimated useful life with the carrying value of each library component. If the undiscounted cash flows are equal to or greater than the carrying value of such component, no impairment is recorded. If undiscounted cash flows are less than the carrying value of any component, the forecast of future cash flows related to such component is discounted to fair value and compared with such component's carrying amount. The difference between the library component's carrying amount and the discounted future value of the expected revenue stream is recorded as an impairment charge.

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

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

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The Company did not have any impairment charges during the three months ended March 31, 2008 (Successor Period), for the period February 14, 2007 to March 31, 2007 (Successor Period) or for the period January 1, 2007 to February 13, 2007 (Predecessor Period).

NOTE E-DEBT

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

| | March 31, 2008 | December 31, 2007 |
|-------------------------------------|-------------------|----------------------|
| 9.75% Senior Notes | \$ 400,000 | \$ 400,000 |
| 11.75% Senior Notes | 2,000 | 2,000 |
| Revolving Credit Facility | - | - |
| Subsidiary revolving line of credit | - | - |
| Note payable to former executive | 290 | 300 |
| | 402,290 | 402,300 |
| Plus: Premium on debt | 312 | 333 |
| | \$ 402,602 | \$ 402,633 |

9.75% Senior Unsecured Notes: On February 14, 2007, the Company issued in a private placement \$400.0 million aggregate principal amount of 9.75% Senior Notes. The proceeds from the 9.75% Senior Notes were used to partially fund the transactions in connection with the Merger. As required by their terms, the 9.75% Senior Notes were exchanged for senior notes of like amounts and terms in a publicly registered exchange offer in August 2007. These notes mature on February 15, 2014. Interest is payable in cash, semi-annually in arrears on February 15 and August 15 of each year. The 9.75% Senior Notes are unsecured and are guaranteed by substantially all of the Company's domestic subsidiaries on a senior basis. The 9.75% Senior Notes contain restrictive covenants which limit the Company's ability to, among other things, incur additional indebtedness, pay dividends and complete mergers, acquisitions and sales of assets.

From time to time on or before February 15, 2010, the Company may redeem up to 35% of the aggregate principal amount of the 9.75% Senior Notes with the net proceeds of equity offerings at a redemption price equal to 109.75% of the principal amount, plus accrued and unpaid interest. Upon a change of control (as defined in the indenture), each holder of the 9.75% Senior Notes will have the right to require the Company to offer to purchase all of such holder's notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest.

11.75% Senior Unsecured Notes: On July 2, 2004, the Company issued in a private placement \$193.0 million aggregate principal amount of 11.75% Senior Notes. As required by their terms, the 11.75% Senior Notes were exchanged for senior notes of like amounts and terms in a publicly registered exchange offer in February 2005. In connection with the 2004 excess cash flow offer in March 2005, \$4.0 million aggregate principal amount of these notes was tendered and accepted. In connection with the Merger and related transactions, \$187.0 million aggregate principal amount of these notes was tendered and accepted on February 14, 2007. The fair value of these notes was higher than the face value on the date of the Merger; consequently, a premium has been reflected in the Successor financial statements related to these notes. Interest on the remaining notes is payable semi-annually in arrears on January 15 and July 15 of each year. The remaining \$2.0 million of notes mature on July 15, 2011. The 11.75% Senior Notes are unsecured and are guaranteed by substantially all of the Company's U.S. subsidiaries on a senior basis.

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

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2007. Upon a change of control (as defined in the indenture), each holder of the 11.75% Senior Notes will have the right to require the Company to offer to purchase all of such holder's notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest.

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

Subsidiary Revolving Line of Credit: Olympic has a revolving credit facility, which allows it to borrow up to \$5.0 million (Canadian) subject to an availability formula by way of prime-based loans or letters of credit. The interest rate applicable to borrowings is the bank's prime rate plus 0.35% per annum. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The facility is secured by the assets of Olympic, but is not guaranteed by the Company or any of its other U.S. subsidiaries. Available borrowings under the facility are equivalent to a maximum of \$5.0 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of Olympic, less prior-ranking claims, if any, relating to inventory or accounts. The facility is subject to repayment upon demand and is available from time to time at the bank's sole discretion.

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

NOTE F-FAIR VALUE MEASUREMENTS

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

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

The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In measuring the fair value of the Company's assets and liabilities, market data or assumptions are used that the Company believes market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. The Company's investment in marketable securities is the only balance that is measured at fair value on a recurring basis. As of March 31, 2008, the fair value was \$4.9 million, which was determined using significant other observable inputs (Level 2 inputs).

NOTE G-STATEMENT OF CASH FLOW INFORMATION

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

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

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| | Three Months Ended March 31, 2008 | SUCCESSOR PERIOD | February 14, 2007- March 31, 2007 | PREDECESSOR PERIOD January 1, 2007- February 13, 2007 |
|--|---|---------------------|---|--|
| Non-monetary exchanges related to resale licensing revenue | \$ 5,471 | | \$ 1,562 | \$ (7) |
| Non-monetary exchanges from underwriting of new data acquisition | 6,531 | | - | - |
| Completion of data in progress from prior non-monetary exchanges | 367 | | - | - |
| Less: Non-monetary exchanges for data in progress | (2,600) | | - | - |
| Total non-cash additions to seismic data library | \$ 9,769 | | \$ 1,562 | \$ (7) |

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

| | Three Months Ended March 31, 2008 | SUCCESSOR PERIOD | February 14, 2007- March 31, 2007 | PREDECESSOR PERIOD January 1, 2007- February 13, 2007 |
|---|---|---------------------|---|--|
| Acquisition revenue on underwriting from non-monetary exchange contracts | \$ 3,722 | | \$ 15 | \$ 11 |
| Licensing revenue from specific data licenses and selections on non-monetary exchange contracts | 1,689 | | 621 | 71 |
| Data management revenue | - | | - | 6 |
| Total non-cash revenue | \$ 5,411 | | \$ 636 | \$ 88 |

NOTE H-COMMITMENTS AND CONTINGENCIES

Litigation

On July 18, 2002, Paul Frame, the Company's former chief executive officer, sued the Company in the 113th Judicial District Court of Harris County, No. 2002-35891. Mr. Frame alleged a breach of his employment contract and defamation. He also sought a declaratory judgment that certain funds he received from the Company were proper and do not have to be repaid. Mr. Frame filed claims totaling \$20.2 million in the Company's Chapter 11 Cases, which have been disallowed by order of the Bankruptcy Court. On April 1, 2005, the Company filed a motion for summary judgment seeking dismissal of Mr. Frame's complaint in the District Court. In late April 2005, Mr. Frame filed a motion for leave to file an amended complaint in the District Court. Hearing dates have not been set for these April 2005 motions. In 2002, the Company filed a counter suit to recover approximately \$4.2 million in corporate funds that the Company believes Mr. Frame inappropriately caused the Company to pay him or for his benefit plus over \$800,000 due on two notes that were accelerated pursuant to their respective terms. The Company also holds a judgment against Mr. Frame in the amount of at least \$590,000 relating to a loan made to Mr. Frame by Bank One N.A. and guaranteed by the Company. Effective March 27, 2008, the Company and Frame entered into a settlement and release agreement providing for a mutual release of all claims and causes of action. As a part of this settlement and release agreement, the parties agreed to dismiss this lawsuit. Such motion to dismiss is pending with the court, and the Company awaits entry of the dismissal order.

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In addition to the lawsuit described above, the Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, losses, if any, resulting from the ultimate resolutions of these matters should not be material to the Company's financial position or results of operation. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At March 31, 2008, the Company did not have any amounts accrued related to litigation and claims, as the Company believes it is not probable that any amounts will be paid relative to such litigation and claims.

NOTE I-RECENT ACCOUNTING PRONOUNCEMENTS

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

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

NOTE J-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

On February 14, 2007, the Company completed a private placement of 9.75% Senior Notes in the aggregate principal amount of \$400.0 million. The Company's payment obligations under the 9.75% Senior Notes are jointly and severally guaranteed by certain of its 100% owned U.S. subsidiaries ("Guarantor Subsidiaries"). All subsidiaries of the Company that do not guaranty the 9.75% Senior Notes are referred to as Non-Guarantor Subsidiaries.

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

The following consolidating condensed financial information presents: the consolidating condensed balance sheets as of March 31, 2008 (Successor Period) and December 31, 2007 (Successor Period), and the consolidating condensed statements of operations and statements of cash flows for the three months ended March 31, 2008 (Successor Period), the period February 14, 2007 to March 31, 2007 (Successor Period) and the period January 1, 2007 to February 13, 2007 (Predecessor Period) of (a) the Company; (b) the Guarantor Subsidiaries; (c) the Non-Guarantor Subsidiaries; (d) elimination entries; and (e) the Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis.

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

NOTE J-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

[\(Index\)](#)**CONSOLIDATING CONDENSED BALANCE SHEET****SUCCESSOR PERIOD****As of March 31, 2008**

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|-------------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| ASSETS | | | | | |
| Cash and cash equivalents | \$ - | \$ 27,536 | \$ 9,613 | \$ - | \$ 37,149 |
| Restricted cash | - | 111 | - | - | 111 |
| Receivables | | | | | |
| Trade, net | - | 20,620 | 14,897 | - | 35,517 |
| Notes and other, net | - | 14 | 182 | - | 196 |
| Intercompany receivables (payables) | 163,553 | (147,615) | (15,938) | - | - |
| Investment in subsidiaries | 402,922 | 459,148 | 890 | (862,960) | - |
| Net seismic data library | - | 236,847 | 102,197 | - | 339,044 |
| Net property and equipment | - | 3,931 | 6,189 | - | 10,120 |
| Investment in marketable securities | - | 4,920 | - | - | 4,920 |
| Prepaid expenses, deferred charges and other | 12,671 | 7,647 | 613 | - | 20,931 |
| Intangible assets, net | 900 | 28,507 | 20,023 | - | 49,430 |
| Goodwill | - | 107,108 | 96,258 | - | 203,366 |
| TOTAL ASSETS | \$ 580,046 | \$ 748,774 | \$ 234,924 | \$ (862,960) | \$ 700,784 |
| LIABILITIES AND STOCKHOLDER'S EQUITY | | | | | |
| Accounts payable and accrued liabilities | \$ 5,524 | \$ 11,488 | \$ 23,418 | \$ - | \$ 40,430 |
| Income taxes payable | 864 | 212 | 1,317 | - | 2,393 |
| Senior Notes | 402,312 | - | - | - | 402,312 |
| Notes payable | 290 | - | - | - | 290 |
| Obligations under capital leases | - | - | 3,668 | - | 3,668 |
| Deferred revenue | - | 31,261 | 9,362 | - | 40,623 |
| Deferred income taxes | 4 | - | 13,499 | - | 13,503 |
| TOTAL LIABILITIES | 408,994 | 42,961 | 51,264 | - | 503,219 |
| STOCKHOLDER'S EQUITY | | | | | |
| Common stock | - | - | - | - | - |
| Additional paid-in capital | 266,591 | - | - | - | 266,591 |

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| | | | | | |
|--|-------------------|-------------------|-------------------|---------------------|-------------------|
| Parent investment | - | 764,753 | 172,172 | (936,925) | - |
| Retained deficit | (95,539) | (63,860) | (10,105) | 73,965 | (95,539) |
| Accumulated other comprehensive income | - | 4,920 | 21,593 | - | 26,513 |
| TOTAL STOCKHOLDER'S EQUITY | 171,052 | 705,813 | 183,660 | (862,960) | 197,565 |
| TOTAL LIABILITIES AND | | | | | |
| STOCKHOLDER'S EQUITY | \$ 580,046 | \$ 748,774 | \$ 234,924 | \$ (862,960) | \$ 700,784 |

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CONSOLIDATING CONDENSED BALANCE SHEET

SUCCESSOR PERIOD

As of December 31, 2007

(In thousands)

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

[\(Index\)](#)**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****SUCCESSOR PERIOD****For the Three Months Ended March 31, 2008**

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|--|-------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| REVENUE | \$ - | \$ 29,440 | \$ 19,347 | \$ (1,405) | \$ 47,382 |
| EXPENSES: | | | | | |
| Depreciation and amortization | 22 | 27,627 | 17,206 | - | 44,855 |
| Cost of sales | - | 98 | 16 | - | 114 |
| Selling, general and administrative | 1,858 | 5,293 | 4,689 | (1,405) | 10,435 |
| Merger | - | 357 | - | - | 357 |
| | 1,880 | 33,375 | 21,911 | (1,405) | 55,761 |
| LOSS FROM OPERATIONS | (1,880) | (3,935) | (2,564) | - | (8,379) |
| Interest expense, net | (5,414) | (4,185) | (296) | - | (9,895) |
| Foreign currency exchange losses | - | (2) | (844) | - | (846) |
| Loss before income taxes and equity in loss of subsidiaries | (7,294) | (8,122) | (3,704) | - | (19,120) |
| Provision (benefit) for income taxes | - | 218 | (912) | - | (694) |
| Equity in loss of subsidiaries | (11,132) | (2,792) | - | 13,924 | - |
| NET LOSS | \$ (18,426) | \$ (11,132) | \$ (2,792) | \$ 13,924 | \$ (18,426) |

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CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

SUCCESSOR PERIOD

February 14, 2007 - March 31, 2007

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|-------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| REVENUE | \$ - | \$ 12,228 | \$ 5,524 | \$ (454) | \$ 17,298 |
| EXPENSES: | | | | | |
| Depreciation and amortization | 22 | 16,072 | 6,139 | - | 22,233 |
| Cost of sales | - | 9 | - | - | 9 |
| Selling, general and administrative | 1,101 | 1,980 | 1,807 | (454) | 4,434 |
| Merger | - | 445 | - | - | 445 |
| | 1,123 | 18,506 | 7,946 | (454) | 27,121 |
| LOSS FROM OPERATIONS | (1,123) | (6,278) | (2,422) | - | (9,823) |
| Interest expense, net | (5,472) | (3,563) | (150) | - | (9,185) |
| Foreign currency exchange gains | - | - | 179 | - | 179 |
| Loss before income taxes and equity in income (loss) of subsidiaries | (6,595) | (9,841) | (2,393) | - | (18,829) |
| Benefit for income taxes | - | (3,571) | (426) | - | (3,997) |
| Equity in income (loss) of subsidiaries | (8,237) | 460 | - | 7,777 | - |
| NET LOSS | \$ (14,832) | \$ (5,810) | \$ (1,967) | \$ 7,777 | \$ (14,832) |

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CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

PREDECESSOR PERIOD

January 1, 2007 - February 13, 2007

(In thousands)

Non-

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

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CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

SUCCESSOR PERIOD

For the Three Months Ended March 31, 2008

(In thousands)

| | Parent | Guarantor Subsidiaries | Non- Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---------------------------------------|-------------|---------------------------|-----------------------------------|-------------------------------|-----------------------|
| Cash flows from operating activities: | | | | | |
| Net cash provided by (used in) | | | | | |
| operating activities | \$ (19,757) | \$ 27,119 | \$ 10,143 | \$ - | \$ 17,505 |

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| | | | | | |
|--|--------|-----------|----------|------|-----------|
| Cash flows from investing activities: | | | | | |
| Cash invested in seismic data | - | (16,641) | (7,560) | - | (24,201) |
| Cash paid to acquire property and equipment | - | (21) | (28) | - | (49) |
| Increase in restricted cash | - | (1) | - | - | (1) |
| Net cash used in investing activities | - | (16,663) | (7,588) | - | (24,251) |
| Cash flows from financing activities: | | | | | |
| Principal payments on notes payable | (10) | - | - | - | (10) |
| Principal payments on capital lease obligations | - | - | (33) | - | (33) |
| Borrowings on line of credit | - | - | 261 | - | 261 |
| Payments on line of credit | - | - | (261) | - | (261) |
| Intercompany transfers | 19,767 | (19,767) | - | - | - |
| Net cash provided by (used in) financing activities | 19,757 | (19,767) | (33) | - | (43) |
| Effect of exchange rate changes | - | - | 605 | - | 605 |
| Net increase (decrease) in cash and cash equivalents | - | (9,311) | 3,127 | - | (6,184) |
| Cash and cash equivalents at beginning of period | - | 36,847 | 6,486 | - | 43,333 |
| Cash and cash equivalents at end of period | \$ - | \$ 27,536 | \$ 9,613 | \$ - | \$ 37,149 |

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CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

SUCCESSOR PERIOD

February 14, 2007 - March 31, 2007

(In thousands)

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|------------|------------------------|----------------------------|----------------------------|--------------------|
| Cash flows from operating activities: | | | | | |
| Net cash provided by (used in) operating activities | \$ (1,247) | \$ (7,075) | \$ 3,777 | \$ - | \$ (4,545) |
| Cash flows from investing activities: | | | | | |
| Cash invested in seismic data | - | (3,131) | (4,591) | - | (7,722) |
| Cash paid to acquire property and equipment | - | (25) | (1) | - | (26) |
| Increase in restricted cash | - | (1) | - | - | (1) |

NOTE J-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

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| | | | | | |
|--|-----------|----------|----------|------|-----------|
| Net cash used in investing activities | - | (3,157) | (4,592) | - | (7,749) |
| Cash flows from financing activities: | | | | | |
| Issuance of 9.75% Senior Notes | 400,000 | - | - | - | 400,000 |
| Repayment of 11.75% Senior Notes | (233,352) | - | - | - | (233,352) |
| Contributed Capital | 153,473 | - | - | - | 153,473 |
| Purchase of Seitel stock | (386,556) | - | - | - | (386,556) |
| Principal payments on notes payable | (4) | - | - | - | (4) |
| Principal payments on capital lease obligations | - | - | (6) | - | (6) |
| Borrowings on line of credit | - | - | 53 | - | 53 |
| Payments on line of credit | - | - | (53) | - | (53) |
| Cost of debt and equity transactions | (16,272) | - | - | - | (16,272) |
| Payments on notes receivable from officers and employees | - | 274 | - | - | 274 |
| Intercompany transfers | 83,958 | (83,958) | - | - | - |
| Net cash provided by (used in) financing activities | 1,247 | (83,684) | (6) | - | (82,443) |
| Effect of exchange rate changes | - | - | 736 | - | 736 |
| Net decrease in cash and cash equivalents | - | (93,916) | (85) | - | (94,001) |
| Cash and cash equivalents at beginning of period | - | 102,788 | 1,420 | - | 104,208 |
| Cash and cash equivalents at end of period | \$ - | \$ 8,872 | \$ 1,335 | \$ - | \$ 10,207 |

(Index)

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

PREDECESSOR PERIOD

January 1, 2007 - February 13, 2007

(In thousands)

| | Parent | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Consolidating Eliminations | Consolidated Total |
|---|-------------|------------------------|----------------------------|----------------------------|--------------------|
| Cash flows from operating activities: | | | | | |
| Net cash provided by (used in) operating activities | \$ (11,821) | \$ 19,894 | \$ (2,463) | \$ - | \$ 5,610 |

| | | | | | |
|--|--------|----------|---------|----|---------|
| Cash flows from investing activities: | | | | | |
| Cash invested in seismic data | - | (7,500) | (869) | - | (8,369) |
| Cash paid to acquire property and equipment | - | (27) | (33) | - | (60) |
| Net cash used in investing activities | - | (7,527) | (902) | - | (8,429) |
| Cash flows from financing activities: | | | | | |
| Principal payments on notes payable | (3) | - | - | - | (3) |
| Principal payments on capital lease obligations | - | - | (6) | - | (6) |
| Borrowings on line of credit | - | - | 119 | - | 119 |
| Payments on line of credit | - | - | (119) | - | (119) |
| Purchase of common stock subsequently retired | (400) | - | - | - | (400) |
| Intercompany transfers | 12,224 | (10,622) | (1,602) | - | - |
| Net cash provided by (used in) financing activities | 11,821 | (10,622) | (1,608) | - | (409) |
| Effect of exchange rate changes | - | - | 46 | - | 46 |
| Net increase (decrease) in cash and cash equivalents | - | 1,745 | (4,927) | - | (3,182) |
| Cash and cash equivalents at beginning of period | - | 101,043 | 6,347 | - | 107,390 |
| Cash and cash equivalents at end of period | \$ | \$ | \$ | \$ | \$ |
| | - | 102,788 | 1,420 | - | 104,208 |

[\(Index\)](#)

Item 2. **MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

Overview

General

Our products and services are used by oil and gas companies to assist in the exploration for, and development and management of, oil and gas reserves. We have ownership in an extensive library of onshore and offshore seismic data that we offer for license to oil and gas companies. Oil and gas companies use seismic data in oil and gas exploration and development efforts to increase the probability of drilling success. We believe that our library of onshore seismic data is one of the largest libraries available for licensing in the United States and Canada. We primarily generate revenue by licensing data from our data library and from new data creation products, which are substantially underwritten or paid for by clients. By participating in underwritten, nonexclusive surveys or purchasing licenses to existing data, oil and gas companies can obtain access to surveys at reduced costs as compared

to acquiring seismic data on a proprietary basis.

Our primary areas of focus are onshore United States and Canada and, to a lesser extent, offshore U.S. Gulf of Mexico. These markets continue to experience major changes. Having spent several years increasing their focus on international exploration opportunities, several major oil companies have become more active in the U.S. market than in the past few years. Independent oil and gas companies continue to be responsible for a significant portion of current U.S. drilling activity. Production decline rates are accelerating worldwide and are pronounced in mature fields of North America, while commodity prices for oil and natural gas remain a positive driver. We expect demand for natural gas to continue to increase exploration activity over the next two to three years in the United States and Canada.

Our clients continue to seek our services to create data in the United States and Canada. Our clients' commitment for underwriting on new data creation projects was \$18.7 million as of March 31, 2008. Licensing data "off the shelf" does not require the longer planning and lead times like new data creation and thus is more likely to fluctuate quarter to quarter.

The Merger

On February 14, 2007, Seitel Acquisition Corp. ("Acquisition Corp.") was merged with and into Seitel, Inc. ("Seitel"), pursuant to a merger agreement between Seitel, Acquisition Corp. and Seitel Holdings, Inc. ("Holdings") dated October 31, 2006 (the "Merger"). Pursuant to the merger agreement, Seitel continued as the surviving corporation and became a privately owned corporation and wholly-owned subsidiary of Holdings.

Although Seitel continues as the same legal entity after the Merger, the consolidated financial statements for 2007 are presented for two periods: January 1, 2007 through February 13, 2007 (the "Predecessor Period" or "Predecessor," as context requires) and February 14, 2007 through March 31, 2007 (the "Successor Period" or "Successor," as context requires), which relate to the period preceding the Merger and the period succeeding the Merger, respectively. The combined results for the three months ended March 31, 2007 represented the addition of Predecessor and Successor Periods ("Combined"). This combination does not comply with U.S. GAAP or with the rules for pro forma presentation but is presented because we believe it provides a meaningful comparison of our results. The consolidated financial statements for the Successor Period reflect the acquisition of Seitel under the purchase method of accounting in accordance with Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations." The results between these periods are not comparable to the Predecessor due to the difference in the basis of presentation of purchase accounting as compared to historical cost.

Principal Factors Affecting Our Business

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

Demand for Seismic Data: Demand for our products and services is cyclical due to the nature of the oil and gas industry. In particular, demand for our seismic data services depends upon exploration, production, development and field management spending by oil and gas companies and, in the case of new data creation, their willingness of those companies to forgo ownership in the seismic data. Capital expenditures by oil and gas companies depend upon several factors, including actual and forecasted oil and natural gas commodity prices, prospect availability and the companies' own short-term and strategic plans. These capital expenditures may also be affected by worldwide economic or industry-wide conditions. Demand for our seismic data is more likely to be influenced by natural gas prices rather than crude oil prices due to the geographic location of our seismic data.

Availability of Capital for Our Customers: Many of our customers consist of independent oil and gas companies and private prospect-generating companies that rely primarily on private capital markets to fund their exploration, production, development and field management activities. Significant changes in the private capital market and the availability of capital could have a material impact on the ability of such companies to obtain funding necessary to purchase our seismic data.

Merger and Acquisition Activity: In recent years, there has been an increase in the level of merger and acquisition activity within our client base. This activity could have a negative impact on seismic companies that operate in markets with a limited number of participating clients. However, we believe that, over time, this activity could have a positive impact on our business, as it should generate re-licensing fees, result in increased vitality in the trading of mineral interests and result in the creation of new independent customers through the rationalization of staff within those companies affected by this activity.

Natural Gas Reserve Replacement: Gas reserve replacement in the United States and Canada has lagged. As a result, we believe there is an increasing need in the oil and gas industry to replace these reserves, which we anticipate will increase the demand for our seismic data.

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

Non-GAAP Key Performance Measures

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

The following are the key performance measures considered by management.

Cash Resales: Cash resales represent new contracts for data licenses from our library, payable in cash. We believe this measure is important in gauging new business activity. We expect cash resales to generally follow a consistent trend over several quarters, while considering our normal seasonality. Volatility in this trend over several consecutive quarters could indicate changing market conditions. The following is a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, total revenue (in thousands):

| | SUCCESSOR PERIOD Three Months Ended March 31, 2008 | COMBINED ⁽¹⁾ Three Months Ended March 31, 2007 | SUCCESSOR PERIOD February 14, 2007 - March 31, 2007 | PREDECESSOR PERIOD January 1, 2007 - February 13, 2007 |
|---|---|---|--|---|
| Cash resales | \$ 19,835 | \$ 21,712 | \$ 15,727 | \$ 5,985 |
| Other revenue components: | | | | |
| Acquisition revenue | 18,403 | 12,385 | 6,287 | 6,098 |
| Non-monetary exchanges | 3,659 | 1,555 | 1,562 | (7) |
| Revenue deferred | (11,141) | (10,377) | (7,741) | (2,636) |
| Recognition of revenue previously deferred | 14,958 | 9,861 | 915 | 8,946 |
| Solutions and other | 1,668 | 1,172 | 548 | 624 |
| Total revenue, as reported | \$ 47,382 | \$ 36,308 | \$ 7,298 | \$ 19,010 |

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(1) Our combined results for the three months ended March 31, 2007 represent the addition of the Predecessor Period from January 1, 2007 to February 13, 2007 and the Successor Period from February 14, 2007 to March 31, 2007. This combination does not comply with U.S. GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

Cash Margin: Cash margin includes cash resales plus all other cash revenues other than from data acquisitions, less cash selling, general and administrative expenses (excluding Merger expenses and merger and acquisition transaction costs) and cost of goods sold. We believe this measure is helpful in determining the level of cash from operations we have available for debt service and funding of capital expenditures (net of the portion funded or underwritten by our customers). The following is a quantitative reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, operating loss (in thousands):

| | SUCCESSOR PERIOD Three Months Ended March 31, 2008 | COMBINED ⁽¹⁾ Three Months Ended March 31, 2007 | SUCCESSOR PERIOD February 14, 2007 - March 31, 2007 | PREDECESSOR PERIOD January 1, 2007 - February 13, 2007 |
|--|---|---|--|---|
| Cash margin | \$ 12,768 | \$ 16,471 | \$ 13,041 | \$ 3,430 |
| Add (subtract) other revenue components not included in cash margin: | | | | |
| Acquisition revenue | 18,403 | 12,385 | 6,287 | 6,098 |
| Non-monetary exchanges | 3,659 | 1,555 | 1,562 | (7) |
| Revenue deferred | (11,141) | (10,377) | (7,741) | (2,636) |
| Recognition of revenue previously deferred | 14,958 | 9,861 | 915 | 8,946 |
| Recognition of Solutions revenue previously deferred | 44 | 6 | - | 6 |
| Less: | | | | |
| Depreciation and amortization | (44,855) | (33,718) | (22,233) | (11,485) |
| Merger expenses | (357) | (17,902) | (445) | (17,457) |
| Merger and acquisition transaction costs | (1) | - | - | - |
| Non-cash operating expenses | (1,857) | (1,621) | (1,209) | (412) |
| Operating loss, as reported | \$ (8,379) | \$ (23,340) | \$ (9,823) | \$ (13,517) |

(1) Our combined results for the three months ended March 31, 2007 represent the addition of the Predecessor Period from January 1, 2007 to February 13, 2007 and the Successor Period from February 14, 2007 to March 31, 2007. This combination does not comply with U.S. GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

Growth of Our Seismic Data Library: We regularly add to our seismic data library through four different methods: (1) recording new data; (2) buying ownership of existing data for cash; (3) obtaining ownership of existing data sets through non-monetary exchanges; and (4) creating new value-added products from existing data within our library. For the period from January 1, 2008 to March 31, 2008, we completed the addition of approximately 800 square miles of seismic data to our library. As of March 31, 2008, we had approximately 700 square miles of seismic data in progress.

Critical Accounting Policies

We operate in one business segment, which is made up of seismic data acquisition, seismic data licensing, seismic data processing and seismic reproduction services. There have not been any changes in our critical accounting policies since December 31, 2007.

Results of Operations

Revenue

The following table summarizes the components of our revenue for the periods indicated (in thousands):

| | SUCCESSOR PERIOD Three Months Ended March 31, 2008 | COMBINED ⁽¹⁾ Three Months Ended March 31, 2007 | SUCCESSOR PERIOD February 14, 2007 - March 31, 2007 | PREDECESSOR PERIOD January 1, 2007 - February 13, 2007 |
|---|---|---|--|---|
| Acquisition revenue: | | | | |
| Cash underwriting | \$ 14,681 | \$ 12,359 | \$ 6,272 | \$ 6,087 |
| Underwriting from non-monetary exchanges | 3,722 | 26 | 15 | 11 |
| Total acquisition revenue | 18,403 | 12,385 | 6,287 | 6,098 |
| Licensing revenue: | | | | |
| Cash resales | 19,835 | 21,712 | 15,727 | 5,985 |
| Non-monetary exchanges | 3,659 | 1,555 | 1,562 | (7) |
| Revenue deferred | (11,141) | (10,377) | (7,741) | (2,636) |
| Recognition of revenue previously deferred | 14,958 | 9,861 | 915 | 8,946 |
| Total resale revenue | 27,311 | 22,751 | 10,463 | 12,288 |
| Total seismic revenue | 45,714 | 35,136 | 16,750 | 18,386 |
| Solutions and other | 1,668 | 1,172 | 548 | 624 |
| Total revenue | \$ 47,382 | \$ 36,308 | \$ 17,298 | \$ 19,010 |

(1) Our combined results for the three months ended March 31, 2007 represent the addition of the Predecessor Period from January 1, 2007 to February 13, 2007 and the Successor Period from February 14, 2007 to March 31, 2007. This combination does not comply with U.S. GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

Total revenue increased \$11.1 million, or 30.5%, to \$47.4 million in the first quarter of 2008 from \$36.3 million in the first quarter of 2007. Acquisition revenue increased 48.6% to \$18.4 million in the 2008 first quarter primarily from strong data creation activity in Canada. Total resale revenue increased 20% from \$22.8 million in the first quarter of 2007 to \$27.3 million in the first quarter of 2008 and was the result of various changes in the components of resale revenue. Cash resales for the 2008 first quarter were \$19.8 million compared to \$21.7 million in the 2007 first quarter. The lower cash resales reflected a \$4.0 million reduction in revenue from production bonuses; in the first quarter of 2007, one of our customers bought back our production sharing rights on several wells. The lower bonuses were offset by improved 3D licensing revenue in both the U.S. and Canada. Non-monetary exchanges increased from \$1.6 million in the 2007 period to \$3.7 million in the first quarter of 2008; these transactions fluctuate quarter to quarter depending upon the data available for trade. Recognition of previously deferred revenue, or selections, increased \$5.1 million, or 51.7%, between quarters due to several large selections on outstanding library cards. Solutions and other revenue increased 42.3% between quarters primarily due to the increase in total seismic revenue.

Depreciation and Amortization

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

| | SUCCESSOR PERIOD Three Months Ended March 31, 2008 | COMBINED ⁽¹⁾ Three Months Ended March 31, 2007 | SUCCESSOR PERIOD February 14, 2007 - March 31, 2007 | PREDECESSOR PERIOD January 1, 2007 - February 13, 2007 |
|---|---|---|--|---|
| Amortization of seismic data: | | | | |
| Income forecast | \$ 28,773 | \$ 18,733 | \$ 11,822 | \$ 6,911 |
| Straight-line | 14,011 | 13,677 | 9,381 | 4,296 |
| Total amortization of seismic data | 42,784 | 32,410 | 21,203 | 11,207 |
| Depreciation of property and equipment | 591 | 602 | 324 | 278 |
| Amortization of acquired intangibles | 1,480 | 706 | 706 | - |
| Total | \$ 44,855 | \$ 33,718 | \$ 22,233 | \$ 11,485 |

(1) Our combined results for the three months ended March 31, 2007 represent the addition of the Predecessor Period from January 1, 2007 to February 13, 2007 and the Successor Period from February 14, 2007 to March 31, 2007. This combination does not comply with U.S. GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

Total seismic data library amortization amounted to \$42.8 million in the first quarter of 2008 compared to \$32.4 million in the first quarter of 2007. The amount of seismic data library amortization fluctuates based on the level and location of specific seismic surveys licensed (including licensing resulting from new data acquisition) and selected by our customers during any period as well as the amount of straight-line amortization required under our accounting policy. The Successor Period reflects the higher level of amortization as a result of the step-up to fair value of our seismic data library in connection with the Merger.

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

| Components of Amortization | SUCCESSOR PERIOD Three Months Ended March 31, 2008 | COMBINED ⁽¹⁾ Three Months Ended March 31, 2007 | SUCCESSOR PERIOD February 14, 2007 - March 31, 2007 | PREDECESSOR PERIOD January 1, 2007 - February 13, 2007 |
|----------------------------|---|---|--|---|
| Income forecast | 62.9 % | 53.3 % | 70.6% | 37.6% |
| Straight-line | 30.7 % | 38.9 % | 56.0% | 23.4% |
| Total | 93.6 % | 92.2 % | 126.6% | 61.0% |

(1) Our combined results for the three months ended March 31, 2007 represent the addition of the Predecessor Period from January 1, 2007 to February 13, 2007 and the Successor Period from February 14, 2007 to March 31, 2007. This combination does not comply with U.S. GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

The increase in the percentage of income forecast amortization to total seismic revenue in 2008 was due to an increase in income forecast amortization recorded in the Successor Period. As a result of the Merger, our data whose costs had been previously fully amortized was stepped up to fair value resulting in a new book value for all data. Consequently, the majority of resale revenue in

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the first quarter of 2008 and in the period from February 14, 2007 to March 31, 2007 (Successor Period) attracted income forecast amortization. In the period from January 1, 2007 to February 13, 2007 (Predecessor Period) approximately 69% of our resale revenue was attributable to data whose costs had been fully amortized.

In connection with the Merger, we recorded acquired intangible assets of \$53.4 million, of which \$52.5 million are amortizable over their useful lives ranging from 1 to 10 years. The increase in amortization of acquired intangibles between quarters was due to the 2008 quarter including a full quarter of amortization whereas the 2007 quarter only included amortization from the Merger date (February 14, 2007).

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were \$10.4 million in the first quarter of 2008 compared to \$8.0 million in the first quarter of 2007. SG&A expense is made up of the following cash and non-cash expenses (in thousands):

| | SUCCESSOR PERIOD Three Months Ended March 31, 2008 | COMBINED ⁽¹⁾ Three Months Ended March 31, 2007 | SUCCESSOR PERIOD February 14, 2007 - March 31, 2007 | PREDECESSOR PERIOD January 1, 2007 - February 13, 2007 |
|----------------------------------|---|---|--|---|
| Cash SG&A expenses | \$ 8,578 | \$ 6,390 | \$ 3,225 | \$ 3,165 |
| Non-cash compensation expense | 1,786 | 1,590 | 1,178 | 412 |
| Non-cash rent expense | 71 | 31 | 31 | - |
| Total | \$ 10,435 | \$ 8,011 | \$ 4,434 | \$ 3,577 |

(1) Our combined results for the three months ended March 31, 2007 represent the addition of the Predecessor Period from January 1, 2007 to February 13, 2007 and the Successor Period from February 14, 2007 to March 31, 2007. This combination does not comply with U.S. GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

The increase in cash SG&A expenses of \$2.2 million from the first quarter of 2007 to the first quarter of 2008 was primarily due to (1) the 2007 quarter including a \$0.9 million reduction in SG&A resulting from a cash settlement of litigation and collection of a previously reserved receivable; (2) an increase of \$0.4 million in performance based compensation expense associated with our incentive compensation plan; and (3) an increase of \$0.3 million in commission expense due to the higher level of revenue recognized in the 2008 period.

The increase in non-cash compensation expense between quarters was primarily due to the expense related to stock options granted to certain employees and non-employee directors in the Successor Period.

The non-cash rent expense in the Successor Periods related to amortization of a favorable facility lease that was recorded as an intangible asset in connection with the Merger and will be amortized over the remaining lease term of 6.25 years.

Merger Expenses

Merger expenses included the following fees and expenses incurred in connection with the merger transaction for the periods indicated (in thousands):

| | SUCCESSOR PERIOD Three Months Ended March 31, 2008 | COMBINED ⁽¹⁾ Three Months Ended March 31, 2007 | SUCCESSOR PERIOD February 14, 2007 - March 31, 2007 | PREDECESSOR PERIOD January 1, 2007 - February 13, 2007 |
|---|---|---|--|---|
| Investment banking fees | \$ - | \$ 7,789 | \$ - | \$ 7,789 |
| Legal and advisory fees | - | 766 | 137 | 629 |
| Change in control payments | 357 | 3,053 | 308 | 2,745 |
| Early vesting of restricted stock (non-cash) | - | 6,294 | - | 6,294 |
| | \$ 357 | \$ 17,902 | \$ 445 | \$ 17,457 |

(1) Our combined results for the three months ended March 31, 2007 represent the addition of the Predecessor Period from January 1, 2007 to February 13, 2007 and the Successor Period from February 14, 2007 to March 31, 2007. This combination does not comply with U.S. GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

Other Income (Expense)

Interest expense, net, was \$9.9 million in the first quarter of 2008 compared to \$11.5 million in the first quarter of 2007. The first quarter of 2007 included \$4.0 million related to fees from the non-utilized acquisition financing bridge facility and lower interest expense resulting from the smaller debt during the Predecessor Period.

Income Taxes

Tax expense (benefit) was \$(0.7) million in the first quarter of 2008, \$(4.0) million for the period from February 14, 2007 to March 31, 2007 (Successor Period) and \$0.5 million in the period from January 1, 2007 to February 13, 2007 (Predecessor Period). The benefit in the first quarter of 2008 resulted from a \$0.9 million benefit related to our Canadian operations partially offset by a \$0.2 million expense primarily related to state tax expenses in the U.S. The Federal tax benefit in the first quarter of 2008 resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized. The benefit in the period from February 14, 2007 to March 31, 2007 (Successor Period) related to both our U.S. and Canadian operations. In the U.S., a deferred tax liability of \$3.7 million was recorded on the Merger date due to the step-up in asset value related to the Merger. In the period from February 14, 2007 to March 31, 2007 (Successor Period), a U.S. Federal tax benefit was recorded equivalent to the amount of deferred tax liability with the remainder of the benefit from the U.S. book loss being offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized. In Canada, a tax benefit of \$0.5 million was recognized in the period from February 14, 2007 to March 31, 2007 (Successor Period). Additionally, we recorded tax expense related to state income tax and FIN 48 totaling approximately \$0.2 million in the period from February 14, 2007 to March 31, 2007 (Successor Period). The expense in the period from January 1, 2007 to February 13, 2007 (Predecessor Period) primarily related to taxes on our Canadian operations and FIN 48. The Federal income tax expense recorded on our U.S. operations was offset by a reduction in our deferred tax asset valuation allowance resulting in no Federal tax expense in the U.S. for the period from January 1, 2007 to February 13, 2007 (Predecessor Period).

Liquidity and Capital Resources

As of March 31, 2008, we had \$37.1 million in consolidated cash, cash equivalents and short-term investments. Other sources of liquidity include our credit facilities described below.

U.S. Credit Facility: On February 14, 2007, we entered into an amended and restated U.S. revolving credit facility which provides for up to \$25.0 million, subject to borrowing base limitations. The borrowing base is determined from time to time based on the lesser of:

- \$25.0 million,
- 75% of our trailing twelve months' U.S. cash margin (defined as cash resales and Solutions revenue, plus gain on sale of seismic data, less cash cost of sales and cash SG&A expenses, before depreciation and amortization expense), or
- the sum of (1) 85% of eligible U.S. short term accounts (defined as accounts that are not long term accounts and within 90 days of invoice date), plus (2) the lesser of (a) 50% of eligible U.S. long term accounts (defined as accounts with contracts for periods of performance from one month to 18 months, where the account debtor makes payments over the term of the contract) and (b) \$7.5 million, plus (3) \$15.0 million.

At March 31, 2008, there was no outstanding balance under the facility and there was \$25.0 million of availability.

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Canadian Credit Facility: Our wholly owned subsidiary, Olympic Seismic Ltd. ("Olympic"), has a revolving credit facility which allows it to borrow up to \$5.0 million (Canadian), subject to an availability formula, by way of prime-based loans or letters of credit. Available borrowings under the facility are equivalent to a maximum of \$5.0 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of Olympic, less prior-ranking claims, if any, relating to inventory or accounts. As of March 31, 2008, no amounts were outstanding on this revolving line of credit and \$5.0 million (Canadian) was available on the line of credit.

9.75% Senior Unsecured Notes: On February 14, 2007, we issued in a private placement \$400.0 million aggregate principal amount of our 9.75% Senior Notes. The proceeds from the notes were used to partially fund the transactions in connection with the Merger. Interest on these senior notes is payable in cash, semi-annually in arrears on February 15 and August 15.

11.75% Senior Unsecured Notes: On July 2, 2004, we issued in a private placement \$193.0 million aggregate principal amount of our 11.75% Senior Notes. As of March 31, 2008, \$2.0 million of the 11.75% Senior Notes remain outstanding. Interest on these senior notes is payable in cash, semi-annually in arrears on January 15 and July 15.

Contractual Obligations: As of March 31, 2008, we had outstanding debt and lease obligations, with aggregate contractual cash obligations summarized as follows (in thousands):

| Contractual cash obligations | Total | Remainder of 2008 | Payments due by period | | |
|---|-------------------|-------------------------|------------------------|------------------|------------------------|
| | | | 2009-2011 | 2012-2013 | 2014 and thereafter |
| Debt obligations ⁽¹⁾⁽²⁾ | \$ 637,195 | \$ 19,672 | \$ 119,921 | \$ 78,102 | \$ 419,500 |
| Capital lease obligations ⁽²⁾ | 5,665 | 271 | 1,082 | 784 | 3,528 |
| Operating lease obligations | 5,515 | 925 | 3,574 | 1,016 | - |
| Total contractual cash obligations | \$ 648,375 | \$ 20,868 | \$ 124,577 | \$ 79,902 | \$ 423,028 |

(1) Debt obligations include the face amount of our 9.75% Senior Notes totaling \$400.0 million and the 11.75% Senior Notes totaling \$2.0 million.

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

Cash Flows from Operating Activities: Cash flows provided by (used in) operating activities were \$17.5 million, \$(4.5) million and \$5.6 million for the three months ended March 31, 2008 (Successor Period), for the period from February 14, 2007 to March 31, 2007 (Successor Period), and for the period from January 1, 2007 to February 13, 2007 (Predecessor Period), respectively. Operating cash flows for the 2008 first quarter increased from the 2007 first quarter primarily due to increased collections from our cash license resales in the 2008 period and the 2007 period including the payment of fees and expenses totaling approximately \$8.5 million related to the Merger. These increases were partially offset by an increase in interest expense paid in the first quarter of 2008.

Cash Flows from Investing Activities: Cash flows used in investing activities were \$24.3 million, \$7.7 million and \$8.4 million for the three months ended March 31, 2008 (Successor Period), for the period from February 14, 2007 to March 31, 2007 (Successor Period), and for the period from January 1, 2007 to February 13, 2007 (Predecessor Period), respectively. Cash expenditures for seismic data were \$24.2 million, \$7.7 million and \$8.4 million for the three months ended March 31, 2008 (Successor Period), for the period from February 14, 2007 to March 31, 2007 (Successor Period), and for the period from January 1, 2007 to February 13, 2007 (Predecessor Period), respectively. The increase in cash invested in seismic data for the 2008 first quarter compared to the first quarter of 2007 was primarily due to an increase in cash paid for new data acquisition projects.

Cash Flows from Financing Activities: Cash flows used in financing activities were \$43,000, \$82.4 million and \$0.4 million for the three months ended March 31, 2008 (Successor Period), for the period from February 14, 2007 to March 31, 2007 (Successor

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Period), and for the period from January 1, 2007 to February 13, 2007 (Predecessor Period), respectively. The period from February 14, 2007 to March 31, 2007 included (i) the issuance of \$400.0 million of our 9.75% Senior Notes, (ii) a cash capital contribution of \$153.5 million by ValueAct Capital in connection with the Merger, (iii) acquisition of all of our outstanding common stock (other than shares owned by ValueAct Capital and management investors) in connection with the Merger for a total of \$386.6 million, (iv) payment of \$233.4 million of principal and tender and consent fee on our 11.75% Senior Notes and (v) payment of \$16.3 million of financing fees in connection with the Merger.

Anticipated Liquidity: Our ability to make required payments of principal and interest on our 9.75% and 11.75% Senior Notes and on borrowings under our revolving credit facilities, incur additional indebtedness, and comply with our various debt covenants, will depend primarily on our ability to generate substantial operating cash flows. Over the next 12 months, we expect to obtain the funds necessary to pay our operating, capital and other expenses and principal and interest on our senior notes, borrowings under our revolving credit facilities and our other indebtedness, from our operating cash flows, cash and cash equivalents on hand and, if required, from additional borrowings (to the extent available under our revolving credit facilities and otherwise subject to the borrowing base). Our ability to satisfy our payment obligations depends substantially on our future operating and financial performance, which necessarily will be affected by, and subject to, industry, market, economic and other factors. We will not be able to predict or control many of these factors, such as economic conditions in the markets where we operate and competitive pressures.

Deferred Taxes

As of March 31, 2008, we had a net deferred tax liability of \$13.5 million attributable to our Canadian operations and \$4,000 attributable to U.S. state deferred taxes. In the U.S., we had a deferred tax asset of \$36.9 million, all of which was fully offset by a valuation allowance. The recognition of the U.S. deferred tax asset will not occur until such time that it is more likely than not that some portion or all of the deferred tax asset will be realized. As of March 31, 2008, it was more likely than not that all of the U.S. deferred tax asset will not be realized.

Section 382 of the Internal Revenue Code places a limit on certain tax attributes which were in existence prior to a greater than 50% change in ownership. The rules use a rolling three-year period for determination of such change. At February 14, 2007, we had a greater than 50% change in ownership. However, any limitations resulting from the application of the Section 382 rules are not expected to have a significant effect on us.

Off-Balance Sheet Transactions

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

Capital Expenditures

During the three months ended March 31, 2008, capital expenditures for seismic data and other property and equipment amounted to \$36.9 million. Our capital expenditures for the remainder of 2008 are presently estimated to be \$115.1 million. The first quarter 2008 actual and 2008 estimated remaining capital expenditures are comprised of the following (in thousands):

| Three Months Ended March 31, 2008 | Estimate for Remainder of 2008 | Total Estimate for 2008 |
|---|---|-------------------------------|
|---|---|-------------------------------|

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| | | | |
|---|-----------|-----------|------------|
| New data acquisition | \$ 26,531 | \$ 83,469 | \$ 110,000 |
| Cash purchases of seismic data and other | 539 | 9,461 | 10,000 |
| Non-monetary exchanges | 9,769 | 21,231 | 31,000 |
| Other property and equipment | 49 | 951 | 1,000 |
| Total capital expenditures | 36,888 | 115,112 | 152,000 |
| Less: Non-monetary exchanges | (9,769) | (21,231) | (31,000) |
| Changes in working capital | (2,869) | - | (2,869) |
| Cash investment per statement of cash flows | \$ 24,250 | \$ 93,881 | \$ 118,131 |

The capital expenditures discussed above are within the capital expenditure limitations imposed by our U.S. revolving credit facility.

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

| | Three Months Ended March 31, 2008 | Estimate for Remainder of 2008 | Total Estimate for 2008 |
|--|--------------------------------------|---|-------------------------------|
| Total capital expenditures | \$ 36,888 | \$ 115,112 | \$ 152,000 |
| Less: Non-cash additions | (9,769) | (21,231) | (31,000) |
| Cash underwriting | (14,681) | (52,319) | (67,000) |
| Capital expenditures funded from operating cash flow | \$ 12,438 | \$ 41,562 | \$ 54,000 |

As of March 31, 2008, we had capital expenditure commitments related to data acquisition projects of approximately \$25.8 million, of which we have obtained approximately \$12.8 million of cash underwriting and \$5.9 million of underwriting for non-monetary exchanges.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

We may enter into various financial instruments, such as interest rate swaps or interest rate lock agreements, to manage the impact of changes in interest rates. As of March 31, 2008, we did not have any open interest rate swap or interest rate lock agreements. Therefore, our exposure to changes in interest rates primarily results from our short-term and long-term debt with both fixed and floating interest rates.

Foreign Currency Exchange Rate Risk

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

We have not had any significant changes in our market risk exposures during the quarter ended March 31, 2008.

Item 4T. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our President and Chief Executive Officer along with our Chief Financial Officer concluded that the Company's disclosure controls and procedures as of March 31, 2008 are effective in ensuring that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1.A., 2., 3., 4. and 5. Not applicable.

Item 6. EXHIBITS

3.1 Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).

3.2 Bylaws of Seitel, Inc. (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).

31.1* Certification of Robert D. Monson pursuant to Rule 13a-14(a)/15d-14(a).

31.2* Certification of William J. Restrepo pursuant to Rule 13a-14(a)/15d-14(a).

32.1** Certification of Robert D. Monson pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.

32.2** Certification of William J. Restrepo pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes–Oxley Act of 2002.

* Filed herewith.

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

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SIGNATURES

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

SEITEL, INC.

Dated: May 13, 2008 /s/ Robert D. Monson
Robert D. Monson
Chief Executive Officer and President
Dated: May 13, 2008 /s/ William J. Restrepo
William J. Restrepo
Chief Financial Officer

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EXHIBIT

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

* Filed herewith.

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