

SEITEL INC  
Form 10-Q  
November 09, 2005

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

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FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended September 30, 2005  
OR  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Commission File Number 0-14488

**SEITEL, INC.**

(Exact name of registrant as specified in charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

76-0025431  
(IRS Employer Identification Number)

10811 S. Westview Circle  
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  No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act).

Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 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

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

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Yes [ ] No [X]

As of November 7, 2005, there were 153,692,511 shares of the Company's common stock, par value \$.01 per share outstanding.

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SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	(Unaudited) September 30, 2005	December 31, 2004
<b>ASSETS</b>		
Cash and equivalents	\$ 49,553	\$ 43,285
Restricted cash	84	162
Receivables		
Trade, net	32,500	41,164
Notes and other, net	252	2,149
Net seismic data library	122,802	151,230
Net property and equipment	9,021	11,077
Oil and gas operations held for sale	191	223
Investment in marketable securities	71	33
Prepaid expenses, deferred charges and other	14,459	14,159
Deferred income taxes	5,689	-
<b>TOTAL ASSETS</b>	<b>\$ 234,622</b>	<b>\$ 263,482</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Accounts payable and accrued liabilities	\$ 17,301	\$ 30,472
Income taxes payable	184	-
Oil and gas operations held for sale	31	28
Debt		
Senior Notes	185,152	188,726
Notes payable	388	697
Obligations under capital leases	4,078	5,294
Deferred income taxes	-	606
Deferred revenue	43,705	53,488
<b>TOTAL LIABILITIES</b>	<b>250,839</b>	<b>279,311</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Preferred stock, par value \$.01 per share; authorized 5,000,000 shares; none issued	-	-
Common stock, par value \$.01 per share; authorized 400,000,000 shares; issued and outstanding 152,716,111 at September 30, 2005 and 151,414,143 at December 31, 2004	1,527	1,514
Additional paid-in capital	237,759	235,081
Retained deficit	(257,566)	(254,384)
Deferred compensation - restricted stock	(2,334)	(1,125)
Notes receivable from officers and employees		

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for stock purchases	(1)	(21)
Accumulated other comprehensive income	4,398	3,106
TOTAL STOCKHOLDERS' DEFICIT	(16,217)	(15,829)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 234,622	\$ 263,482

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, except per share amounts)

	Three Months Ended September 30,	
	2005	2004
REVENUE	\$ 24,550	\$ 27,404
EXPENSES:		
Depreciation and amortization	19,441	90,771
Cost of sales	55	52
Selling, general and administrative expenses	7,680	7,073
	27,176	97,896
LOSS FROM OPERATIONS	(2,626)	(70,492)
Interest expense, net	(5,593)	(8,147)
Foreign currency exchange gains	1,978	1,761
Reorganization items	-	(6,383)
Loss from continuing operations before income taxes	(6,241)	(83,261)
Benefit for income taxes	(3,878)	(2,583)
Loss from continuing operations	(2,363)	(80,678)
Income from discontinued operations	22	89
NET LOSS	\$ (2,341)	\$ (80,589)
Basic and diluted loss per share:		
Loss from continuing operations	\$ (.02)	\$ (.76)
Income from discontinued operations	-	-
Net loss	\$ (.02)	\$ (.76)
Weighted average number of common and common equivalent shares - basic and diluted	152,745	106,289

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, except per share amounts)

	Nine Months Ended September 30,	
	2005	2004
REVENUE	\$ 107,817	\$ 103,764
EXPENSES:		
Depreciation and amortization	76,363	139,193
Cost of sales	143	261
Selling, general and administrative expenses	23,018	23,287
	99,524	162,741
INCOME (LOSS) FROM OPERATIONS	8,293	(58,977)
Interest expense, net	(17,572)	(18,415)
Foreign currency exchange gains	1,161	953
Loss on sale of security	(11)	-
Reorganization items	-	(12,415)
Loss from continuing operations before income taxes	(8,129)	(88,854)
Benefit for income taxes	(4,906)	(2,272)
Loss from continuing operations	(3,223)	(86,582)
Income from discontinued operations	41	133
NET LOSS	\$ (3,182)	\$ (86,449)
Basic and diluted loss per share:		
Loss from continuing operations	\$ (.02)	\$ (1.65)
Income from discontinued operations	-	-
Net loss	\$ (.02)	\$ (1.65)
Weighted average number of common and common equivalent shares - basic and diluted	152,294	52,544

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 INCOME (LOSS) (Unaudited)  
 (In thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Net loss	\$ (2,341)	\$ (80,589)	\$ (3,182)	\$ (86,449)
Unrealized gains (losses) on securities held as available for sale				
Unrealized net holding gains (losses) arising during period	30	6	40	(73)
Less: Reclassification adjustment for losses included in income	-	-	11	-
Foreign currency translation adjustments	1,424	882	1,241	108
Comprehensive loss	\$ (887)	\$ (79,701)	\$ (1,890)	\$ (86,414)

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 STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Earnings (Deficit)	Treasury Stock		Deferred Compensation - Restricted Stock	Notes Receivable from Officers & Employees	Accumulated Other Comprehensive Income (Loss)
	Shares	Amount			Shares	Amount			
Balance, December 31, 2003	25,811,601	\$ 258	\$ 166,630	\$ (159,731)	(435,918)	\$ (5,373)	\$ -	\$ (124)	\$ 2,062
Proceeds from issuance of common stock, net of									
expenses	125,000,000	1,250	53,639	-	-	-	-	-	-
Issuance of restricted stock	1,038,460	10	1,137	-	-	-	(1,147)	-	-
Issuance of common stock warrant	-	-	16,489	-	-	-	-	-	-
Amortization of deferred compensation cost	-	-	-	-	-	-	22	-	-
Retirement of treasury shares	(435,918)	(4)	(2,814)	(2,555)	435,918	5,373	-	-	-
Payments received on notes receivable from officers and employees	-	-	-	-	-	-	-	103	-
Net loss	-	-	-	(92,098)	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-	-	1,106
Unrealized loss on marketable securities	-	-	-	-	-	-	-	-	(62)
Balance, December 31, 2004	151,414,143	1,514	235,081	(254,384)	-	-	(1,125)	(21)	3,106
Issuance of restricted stock	1,532,032	15	2,054	-	-	-	(2,069)	-	-
Cancellation of restricted stock	(230,064)	(2)	(302)	-	-	-	304	-	-
Amortization of deferred compensation costs	-	-	-	-	-	-	556	-	-
Accrual for restricted stock issuance under performance									

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plan	-	-	904	-	-	-	-	-	-
Expense related to stock options	-	-	22	-	-	-	-	-	-
Payments received on notes receivable from officers and employees	-	-	-	-	-	-	-	20	-
Net loss	-	-	-	(3,182)	-	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-	-	1,241
Unrealized gain on marketable securities	-	-	-	-	-	-	-	-	40
Reclassification adjustment for losses on marketable securities included in income	-	-	-	-	-	-	-	-	11
Balance, September 30, 2005 (unaudited)	152,716,111	\$ 1,527	\$ 237,759	\$ (257,566)	-	\$ -	\$ (2,334)	\$ (1)	\$ 4,398

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)

	Nine Months Ended September 30,	
	2005	2004
Cash flows from operating activities:		
Reconciliation of net loss to net cash provided by operating activities of continuing operations:		
Net loss	\$ (3,182)	\$ (86,449)
Income from discontinued operations, net of tax	(41)	(133)
Depreciation and amortization	76,363	139,193
Deferred income tax benefit	(5,512)	(1,193)
Amortization of deferred financing costs	1,115	1,657
Amortization of debt discount	426	105
Amortization of deferred compensation	556	2
Allowance for collection of trade receivables	10	75
Non-cash compensation expense	904	-
Non-cash expense related to stock options	22	-
Non-cash sales	(12,404)	(14,751)
Loss on sale of security	11	-
Loss on sale of property and equipment	1	-
Decrease in receivables	10,485	304
Decrease in other assets	1,385	171
Decrease in deferred revenue	(4,275)	(1,318)
Decrease in accounts payable and other liabilities	(8,942)	(15,969)
Net cash provided by operating activities of continuing operations	56,922	21,694
Cash flows from investing activities:		
Cash invested in seismic data	(43,614)	(38,836)
Cash paid to acquire property and equipment	(670)	(889)
Cash received from disposal of property and equipment	13	-
Cash from sale of security	4	-
Decrease in restricted cash	78	41
Net cash used in investing activities of continuing operations	(44,189)	(39,684)
Cash flows from financing activities:		
Proceeds from senior note offering, net	-	182,858
Principal payments on senior notes	(4,000)	(255,000)
Principal payments on notes payable	(309)	(5,439)
Principal payments on capital lease obligations	(1,320)	(1,061)
Proceeds from issuance of common stock	-	75,000
Costs of debt and equity transactions	(185)	(5,463)
Payments on notes receivable from officers and employees	38	215
Net cash used in financing activities of continuing operations	(5,776)	(8,890)
Effect of exchange rate changes	(840)	(856)
Net cash provided by discontinued operations	151	1,298
Net increase (decrease) in cash and equivalents	6,268	(26,438)
Cash and cash equivalents at beginning of period	43,285	44,362
Cash and cash equivalents at end of period	\$ 49,553	\$ 17,924

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)

	Nine Months Ended September 30,	
	2005	2004
Supplemental disclosure of cash flow information:		
Cash paid during period for:		
Interest	\$ 23,818	\$ 25,135
Income taxes	\$ 8	\$ 166
Supplemental schedule of non-cash investing and financing activities:		
Additions to seismic data library	\$ 6,640	\$ 8,917

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)**  
**September 30, 2005**

**NOTE A-BASIS OF PRESENTATION**

The accompanying unaudited financial statements of Seitel, Inc. and its subsidiaries (the "Company") have been prepared in accordance with generally accepted accounting principles for interim financial information and in accordance 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 accruals) considered necessary for a fair presentation have been included. The condensed consolidated balance sheet of the Company as of December 31, 2004, has been derived from the audited balance sheet of the Company as of that date. Operating results for the nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. These unaudited financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2004 contained in the Company's Annual Report filed on Form 10-K with the Securities and Exchange Commission ("SEC").

**Contractual Obligations:** As of September 30, 2005, the Company had approximately \$337.0 million of outstanding debt and lease obligations, with aggregate contractual cash obligations summarized as follows (in thousands):

Contractual cash obligations	Total	Remainder of 2005	Payments due by period		
			2006 - 2008	2009- 2010	2011 and thereafter
Debt obligations <sup>(1) (2)</sup>	\$ 322,800	\$ 19	\$ 66,841	\$ 44,559	\$ 211,381
Capital lease obligations <sup>(2)</sup>	6,906	1,212	918	639	4,137
Operating lease obligations	7,294	243	3,199	2,019	1,833
Total contractual cash obligations	\$ 337,000	\$ 1,474	\$ 70,958	\$ 47,217	\$ 217,351

(1) Debt obligations include the face amount of the 11.75% senior notes totaling \$189.0 million.

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

**NOTE B-REORGANIZATION PROCEEDINGS AND PLAN OF REORGANIZATION**

On July 21, 2003 (the "Petition Date"), Seitel, Inc. and its wholly owned U.S. subsidiaries filed voluntary petitions for relief under Chapter 11 of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the District of Delaware (the "Bankruptcy Court") (Chapter 11 Case No. 03-12227 (PJW)). Seitel, Inc. and its 30 U.S. subsidiaries that filed petitions are collectively referred to herein as the "Debtors" and the Chapter 11 Cases of these entities are collectively referred to herein as the "Cases." By order of the Bankruptcy Court dated July 25, 2003, the Cases were jointly administered. From the Petition Date until the effective date of its plan of reorganization, the Debtors operated their business and managed their properties as "Debtors-in-possession" pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. No trustee was appointed in the Cases.

None of the Company's direct or indirect subsidiaries or affiliates incorporated in Canada or other non-U.S. jurisdictions filed Chapter 11. Such non-filing, non-U.S. based subsidiaries and affiliates are called "non-Debtors".

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On January 17, 2004, the Debtors filed with the Bankruptcy Court the third amended joint plan of reorganization (the "Plan"), which subsequently was amended on February 6, 2004. The Plan was supported by the Official Committee of Equity Holders of Seitel, Inc., as well as Berkshire Hathaway, Inc. and Ranch Capital L.L.C., holders of \$255 million aggregate principal amount of the Company's old senior unsecured notes, and was accepted by the holders of more than 99.6% of the shares of the Company's common stock who voted on the Plan. On March 18, 2004, the Bankruptcy Court confirmed the Plan and on July 2, 2004, the Plan became effective.

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In accordance with the Plan:

- All of the Company's outstanding allowed pre-petition claims were fully paid, in cash, together with post-petition interest, except with respect to any disputed claims and any claims that were reinstated under the Plan.
- On July 2, 2004, all 25,375,683 outstanding shares of the Company's common stock were cancelled and converted into:
- 25,375,683 shares of reorganized common stock, representing all of the outstanding shares of reorganized common stock on the effective date of the Plan, and
- warrants to purchase an aggregate of 125,000,000 shares of reorganized common stock ("Stockholder Warrants") at an exercise price of \$.60 per share exercisable through August 2, 2004.
- To the extent the Stockholder Warrants were not exercised in full prior to August 2, 2004, Mellon HBV Alternative Strategies LLC ("Mellon HBV") agreed (for itself and on behalf of certain of its affiliated funds and managed accounts, collectively the "Standby Purchasers") to purchase, at \$.60 per share, after the Stockholder Warrants expired on August 2, 2004 but in no event later than August 12, 2004 (the "Guaranty Performance Date"), all shares of reorganized common stock not purchased upon the exercise of the Stockholder Warrants.
- As compensation for Mellon HBV's obligation to act as Standby Purchasers, the Company issued to them on August 12, 2004 warrants to purchase 15,037,568 shares of the Company's reorganized common stock (the "Standby Purchaser Warrants"). The Standby Purchaser Warrants are exercisable until August 12, 2011 at an initial exercise price of \$.72 per share, subject to adjustment upon the occurrence of certain events.

On August 2, 2004, the expiration date of the warrants, 24,183,206 Stockholder Warrants were exercised and the Company issued 119,126,154 shares of common stock for \$0.60 per share or \$71,475,693 in the aggregate. On August 12, 2004, Mellon HBV purchased from the Company, at \$0.60 per share, 5,873,846 shares of common stock not purchased as a result of the exercise of Stockholder Warrants, for an aggregate of \$3,524,307. In total, the Company received \$75 million of gross proceeds through the exercise of Stockholder Warrants and the sale of standby purchase shares to Mellon HBV.

On July 2, 2004, the Company completed the private placement of \$193.0 million face value 11.75% new senior notes due 2011 for proceeds of \$188.5 million which were placed in escrow pending the completion of the issuance of common stock pursuant to the Plan, among other things. On August 12, 2004, the proceeds from the debt offering, net of underwriters' fees, of \$182.9 million were released from escrow to the Company.

The Company utilized the net proceeds from the exercise of Stockholder Warrants and the sale of shares to Mellon HBV, the net proceeds from the sale of the new senior notes along with available cash to pay, in full, allowed pre-petition claims together with post-petition interest totaling approximately \$291.0 million. The payment of allowed pre-petition claims was completed on August 13, 2004.

Reorganization items under the Cases are expense or income items that were incurred or realized by the Debtors because they were in reorganization. These items include, but are not limited to, professional fees and similar types of expenses incurred directly related to the Cases, loss accruals or gains or losses resulting from activities of the reorganization process, and interest earned on cash accumulated by the Debtors because they were not paying their pre-petition liabilities. For the three and nine months ended September 30, 2004, reorganization items were as follows (in thousands):

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	Three Months Ended	Nine Months Ended
	September 30, 2004	September 30, 2004
Professional fees	\$ 3,918	\$ 9,227
Interest Income	(21)	(98)
Accelerated amortization of deferred debt issue costs	-	1,007
Reduction of pre-petition liabilities	(2)	(517)
Other	2,488	2,796
Total	\$ 6,383	\$ 12,415

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## 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 process 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 activity 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. The customers also receive access to and use of the newly acquired, processed data.

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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.

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**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.
- 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 sign a license agreement governing the use of data;
- the specific payment terms, generally ranging from 30 days to 18 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 license contracts, review and possession license contracts 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 for licensing.



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**Revenue from Non-Monetary Exchanges**

In certain cases, the Company will take ownership of a customer's seismic data or revenue interest (collectively referred to as "data") in exchange for a non-exclusive license to selected seismic data from the Company's library. Occasionally, in connection with specific data acquisition contracts, the Company receives both cash and ownership of seismic data from the customer as consideration for the underwriting of new data acquisition. These exchanges are referred to as non-monetary exchanges. A non-monetary exchange 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.

This exchange is not a "like kind" exchange because the Company receives ownership of distinct data to be added to its library, and this data may be relicensed by the Company on a continuing basis, in exchange for a data license. Once data selection or creation is completed, the exchange represents the culmination of the earnings process with the customer and is not merely an exchange between two seismic companies.

In non-monetary exchange transactions, the Company records a data library asset for the data received at the time the contract is entered into and recognizes revenue on the transaction in equal value in accordance with its policy on revenue from data licenses, that is, when the seismic 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 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 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 for licenses in the United States and for the prior twelve months for licenses in Canada are evaluated. In evaluating the range of cash transactions, the Company does not consider transactions that are disproportionately high or low.
- Second, the Company considers the value of the data 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 as well as the cost that would be required to create the data. In the United States, the Company applies a limitation on the value it assigns per square mile on the data exchanged. In Canada, in the event of a difference greater than 2% between the value of the license granted and the value of the data received, the Company assigns the lower value to the exchange.
- Third, the Company obtains concurrence from an independent third party on the portfolio of all non-monetary exchanges 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):

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Seismic data library additions	\$ 1,851	\$ 687	\$ 6,640	\$ 8,836
Revenue recognized based on selections of data	678	3,784	10,472	12,800
Revenue recognized related to acquisition contracts	1,235	32	1,932	1,870

**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.



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**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 \$433,000 and \$446,000 and for the three months ended September 30, 2005 and 2004, respectively, and \$1,274,000 and \$1,319,000 for the nine months ended September 30, 2005 and 2004, respectively.

*Data Library Amortization*

The Company amortizes its seismic data library using the greater of the amortization that would result from the application of the income forecast method subject to a minimum amortization rate or a straight-line basis over the useful life of the data. Effective July 1, 2004, the estimated useful life of the Company's seismic data was changed to four years (see "*Revision of Useful Life*" below). For existing surveys less than four years of age at July 1, 2004, the revision in useful life is being recognized prospectively over the remaining useful life of each seismic survey. With respect to each survey in the data library, the useful life 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. Effective July 1, 2004, 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, and if required under Statement of Financial Accounting Standards ("SFAS") No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets," records an impairment charge with respect to such data. See discussion on "*Seismic Data Library Impairment*" below.

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The actual rate of amortization depends on the specific seismic surveys licensed and selected by the Company's customers during the period. As of October 1, 2005, the amortization rates for all components are 70%. Additionally, certain library components have been fully amortized; consequently, no amortization expense is required on revenue recorded for these library components.

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The greater of the income forecast or straight-line amortization policy is applied quarterly on a cumulative basis at the individual survey level. Under this policy, the Company first records amortization using the income forecast method. The cumulative amortization recorded for each survey is then compared with the cumulative straight-line amortization. If the cumulative straight-line amortization is higher for any specific survey, additional amortization expense is recorded, resulting in accumulated amortization being equal to the cumulative straight-line amortization for such survey. (See "*Revision of Useful Life*" below.) 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.

*Revision of Useful Life*

The Company reevaluated its estimate of the useful life of its seismic data library and, effective July 1, 2004, revised the estimated useful life of all of its seismic data library to four years from five years for offshore data and from seven years for onshore data. In making this decision, the Company considered a number of factors, including, among others, the useful lives used by others in the industry, additional amortization charges recorded, previous impairment charges recorded and seismic industry conditions. With respect to each survey in the data library, the useful life policy is applied from the time such survey is available for licensing to customers generally, since some data in the library may not be licensed until an exclusivity period (usually six months) has lapsed. For existing surveys less than four years of age at July 1, 2004, the revision in useful life is being recognized prospectively over the remaining useful life of each seismic survey.

Since certain surveys within the seismic data library were older than the revised estimate of useful life, the Company recorded additional amortization expense of \$59.1 million on July 1, 2004, the date the revision became effective. The effect from this change on reported results was a reduction in net income of \$3.4 million, or \$.02 per share, for the nine months ended September 30, 2005.

*Seismic Data Library Impairment*

The Company evaluates its seismic data library 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) value-added products, (c) ocean bottom cable data, (d) shelf data, and (e) deep water data; (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 in accordance with SFAS No. 144. The Company evaluates its seismic data library 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 should be evaluated for impairment. In evaluating sales performance of each component, the Company generally considers three consecutive quarters of actual performance below forecasted sales, among other things, to be an indicator of potential impairment.

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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 and expected changes in technology. The cash flow estimates exclude expected future revenues attributable to non-monetary data exchanges and future data creation projects.

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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 further impairment losses relative to its seismic data library, which could be material to any particular reporting period.

**NOTE E-DISCONTINUED OPERATIONS**

In June 2002, the Company's Board of Directors unanimously adopted a plan to dispose of the Company's oil and gas operations by sale. Accordingly, the Company's consolidated financial statements report the oil and gas operations as discontinued operations. In January 2004, the Company sold a portion of its remaining oil and gas assets for approximately \$1,287,000. The Company continues to market its remaining oil and gas assets for sale.

Revenue from discontinued operations was \$49,000 and \$54,000 for the three months ended September 30, 2005 and 2004, respectively, and \$136,000 and \$164,000 for the nine months ended September 30, 2005 and 2004, respectively. Pre-tax income from discontinued operations was \$22,000 and \$89,000 for the three months ended September 30, 2005 and 2004, respectively, and \$41,000 and \$133,000 for the nine months ended September 30, 2005 and 2004, respectively.

The Company uses the full-cost method of accounting for its oil and gas operations.

**NOTE F-INCOME TAXES**

As of September 30, 2005, the Company has a net deferred tax asset of \$5.7 million attributable to its Canadian operations. During 2005, the Company determined that it was more likely than not that the deferred tax asset related to its Canadian operations would be realized; thus, the valuation allowance previously provided against this deferred tax asset was reversed resulting in the net deferred tax asset. In the U.S., the Company has a net deferred tax asset of \$92.7 million, all of which is fully offset by a valuation allowance. Additionally, in Canada, the Company has a remaining net deferred tax asset of \$4,000, all of which is fully offset by a valuation allowance. The recognition of such remaining deferred tax assets 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 September 30, 2005, the recovery of such remaining deferred tax assets is not assured of realization.

The following is the detail of income tax expense (benefit) for the three and nine months ended September 30, 2005 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2005		September 30, 2005	
	U.S.	Canada	U.S.	Canada
Tax expense (benefit) resulting from:				
Current operations	\$ 207	\$ (324)	\$ 230	\$ 1,040
Reversal of valuation allowance	-	(3,761)	-	(6,176)
Total tax expense (benefit)	\$ 207	\$ (4,085)	\$ 230	\$ (5,136)

**NOTE G-DEBT**

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

	September 30, 2005	December 31, 2004
11.75% Senior Notes	\$ 189,000	\$ 193,000
Revolving Credit Facility	-	-
Subsidiary revolving line of credit	-	-
Note payable to former executive	388	415
Term loans	-	282
	189,388	193,697
Less: Debt discount	(3,848)	(4,274)
	\$ 185,540	\$ 189,423

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**11.75% Senior Notes:** On July 2, 2004, the Company completed a private placement of Senior Unsecured Notes ("Senior Notes") in the aggregate principal amount of \$193.0 million. The Senior Notes were offered at a discount of 2.325% from their principal amount at maturity to yield 12.25% and resulted in cash proceeds, before offering expenses, of approximately \$188.5 million received by the Company on August 12, 2004, following release of the funds from escrow. Interest on the Senior Notes is payable semi-annually on January 15 and July 15 at the annual rate of 11.75%. The Senior Notes mature on July 15, 2011. The Senior Notes are unsecured and are guaranteed by substantially all of the Company's U.S. subsidiaries on a senior basis. The Senior Notes contain restrictive covenants that limit the Company's ability to, among other things, incur additional indebtedness, make capital expenditures in excess of specified amounts, pay dividends and complete mergers, acquisition and sales of assets. As required by their terms, the Senior Notes were exchanged for senior notes of like amounts and terms in a publicly registered exchange offer in February 2005.

From time to time on or before July 15, 2007, the Company may redeem up to 35% of the aggregate principal amount of the Senior Notes with the net proceeds of equity offerings at a redemption price equal to 111.75% of the principal amount, plus accrued and unpaid interest. 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 will be required to use 50% of the excess cash flow to fund an offer to repurchase the 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 will be 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 will be 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. Because of excess cash flow generated for the year ended December 31, 2004, in the first quarter of 2005 the Company made a repurchase offer for principal of up to \$4.8 million to the holders of its Senior Notes. \$4.0 million principal amount of Senior Notes were tendered, and the Company made payment, including accrued interest, of \$4.1 million on May 5, 2005. Upon a change of control (as defined in the indenture), each holder of the 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 April 16, 2004, the Company entered into a revolving credit facility with Wells Fargo Foothill, Inc., as lender, to which a revolving loan commitment of \$30 million, subject to borrowing base limitations, was made available on July 2, 2004. Interest is payable at an applicable margin above either LIBOR or the prime rate. Borrowings under the revolving credit facility are 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 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 and the ability to grant additional liens. The revolving credit facility requires the payment of an unused line fee of .375% per annum payable in arrears.

**Subsidiary Revolving Line of Credit:** The Company's wholly owned subsidiary, Olympic Seismic Ltd. ("Olympic"), has a revolving credit facility, which allows it to borrow up to \$5 million (Canadian) subject to an availability formula by way of prime-based loans, bankers' acceptances or letters of credit. The rate applicable to borrowings is the bank's prime rate plus 0.35% per annum and the bankers' acceptances is 1.50% 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, SEIC Trust Administration Ltd. (as sole trustee of, and for and on behalf of, SEIC Business Trust) and SEIC Holdings, Ltd., but is not guaranteed by Seitel, Inc. or any of its other U.S. subsidiaries. However, all intercompany debt owing by Olympic, SEIC Trust Administration Ltd., SEIC Business Trust or SEIC Holdings, Ltd. to Seitel, SEIC Partners' Limited Partnership or to any Seitel U.S. subsidiary (approximately \$37.9 million (Canadian) at September 30, 2005) has been subordinated to the repayment of the revolving credit facility. Available borrowings under the facility are equivalent to a maximum of \$5 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of SEIC Trust Administration, 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 consisting of payments of \$6,417 per month for 36 months commencing June 2003, and payments of \$6,000 per month for 84 months commencing June 2006. The note is non-interest bearing. The note is guaranteed by Olympic.

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**Other:** In 2004, the Company entered into a short-term financing arrangement totaling \$361,000 in order to finance certain of its insurance premiums. The loan was paid in full in the third quarter of 2005.

**NOTE H-EARNINGS PER SHARE**

In accordance with SFAS No. 128, "Earnings per Share," basic earnings per share is computed based on the weighted average shares of common stock outstanding during the periods. Diluted earnings per share is computed based on the weighted average shares of common stock plus the assumed issuance of common stock for all potentially dilutive securities. For the three and nine months ended September 30, 2005 and 2004, the Company did not have any potentially dilutive securities. A weighted average number of options and warrants to purchase 6,878,000, 1,482,000, 6,569,000 and 2,574,000 shares of common stock were outstanding during the third quarter of 2005 and 2004 and the nine months ended September 30, 2005 and 2004, respectively, but were not included in the computation of diluted per share income because they were antidilutive.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2005	2005	2004
Net loss:				
As reported	\$ (2,341)	\$ (80,589)	\$ (3,182)	\$ (86,449)
Less: Total stock-based employee expense determined under SFAS No. 123, net of tax	-	(41)	-	(1,062)
Pro forma	\$ (2,341)	\$ (80,630)	\$ (3,182)	\$ (87,511)
Basic and diluted income (loss) per share:				
As reported	\$ (.02)	\$ (.76)	\$ (.02)	\$ (1.65)
Pro forma	\$ (.02)	\$ (.76)	\$ (.02)	\$ (1.67)

For issuances of restricted stock to employees, compensation expense is determined as the difference between the purchase price, if any, and the fair market value of such stock on the date of issuance. Such compensation expense is recognized pro-rata over the vesting periods of the awards.

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

The Company had restricted cash at September 30, 2005 and December 31, 2004 of \$84,000 and \$162,000, respectively, related to collateral on a seismic operations bond.

During the nine months ended September 30, 2005 and 2004, the Company had non-cash additions to its seismic data library comprised of the following (in thousands):

	Nine Months Ended September 30,
	2005
	2004

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Non-monetary exchanges	\$	6,640	\$	8,836
Offset of certain data creation costs against amounts due from the customer for data license fees and certain data creation costs that were paid to the Company's vendors from an escrow account maintained jointly by the Company and its customer		-		81
Total non-cash additions	\$	6,640	\$	8,917



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Non-cash sales consisted of the following for the nine months ended September 30, 2005 and 2004 (in thousands):

	Nine Months Ended September 30,	
	2005	2004
Acquisition revenue on underwriting from non-monetary exchange contracts	\$ 1,932	\$ 1,870
Licensing revenue from selections on non-monetary exchange contracts	10,472	12,800
Offset of certain data creation costs against amounts due from the customer for data license fees and certain data creation costs that were paid to the Company's vendors from an escrow account maintained jointly by the Company and its customer	-	81
Total non-cash revenue	\$ 12,404	\$ 14,751

Operating cash flows resulting from reorganization items for the nine months ended September 30, 2004 included the following (in thousands):

	Nine Months Ended September 30, 2004
Interest received on cash accumulated because of the Chapter 11 proceeding	\$ (98)
Professional and other fees paid for services rendered in connection with the Chapter 11 proceeding	14,176
	\$ 14,078

**NOTE J-COMMITMENTS AND CONTINGENCIES**Litigation

See "Note B - Reorganization Proceedings and Plan of Reorganization" for a detailed discussion of the Company's Chapter 11 reorganization and the Plan.

The Company and certain of its former and current officers and directors were named as defendants in eleven lawsuits brought as class actions alleging violations of the federal securities laws, all of which were consolidated by an Order entered August 7, 2002, under Cause No. 02-1566, styled *In re Seitel, Inc. Securities Litigation*, in the United States District Court for the Southern District of Texas. The Court appointed a lead plaintiff and lead counsel for plaintiffs, who subsequently filed a consolidated amended complaint, which added the Company's previous auditors, Ernst & Young LLP, as a defendant. The consolidated amended complaint alleged that during a proposed class period of May 5, 2000 through April 1, 2002, the defendants violated sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 by overstating revenues in violation of generally accepted accounting principles. The plaintiffs sought an unspecified amount of actual and exemplary damages, costs of court, pre- and post-judgment interest and attorneys' and experts' fees. The Company, its named current and/or former directors and officers, and the class representative entered into a memorandum of understanding, which contemplated allowance of a "class claim" to assert the rights of the class in the Chapter 11 Cases and an ultimate settlement for cash to be funded out of the Debtors' cash and directors' and officers' insurance policies. The memorandum of understanding was approved upon notice and a hearing by order of the Bankruptcy Court dated December 10, 2003. Pursuant thereto, the Company funded its portion of the settlement amount (\$980,000) to an escrow account in 2003. The parties have since finalized their settlement agreement, which contains terms

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substantially in accordance with the terms of the memorandum of understanding. On December 29, 2004, the Bankruptcy Court granted Seitel's motion for approval of the parties' full settlement agreement. By order dated July 29, 2005, the United States District Court approved the parties' settlement. The carrier of the Company's directors' and officers' insurance policies has timely funded the balance of the settlement (its portion), in accordance with the terms of the order. The action is expected to continue as between the class representative and Ernst & Young LLP.

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On July 18, 2002, Paul Frame, the Company's former chief executive officer, sued the Company in the 113<sup>th</sup> 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. The Company has requested and is investigating information with respect to Mr. Frame and the nature and extent of his assets for purposes of analyzing whether to continue pursuit of the civil litigation described above and potential debt collection. The parties filed a joint motion to abate the above proceedings for a limited time.

The Company and its subsidiary, Seitel Data, Ltd., were parties to a class action lawsuit for geophysical trespass entitled *Juan O. Villarreal v. Grant Geophysical, Inc.*, et al., Cause No. DC-00-214, in the 229<sup>th</sup> District Court of Starr County, Texas that was initiated on April 1, 2002. The plaintiffs sued a number of defendants, including the Company and Seitel Data, Ltd. The plaintiffs alleged that certain defendants conducted unauthorized 3-D seismic exploration of the mineral interests by obtaining seismic data on adjoining property, and sold the information obtained to other defendants. The plaintiffs sought an unspecified amount of damages. All defendants obtained summary judgments dismissing the plaintiffs' claims, and the plaintiffs appealed to the San Antonio Court of Appeals under Cause No. 04-02-00674-CV. During the pendency of the Company's bankruptcy proceedings, the San Antonio Court of Appeals affirmed the trial court's decision as to the Company's co-defendants and stayed the appeal as to the Company. The Texas Supreme Court denied plaintiffs Petition for Certiorari, refusing to hear the matter. The plaintiff filed an unliquidated claim (amount unspecified) in the Chapter 11 Cases. The Company objected to this claim, which was withdrawn by order of the Bankruptcy Court dated June 29, 2005. This June 2005 order includes the plaintiffs' agreement to dismiss their appeal, and the parties are preparing an agreed order of dismissal to be filed with the San Antonio Court of Appeals.

The Company sued its former in-house counsel and law firm in *Seitel, Inc. v. Cynthia Moulton and Franklin Cardwell & Jones, P.C.*, Cause No. 2003-09151 in the 127<sup>th</sup> Judicial District Court of Harris County, Texas. The suit alleges negligence, breach of fiduciary duty and breach of contract in relation to Seitel's engagement of the law firm Franklin Cardwell & Jones to manage its legal matters and surrounding the settlement of a personal lawsuit against the former chief executive officer and other aspects of representation. The Company seeks recovery for fees paid of approximately \$750,000, disgorgement of attorneys' fees, and related expenses. Initial pleadings were filed on February 21, 2003 and discovery is underway. On July 29, 2005, the parties' attempt at mediation was not successful. The trial, originally set for October 2005, has been reset to February 20, 2006. The defendants have joined Paul Frame and Kevin Fiur, both of whom were the Company's former chief executive officers, in the action.

In addition to the lawsuits 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, uninsured 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.

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 September 30, 2005, the Company did not have any amounts accrued related to the claims set forth above, as all amounts have been paid or the Company believes it is not probable that any amounts will be paid relative to the litigation and claims set forth above. However, if one or more of the parties were to prevail against the Company in one or more of the cases described above that have not been settled, the amounts of any judgments against the Company or settlements that the Company may enter into, could be material to the Company's financial statements for any particular reporting

period.

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**NOTE K-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION**

On July 2, 2004, Seitel, Inc. (the "Parent") completed a private placement of 11.75% Senior Unsecured Notes in the aggregate principal amount of \$193.0 million of which \$189.0 million was outstanding at September 30, 2005. Seitel, Inc.'s payment obligations under the Senior Notes are jointly and severally guaranteed by certain of its 100% owned U.S. subsidiaries ("Guarantor Subsidiaries"). All subsidiaries of Seitel, Inc. that do not guaranty the 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 Condensed 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 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 September 30, 2005 and December 31, 2004, and the consolidating condensed statements of operations and statements of cash flows for the nine months ended September 30, 2005 and 2004 of (a) the Parent; (b) the Guarantor Subsidiaries; (c) the Non-Guarantor Subsidiaries; (d) elimination entries; and (e) the Parent, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis.

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



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## CONSOLIDATING CONDENSED BALANCE SHEET

As of September 30, 2005

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>					
Cash and equivalents	\$ -	\$ 38,337	\$ 11,216	\$ -	\$ 49,553
Restricted cash	-	84	-	-	84
Receivables					
Trade, net	-	22,728	9,772	-	32,500
Notes and other, net	59	21	172	-	252
Intercompany receivables (payables)	262,634	(247,776)	(14,858)	-	-
Investment in subsidiaries	(95,990)	244,469	48,125	(196,604)	-
Net seismic data library	-	75,691	49,318	(2,207)	122,802
Net other property and equipment	-	4,934	4,087	-	9,021
Oil and gas operations held for sale	-	191	-	-	191
Investment in marketable securities	-	-	71	-	71
Prepaid expenses, deferred charges and other assets	6,705	7,021	733	-	14,459
Deferred income taxes	-	-	5,689	-	5,689
<b>TOTAL ASSETS</b>	<b>\$ 173,408</b>	<b>\$ 145,700</b>	<b>\$ 114,325</b>	<b>\$ (198,811)</b>	<b>\$ 234,622</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
<b>EQUITY</b>					
Accounts payable and accrued liabilities	\$ 7,384	\$ 6,500	\$ 3,417	\$ -	\$ 17,301
Income taxes payable	-	-	184	-	184
Oil and gas operations held for sale	-	31	-	-	31
Senior Notes	185,152	-	-	-	185,152
Notes payable	388	-	-	-	388
Obligations under capital leases	1,107	-	2,971	-	4,078
Deferred revenue	-	34,755	8,950	-	43,705
<b>TOTAL LIABILITIES</b>	<b>194,031</b>	<b>41,286</b>	<b>15,522</b>	<b>-</b>	<b>250,839</b>
<b>STOCKHOLDERS' EQUITY</b>					
Common stock	1,527	-	-	-	1,527
Additional paid-in capital	237,759	-	-	-	237,759
Parent investment	-	209,770	27,632	(237,402)	-
Retained earnings (deficit)	(257,566)	(105,346)	66,765	38,581	(257,566)
Deferred compensation - restricted stock	(2,334)	-	-	-	(2,334)
Notes receivable from officers and employees	-	(1)	-	-	(1)
Accumulated other comprehensive income (loss)	(9)	(9)	4,406	10	4,398
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>(20,623)</b>	<b>104,414</b>	<b>98,803</b>	<b>(198,811)</b>	<b>(16,217)</b>

TOTAL LIABILITIES AND

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STOCKHOLDERS' EQUITY	\$	173,408	\$	145,700	\$	114,325	\$	(198,811)	\$	234,622
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**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS**

For the Nine Months Ended September 30, 2005

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$ -	\$ 70,315	\$ 40,772	\$ (3,270)	\$ 107,817
EXPENSES:					
Depreciation and amortization	-	48,208	28,428	(273)	76,363
Cost of sales	-	123	20	-	143
Selling, general and administrative expenses	1,504	14,836	9,948	(3,270)	23,018
	1,504	63,167	38,396	(3,543)	99,524
INCOME (LOSS) FROM OPERATIONS	(1,504)	7,148	2,376	273	8,293
Interest expense, net	(1,517)	(14,696)	(1,359)	-	(17,572)
Foreign currency exchange gains	-	5	1,156	-	1,161
Loss on sale of security	-	-	(11)	-	(11)
Dividend income from subsidiary	-	96	-	(96)	-
Income (loss) from continuing operations before income taxes and equity in income of subsidiaries	(3,021)	(7,447)	2,162	177	(8,129)
Provision (benefit) for income taxes	-	230	(5,136)	-	(4,906)
Equity in income (loss) of subsidiaries	(161)	7,306	-	(7,145)	-
Income (loss) from continuing operations	(3,182)	(371)	7,298	(6,968)	(3,223)
Income from discontinued operations, net of tax	-	41	-	-	41
NET INCOME (LOSS)	\$ (3,182)	\$ (330)	\$ 7,298	\$ (6,968)	\$ (3,182)

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**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

**For the Nine Months Ended September 30, 2005**

(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 of					
continuing operations	\$ (24,959)	\$ 51,903	\$ 29,978	\$ -	\$ 56,922
Cash flows from investing activities:					
Cash invested in seismic data	-	(21,281)	(22,333)	-	(43,614)
Cash paid to acquire property					
and equipment	-	(494)	(176)	-	(670)
Cash received from disposal of					
property					
and equipment	-	-	13	-	13
Cash from sale of security	-	-	4	-	4
Decrease in restricted cash	-	78	-	-	78
Net cash used in investing					
activities					
of continuing operations	-	(21,697)	(22,492)	-	(44,189)
Cash flows from financing activities:					
Principal payments on senior				-	
notes	(4,000)	-	-	-	(4,000)
Principal payments on notes					
payable	(27)	(282)	-	-	(309)
Principal payments on capital					
lease obligations	(1,295)	-	(25)	-	(1,320)
Costs of debt and equity					
transactions	(185)	-	-	-	(185)
Payments on notes receivable					
from					
officers, employees and					
director	-	38	-	-	38
Intercompany transfers	30,466	(22,521)	(7,945)	-	-
Net cash provided by (used in)					
financing activities of					
continuing operations	24,959	(22,765)	(7,970)	-	(5,776)
Effect of exchange rate changes	-	-	(840)	-	(840)
Net cash provided by discontinued					
operations	-	151	-	-	151
Net increase (decrease) in cash					
and equivalents	-	7,592	(1,324)	-	6,268
Cash and equivalents at beginning of					
period	-	30,745	12,540	-	43,285
Cash and equivalents at end of period	\$ -	\$ 38,337	\$ 11,216	\$ -	\$ 49,553





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## CONSOLIDATING CONDENSED BALANCE SHEET

As of December 31, 2004

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>					
Cash and equivalents	\$ -	\$ 30,745	\$ 12,540	\$ -	\$ 43,285
Restricted cash	-	162	-	-	162
Receivables					
Trade, net	-	27,754	13,410	-	41,164
Notes and other, net	-	143	2,006	-	2,149
Intercompany receivables (payables)	273,516	(255,917)	(17,599)	-	-
Investment in subsidiaries	(94,501)	235,512	46,602	(187,613)	-
Net seismic data library	-	102,537	51,183	(2,490)	151,230
Net other property and equipment	-	5,837	5,240	-	11,077
Oil and gas operations held for sale	-	223	-	-	223
Investment in marketable securities	-	-	33	-	33
Prepaid expenses, deferred charges and other assets	7,509	5,377	1,273	-	14,159
<b>TOTAL ASSETS</b>	<b>\$ 186,524</b>	<b>\$ 152,373</b>	<b>\$ 114,688</b>	<b>\$ (190,103)</b>	<b>\$ 263,482</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>					
Accounts payable and accrued liabilities	\$ 13,905	\$ 10,625	\$ 5,942	\$ -	\$ 30,472
Oil and gas operations held for sale	-	28	-	-	28
Senior Notes	188,726	-	-	-	188,726
Notes payable	415	282	-	-	697
Obligations under capital leases	2,402	-	2,892	-	5,294
Deferred income taxes	-	-	606	-	606
Deferred revenue	-	36,714	16,774	-	53,488
<b>TOTAL LIABILITIES</b>	<b>205,448</b>	<b>47,649</b>	<b>26,214</b>	<b>-</b>	<b>279,311</b>
<b>STOCKHOLDERS' EQUITY</b>					
Common stock	1,514	-	-	-	1,514
Additional paid-in capital	235,081	-	-	-	235,081
Parent investment	-	209,770	25,882	(235,652)	-
Retained earnings (deficit)	(254,384)	(105,016)	59,467	45,549	(254,384)
Deferred compensation - restricted stock	(1,125)	-	-	-	(1,125)
Notes receivable from officers and employees	-	(21)	-	-	(21)
Accumulated other comprehensive income (loss)	(10)	(9)	3,125	-	3,106
<b>TOTAL STOCKHOLDERS' EQUITY (DEFICIT)</b>	<b>(18,924)</b>	<b>104,724</b>	<b>88,474</b>	<b>(190,103)</b>	<b>(15,829)</b>
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 186,524</b>	<b>\$ 152,373</b>	<b>\$ 114,688</b>	<b>\$ (190,103)</b>	<b>\$ 263,482</b>



[Index](#)**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****For the Nine Months Ended September 30, 2004**

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$ -	\$ 77,494	\$ 31,480	\$ (5,210)	\$ 103,764
EXPENSES:					
Depreciation and amortization	-	110,173	29,306	(286)	139,193
Cost of sales	-	217	44	-	261
Selling, general and administrative expenses	1,493	16,184	10,820	(5,210)	23,287
	1,493	126,574	40,170	(5,496)	162,741
LOSS FROM OPERATIONS	(1,493)	(49,080)	(8,690)	286	(58,977)
Interest expense, net	(495)	(16,885)	(1,035)	-	(18,415)
Foreign currency exchange losses	-	(3)	956	-	953
Reorganization items	(4)	(12,401)	(10)	-	(12,415)
Loss from continuing operations before income taxes and equity in loss of subsidiaries	(1,992)	(78,369)	(8,779)	286	(88,854)
Benefit for income taxes	(33)	(1,317)	(922)	-	(2,272)
Equity in loss of subsidiaries	(84,490)	(7,844)	-	92,334	-
Loss from continuing operations	(86,449)	(84,896)	(7,857)	92,620	(86,582)
Income from discontinued operations, net of tax	-	58	75	-	133
NET LOSS	\$ (86,449)	\$ (84,838)	\$ (7,782)	\$ 92,620	\$ (86,449)

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**CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS**

**For the Nine Months Ended September 30, 2004**

(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 of continuing operations					
	\$ (25,098)	\$ 25,805	\$ 20,987	\$ -	\$ 21,694
Cash flows from investing activities:					
Cash invested in seismic data					
	-	(20,759)	(18,077)	-	(38,836)
Cash paid to acquire property and equipment					
	-	(740)	(149)	-	(889)
Decrease in restricted cash					
	-	41	-	-	41
Net cash used in investing activities of continuing operations					
	-	(21,458)	(18,226)	-	(39,684)
Cash flows from financing activities:					
Principal payments on notes payable					
	(5)	(5,417)	(17)	-	(5,439)
Principal payments on capital lease obligations					
	(1,010)	-	(51)	-	(1,061)
Proceeds from issuance of senior notes					
	182,858	-	-	-	182,858
Principal payments under senior notes					
	(255,000)	-	-	-	(255,000)
Proceeds from issuance of common stock					
	75,000	-	-	-	75,000
Costs of debt and equity transactions					
	(5,463)	-	-	-	(5,463)
Payments on notes receivable from officers, employees and director					
	-	215	-	-	215
Intercompany transfers					
	28,718	(28,718)	-	-	-
Net cash provided by (used in) financing activities of continuing operations					
	25,098	(33,920)	(68)	-	(8,890)
Effect of exchange rate changes					
	-	-	(856)	-	(856)
Net cash provided by (used in) discontinued operations					
	-	1,223	75	-	1,298
Net increase (decrease) in cash and equivalents					
	-	(28,350)	1,912	-	(26,438)
Cash and equivalents at beginning of period					
	-	41,125	3,237	-	44,362

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Cash and equivalents at end of period	\$	-	\$	12,775	\$	5,149	\$	-	\$	17,924
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## NOTE L-RECENT ACCOUNTING PRONOUNCEMENTS

In December 2002, the FASB issued SFAS No. 148 - "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which supersedes SFAS No. 148. SFAS No. 123(R) establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This eliminates the exception to account for such awards using the intrinsic method previously allowable under APB Opinion No. 25. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") 107. Among other things, SAB 107 provides interpretive guidance related to the interaction between SFAS No. 123(R) and certain SEC rules and regulations, as well as provides the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. On April 14, 2005, the SEC issued press release 2005-57 which amends the compliance date of SFAS No. 123(R). As a result, SFAS No. 123(R) will be effective for annual reporting periods beginning on or after June 15, 2005. The Company currently expects to adopt SFAS No. 123(R) effective January 1, 2006. The Company has not yet quantified the financial impact of the adoption of this standard.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29". This statement addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, *Accounting for Nonmonetary Transactions*, and replaces it with an exception for exchanges that do not have commercial substance. This statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 153 to have any effect on its financial position or results of operations.

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

### CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements. Statements contained in this report about Seitel, Inc.'s future outlook, prospects, strategies and plans, and about industry conditions, demand for seismic services and the future economic life of our seismic data are forward-looking. All statements that express belief, expectation, estimates or intentions, as well as those that are not statements of historical fact, are forward looking. The words "proposed", "anticipates", "anticipated", "will", "would", "should", "estimates" and similar expressions are intended to identify forward-looking statements. Forward-looking statements represent our reasonable present belief and are based on our current expectations and assumptions with respect to future events. While we believe our expectations and assumptions are reasonable, they involve risks and uncertainties beyond our control that could cause the actual results or outcome to differ materially from the expected results or outcome reflected in our forward-looking statements. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report may not occur. Such risks and uncertainties include, without limitation, our ability to comply with the terms of our final judgment of permanent injunction by the SEC, the impact on our results of operations of our significant amount of debt, our significant amount of debt service and interest expense, our ability to obtain and maintain normal terms with our vendors and service providers, our ability to maintain contracts that are critical to our operations, changes in the oil and gas industry or the economy generally, changes in the exploration budgets of our seismic data customers, actual customer demand for our seismic data and related services, the timing and extent of changes in commodity prices for natural gas, crude oil and condensate and natural gas liquids, conditions in the capital markets and equity markets during the periods covered by the forward-looking statements and our ability to obtain alternate debt or equity financing on satisfactory terms if internally generated funds are insufficient to fund our capital needs. The foregoing and other risk factors are discussed in our Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2004, and certain risks and uncertainties are discussed below.

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The forward-looking statements contained in this report speak only as of the date hereof. Except as required by the federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason. All forward-looking statements attributable to Seitel, Inc. or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in our 2004 Annual Report filed on Form 10-K and in our 2005 quarterly reports filed with the SEC.

**Overview**

**General**

We have ownership in an extensive library of onshore and offshore seismic data that we offer for license to oil and gas companies. We believe that our library of onshore seismic data is one of the largest available for licensing in the United States and Canada. We also have ownership in a library of offshore data covering parts of the U.S. Gulf of Mexico shelf and certain deep water areas in the western and central U.S. Gulf of Mexico. We generate revenue primarily by licensing data from our data library and from new data acquisition substantially underwritten or paid for by clients. Oil and gas companies use seismic data in oil and gas exploration and development efforts to increase the probability of drilling success. 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 U.S. and Canada and, to a lesser extent, offshore U.S. Gulf of Mexico. These markets continue to experience major changes. The major international oil companies are increasing their focus on exploration opportunities outside the U.S., with independent oil and gas companies responsible for the majority of current U.S. drilling activity. Production decline rates are accelerating worldwide and are the most pronounced in mature fields of North America. However, commodity prices for oil and natural gas are at high levels and the demand for natural gas in the U.S. could exceed supply during the next two to three years unless new production is brought on line in the U.S. and Canada. Liquid natural gas imports, while growing, are not expected to make up the forecasted shortfall in the supply of natural gas in the U.S. in the near term.

We believe that we will be able to sustain the improvement of our return on investment over the next year provided the overall demand for seismic data remains strong with the higher commodity prices. Our clients continue to seek our services to create data in the U.S. and in Canada, and the level of underwriting or pre-funding for these projects has been strong throughout 2005. 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 Gulf Coast hurricanes in August and September 2005, did not impact our data acquisition operations because we did not have any crews operating in the areas affected by the hurricanes. Our sales in these areas were strong for the quarter, but it is not possible to quantify the lost or delayed opportunities that may have resulted from the hurricanes.

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We filed bankruptcy in mid-2003 and our Plan of Reorganization became effective on July 2, 2004. Our clients continued to engage our services and license our data throughout our bankruptcy period. We have both grown the library and continued to license our data at steady levels during the last two years.

Since 2002, we have eliminated non-core business activities, improved our capital discipline and reduced operating costs. We believe our operating cost structure is aligned with our current level of business. Costs and expenses associated with our restructuring efforts and bankruptcy were significant. Since emerging from bankruptcy, such fees and expenses have been substantially reduced. The principal amount of our indebtedness has been reduced; however, our annual interest expense is higher on the debt we now have.

### **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.

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**Demand for Seismic Data.** Demand for our products and services is cyclical due to the nature of the energy 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 to forgo ownership in the seismic data. Capital expenditures by oil and gas companies depend upon several factors, including actual and forecasted petroleum commodity prices and the companies' own short-term and strategic plans. These capital expenditures may also be affected by worldwide economic 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. The recent level of high commodity prices has resulted in many oil and gas companies focusing their efforts on development drilling to produce existing reserves rather than expending time and capital on exploration. We do not believe this situation represents a long-term trend given new prospects are needed to find oil and gas reserves.

**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 equity capital to fund their exploration, production, development and field management activities. Significant changes in the private equity market and the availability of private equity 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.** Oil and gas reserves are currently being depleted at a rate estimated by industry analysts of 5% to 10% per year for the major oil and gas operators. As a result, we believe there is an increasing need in the oil and gas industry to replace such reserves, which is expected to 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 laws. We invest financial and managerial resources to comply with these laws and related permit requirements. 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 a variety of performance measures in evaluating and managing our financial condition and operating performance at various times and from time to time. Certain 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 result from invoicing customers for purchases of licenses to data from our library. 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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Cash resales	\$ 20,278	\$ 14,946	\$ 65,510	\$ 52,271
Other revenue components:				
Acquisition revenue	3,643	5,216	19,482	31,065
Non-monetary exchanges	129	1,532	6,970	10,470
Deferral of revenue	(8,948)	(7,648)	(33,672)	(31,639)
Selections of data	8,216	12,211	45,629	37,990
Solutions and other	1,232	1,147	3,898	3,607
Total revenue, as reported	\$ 24,550	\$ 27,404	\$ 107,817	\$ 103,764

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Index**Cash Margin**

Cash margin includes cash resales plus all other cash revenues other than from data acquisitions, less cash selling, general and administrative expenses 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 income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Cash margin	\$ 14,497	\$ 8,968	\$ 47,729	\$ 32,330
Add (subtract) other revenue components not included in cash margin:				
Acquisition revenue	3,643	5,216	19,482	31,065
Non-monetary exchanges	129	1,532	6,970	10,470
Deferral of revenue	(8,948)	(7,648)	(33,672)	(31,639)
Selections of data	8,216	12,211	45,629	37,990
Less:				
Depreciation and amortization	(19,441)	(90,771)	(76,363)	(139,193)
Non-cash operating expenses	(722)	-	(1,482)	-
Operating income (loss), as reported	\$ (2,626)	\$ (70,492)	\$ 8,293	\$ (58,977)

**Cash Operating Income**

We define cash operating income as cash revenue (derived primarily from seismic data acquisitions, cash licensing resales and Solutions) less cost of sales and selling, general and administrative expenses. We believe that this measure is helpful in determining the level of cash flow we have available for debt service and funding of capital expenditures, although management uses this measure to a lesser extent than cash margin. The following is a quantitative reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, operating income (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Cash operating income	\$ 16,183	\$ 14,152	\$ 63,797	\$ 61,525
Add (subtract) other revenue components not included in cash operating income:				
Acquisition underwriting from non-monetary exchanges	1,235	32	1,932	1,870
Non-monetary exchanges	129	1,532	6,970	10,470
Deferral of revenue	(8,948)	(7,648)	(33,672)	(31,639)
Selections of data	8,216	12,211	45,629	37,990
Less:				
Depreciation and amortization	(19,441)	(90,771)	(76,363)	(139,193)

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Operating income (loss), as reported	\$ (2,626)	\$ (70,492)	\$ 8,293	\$ (58,977)
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**Growth of our Seismic Data Library**

We regularly add to our seismic data library through four different methods: (1) recording new data; (2) creating new value-added products from existing data within our library; (3) buying ownership of existing data for cash; and (4) obtaining ownership of existing data sets through non-monetary exchanges. For the period from January 1, 2005 to November 2, 2005, we completed the addition of approximately 1,800 square miles of seismic data to our library. Additions to our seismic data library are weighted to the early part of the year due to the winter being the optimum time to shoot new data in Canada and due to the purchase of two data libraries in the first quarter of 2005. For the year ended December 31, 2004, we completed the addition of approximately 2,300 square miles of seismic data to our library. As of November 2, 2005, we had approximately 400 square miles of seismic data in progress.

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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, 2004.

**Seasonality and Timing Factors**

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

**Results of Operations**

The following table summarizes the components of our revenue for the three and nine months ended September 30, 2005 and 2004 (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2005	2004	2005	2004
<b>Acquisition revenue:</b>				
Cash underwriting	\$ 2,408	\$ 5,184	\$ 17,550	\$ 29,195
Underwriting from non-monetary exchanges	1,235	32	1,932	1,870
Total acquisition revenue	3,643	5,216	19,482	31,065
<b>Resale licensing revenue:</b>				
New resales for cash	20,278	14,946	65,510	52,271
Non-monetary exchanges	129	1,532	6,970	10,470
Deferral of revenue	(8,948)	(7,648)	(33,672)	(31,639)
Selections of data	8,216	12,211	45,629	37,990
Total resale licensing revenue	19,675	21,041	84,437	69,092
Solutions and other	1,232	1,147	3,898	3,607
Total revenue	\$ 24,550	\$ 27,404	\$ 107,817	\$ 103,764

The 10% decrease in total revenue for the three months ended September 30, 2005 compared to the corresponding period in 2004 was primarily due to a decrease in the non-cash components of revenue, principally selections of data. In addition, we experienced a delay in one of our new seismic programs resulting in acquisition revenue being delayed into 2006. These decreases were partially offset by an increase in the level of new cash resales, increasing 36% from the 2004 third quarter. The 4% increase in



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total revenue for the nine months ended September 30, 2005 compared to the first nine months of 2004 was primarily due to the strong level of licensing data from our existing library, both in cash resales and selections of data. The level of licensing activity during 2005 reflects the increase in current demand for seismic data from our library. Cash resales increased 25% for the nine months ended September 30, 2005 compared to 2004, while selections of seismic data increased 20% for the same period. These increases were largely offset by a decrease in the level of new data acquisition revenue. The acquisition revenue for the nine months ended September 30, 2005 was lower than the same period in 2004 due to a planned reduction in new data acquisitions to allow for cash purchases of existing data, and the delay in one of our new seismic programs described above.

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At September 30, 2005, we had a deferred revenue balance of \$43.7 million, of which \$9.4 million resulted from non-monetary exchanges, compared to the December 31, 2004 balance of \$53.5 million. The deferred revenue will be recognized when selection of the data is made by the customer or upon expiration of the selection period, whichever occurs first.

Seismic data library amortization amounted to \$18.8 million in the third quarter of 2005 compared to \$89.5 million in the third quarter of 2004 and \$73.9 million for the first nine months of 2005 compared to \$135.2 million for the first nine months of 2004. The third quarter and nine month 2004 periods included \$59.1 million of amortization resulting from the revision in the estimated useful life of the data used in the straight-line calculation effective July 1, 2004. Certain seismic surveys within our data library were older than the revised estimate of useful life, resulting in this charge. Additionally, 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.

Seismic data amortization as a percentage of seismic acquisition and resale licensing revenue is summarized as follows (in thousands):

Components of Amortization	Three Months Ended September 30,		Percentage of Revenue	
	2005	2004	2005	2004
Income forecast	\$ 7,347	\$ 11,687	31%	45%
Straight-line	11,408	18,720	49%	71%
Revision of useful life	-	59,060	-	225%
<b>Total</b>	<b>\$ 18,755</b>	<b>\$ 89,467</b>	<b>80%</b>	<b>341%</b>

Components of Amortization	Nine Months Ended September 30,		Percentage of Revenue	
	2005	2004	2005	2004
Income forecast	\$ 40,121	\$ 47,257	39%	47%
Straight-line	33,807	28,930	32%	29%
Revision of useful life	-	59,060	-	59%
<b>Total</b>	<b>\$ 73,928</b>	<b>\$ 135,247</b>	<b>71%</b>	<b>135%</b>

The decrease in the rate of income forecast amortization in 2005 is principally due to the mix of data being licensed, including the effects of the level of revenue recognized on data whose costs have been fully amortized. The decrease in straight-line amortization for the three months ended September 30, 2005 is primarily attributable to certain data programs reaching full amortization since September 30, 2004 resulting in lower straight-line amortization. The increase in straight-line amortization for the nine months ended September 30, 2005 is primarily due to the reduction in the useful life to four years from seven years for onshore data and from five years for offshore data, effective July 1, 2004, resulting in higher amortization in the 2005 period.

Selling, general and administrative ("SG&A") expenses were \$7.7 million in the third quarter of 2005 compared to \$7.1 million in the third quarter of 2004. The increase in SG&A expense is primarily due to performance based compensation expense associated with the incentive compensation plan implemented in 2005, a portion of which is non-cash, as well as expense associated with restricted stock awards. These increases were partially offset by a decrease in commission expense due to elimination of commissions on revenue for certain senior executives in 2005. Additionally, the 2004 period included non-recurring charges of \$246,000 related to severance costs paid to a former officer. SG&A expenses were \$23.0 million in the first nine months of 2005 compared to \$23.3 million in the first nine months of 2004. In the 2005 nine month period, performance based compensation expense increased \$1.5 million due to the implementation of the incentive compensation plan in 2005 and we recorded \$0.5 million of expense associated with restricted stock awards. Commission expense decreased in the first nine months of 2005 by \$0.9 million due to elimination of commissions on revenue for certain senior executives in 2005. The 2004 period included non-recurring

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charges of \$0.9 million related to severance costs paid to former executive officers and a former consultant to the chief executive officer pursuant to their retention and change of control agreements and \$0.6 million related to legal fees and settlement of certain litigation.

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Interest expense, net, was \$5.6 million and \$8.1 million in the third quarters of 2005 and 2004, respectively, and was \$17.6 million and \$18.4 million for the nine months ended September 30, 2005 and 2004, respectively. The decrease in the third quarter of 2005 as compared to 2004 was primarily due to the 2004 third quarter including interest expense on both the old and new senior notes for the first half of the quarter. The decrease in net interest expense for the nine months of 2005 was primarily due to interest earned on cash investments.

During the three and nine months ended September 30, 2004, we incurred expenses associated with reorganization totaling \$6.4 million and \$12.4 million, respectively. Reorganization items are expense or income items that were incurred or realized by Debtors because they were in reorganization. These items include, but are not limited to, professional fees and similar types of expenses incurred directly related to the Chapter 11 Cases, loss accruals or gains or losses resulting from activities of the reorganization process, and interest earned on cash accumulated by Debtors because they were not paying their pre-petition liabilities. For the three and nine months ended September 30, 2004, reorganization items were as follows (in thousands):

	Three Months Ended September 30, 2004		Nine Months Ended September 30, 2004	
Professional fees	\$	3,918	\$	9,227
Interest Income		(21)		(98)
Accelerated amortization of deferred debt issue costs		-		1,007
Reduction of pre-petition liabilities		(2)		(517)
Other		2,488		2,796
Total	\$	6,383	\$	12,415

Tax benefit was \$3.9 million and \$2.6 million in the third quarters of 2005 and 2004, respectively, and \$4.9 million and \$2.3 million for the nine months ended September 30, 2005 and 2004, respectively. During 2005, we determined that it was more likely than not that the deferred tax asset related to the Canadian operations would be realized. Therefore, in the third quarter and first nine months of 2005, \$3.8 million and \$6.2 million, respectively, of the valuation allowance previously provided against this deferred tax asset was reversed resulting in the tax benefit.

**Discontinued Operations**

In June 2002, our Board of Directors unanimously adopted a plan to dispose of our oil and gas operations by sale. Accordingly, our consolidated financial statements report the oil and gas operations as discontinued operations. In 2002, we sold substantially all of our oil and gas assets. In January 2004, we sold a portion of our remaining oil and gas assets. Our remaining oil and gas assets are not material and we continue to seek buyers.

Revenue from the discontinued operations was \$49,000 and \$54,000 for the three months ended September 30, 2005 and 2004, respectively, and \$136,000 and \$164,000 for the nine months ended September 30, 2005 and 2004, respectively. Pre-tax income from discontinued operations was \$22,000 and \$89,000 for the three months ended September 30, 2005 and 2004, respectively, and was \$41,000 and \$133,000 for the nine months ended September 30, 2005 and 2004, respectively.

## Liquidity and Capital Resources

### Sources and Uses of Liquidity

During the three and nine months ended September 30, 2005, our primary sources of liquidity were cash from operations and cash and cash equivalents on hand. As of November 7, 2005, we had approximately \$57.8 million in consolidated cash, cash equivalents and short-term investments. Other sources of liquidity include our credit facilities described below.

**U.S. Credit Facility.** We have in place a revolving credit facility for up to \$30 million, subject to borrowing base limitations. The borrowing base is determined from time to time based on the lesser of:

- \$30 million,
  - 0.75 times our U.S. cash operating income (defined as cash revenue, derived primarily from seismic data acquisition revenue, cash resale licensing revenue and Solutions revenue, less cost of sales and SG&A, before depreciation and amortization expense for the trailing 12-month period), 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), (2) 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 (3) \$20 million.
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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 substantially all of our U.S. assets and a pledge of all of the issued and outstanding capital stock of our U.S. subsidiaries. At November 7, 2005, there was no outstanding balance under the facility and there was \$29.7 million of availability. Covenants in the agreement limit our ability to, among other things, incur additional indebtedness, pay dividends, and complete mergers, acquisitions and sales of assets. In addition, the agreement requires us to maintain certain financial ratios. We were in compliance with all such covenants and ratios as of September 30, 2005.

**Canadian Credit Facility.** On January 12, 2004, our wholly owned subsidiary, Olympic Seismic Ltd. ("Olympic"), entered into a revolving credit facility. The facility allows it to borrow up to \$5 million (Canadian), subject to an availability formula, by way of prime-based loans, bankers' acceptances or letters of credit. The rate applicable to borrowings is the bank's prime rate plus 0.35% per annum and to bankers' acceptances is 1.50% 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, SEIC Trust Administration Ltd. (as sole trustee of, and for and on behalf of, SEIC Business Trust) and SEIC Holdings, Ltd., but is not guaranteed by us or any of our other U.S. subsidiaries. However, all intercompany debt owing by Olympic, SEIC Trust Administration Ltd., SEIC Business Trust or SEIC Holdings, Ltd. to us, SEIC Partners Limited Partnership or to any of our U.S. subsidiaries (approximately \$37.9 million (Canadian) at September 30, 2005) has been subordinated to the repayment of the revolving credit facility. 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 SEIC Trust Administration, 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. As of November 7, 2005, no amounts were outstanding on this revolving line of credit and \$5.0 million (Canadian) was available on the line of credit. Olympic is not a party to any of the debt issued by us other than the note payable to a former executive.

**Operating Activities.** Cash flows provided by operating activities from continuing operations were \$56.9 million and \$21.7 million for the nine months ended September 30, 2005 and 2004, respectively. The increase from 2004 to 2005 was primarily due to an increase in the collection of receivables as well as a decrease in expenses paid associated with our bankruptcy proceedings.

**Investing Activities.** Cash flows used in investing activities from continuing operations were \$44.2 million and \$39.7 million for the nine months ended September 30, 2005 and 2004, respectively. Cash expenditures for seismic data were \$43.6 million and \$38.8 million for the nine months ended September 30, 2005 and 2004, respectively.

**Financing Activities.** Cash flows used in financing activities were \$5.8 million and \$8.9 million for the nine months ended September 30, 2005 and 2004, respectively. During the nine months ended September 30, 2005 payments on senior notes, term loans and capital leases equaled \$5.6 million.

As of September 30, 2005, we had outstanding debt and lease obligations, with aggregate contractual cash obligations summarized as follows (in thousands):

	Total	Remainder of 2005	Payments due by period		2011 and thereafter
			2006- 2008	2009- 2010	
Contractual cash obligations					
Debt obligations <sup>(1) (2)</sup>	\$ 322,800	\$ 19	\$ 66,841	\$ 44,559	\$ 211,381
Capital lease obligations <sup>(2)</sup>	6,906	1,212	918	639	4,137
Operating lease obligations	7,294	243	3,199	2,019	1,833
Total contractual cash obligations	\$ 337,000	\$ 1,474	\$ 70,958	\$ 47,217	\$ 217,351

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- (1) Debt obligations include the face amount of the 11.75% senior notes totaling \$189.0 million.
  - (2) Amounts include interest related to debt and capital lease obligations.
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On July 2, 2004, we consummated an institutional private placement of 11.75% senior unsecured notes totaling \$193.0 million aggregate principal amount due on July 15, 2011. These notes were offered at a discount of 2.325% from their principal amount at maturity resulting in cash proceeds, before offering expenses, of approximately \$188.5 million, which proceeds were used to partially fund payments of allowed creditors' claims required under the Plan. Interest is payable in cash, semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2005. As required by their terms, our 11.75% senior notes were exchanged for senior notes of like amounts and terms in a publicly registered exchange offer in February 2005. The 11.75% senior notes are unsecured and are guaranteed by substantially all of our domestic subsidiaries on a senior basis. The 11.75% senior notes contain restrictive covenants which limit our and our subsidiaries' ability to, among other things, incur additional indebtedness, make capital expenditures in excess of specified amounts, pay dividends and complete mergers, acquisitions and sales of assets.

From time to time on or before July 15, 2007, we may redeem up to 35% of the aggregate principal amount of our 11.75% senior notes with the net proceeds of equity offerings at a redemption price equal to 111.75% of the principal amount, plus accrued and unpaid interest. Subject to certain conditions, if at the end of each fiscal year we have excess cash flow (as defined in the indenture) in excess of \$5.0 million, we will be required to use 50% of the excess cash flow to fund an offer to repurchase our 11.75% senior notes on a pro rata basis at 100% of its principal amount, plus accrued and unpaid interest. If we have 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 will be 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 will be required only if there is no event of default under our revolving credit facilities prior to and after giving effect to the repurchase payment. Because of excess cash flow generated for the year ended December 31, 2004, in the first quarter of 2005 the Company made a repurchase offer for principal of up to \$4.8 million to the holders of its Senior Notes. \$4.0 million principal amount of Senior Notes were tendered, and the Company made payment, including accrued interest, of \$4.1 million on May 5, 2005. Upon a change of control (as defined in the indenture), each holder of our 11.75% senior notes will have the right to require us 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.

**Anticipated Liquidity.** Our ability to make required payments of principal and interest on borrowings under our revolving credit facility and in respect of our 11.75% senior notes, incur additional indebtedness, and comply with our various debt covenants, will depend primarily on our ability to generate substantial operating cash flows. Over the next 12 months, we expect to obtain the funds necessary to pay our operating, capital and other expenses and principal and interest on our 11.75% 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.

For a discussion of a number of factors that may impact our liquidity and the sufficiency of our capital resources, see " - Overview" above.

**Deferred Taxes**



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As of September 30, 2005, we have a net deferred tax asset of \$5.7 million attributable to our Canadian operations. During 2005, we determined that it was more likely than not that the deferred tax asset related to our Canadian operations would be realized; thus, the valuation allowance previously provided against this deferred tax asset was reversed resulting in the net deferred tax asset. In the U.S., we have a net deferred tax asset of \$92.7 million, all of which is fully offset by a valuation allowance.

Additionally, in Canada, we have a remaining net deferred tax asset of \$4,000 that is fully offset by a valuation allowance. The recognition of such remaining deferred tax assets 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 September 30, 2005, the recovery of such remaining deferred tax assets is not assured of realization.

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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. Currently, we do not anticipate that any remaining tax credit carryforwards or certain other of our tax attributes applicable to periods prior to the effective date of the Plan (collectively, "pre-change losses") will be subject to limitation under Section 382 of the Internal Revenue Code as a result of the Plan. However, we will continue to analyze and monitor ownership changes to identify potential limitations pursuant to Section 382.

**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 first nine months of 2005, capital expenditures for seismic data and other property and equipment amounted to \$44.2 million. Our capital expenditures for the remainder of 2005 are presently estimated to be \$20.8 million. The first nine months of 2005 actual and 2005 estimated remaining capital expenditures are comprised of the following (in thousands):

	Actual for Nine Months Ended September 30, 2005	Estimate For Remainder of 2005
New data acquisition	\$ 26,931	\$ 6,574
Cash purchases of seismic data and other	10,007	11,170
Non-monetary exchanges	6,640	2,763
Other property and equipment	671	306
Total capital expenditures	44,249	20,813
Less: Non-monetary exchanges	(6,640)	(2,763)
Changes in working capital	6,675	-
Cash investment per statement of cash flows	\$ 44,284	\$ 18,050

The capital expenditures discussed above are within the capital expenditure limitations imposed by our 11.75% senior notes and U.S. revolving credit facility.

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

	Actual for Nine Months Ended	Estimate For Remainder of
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	September 30, 2005		2005	
Total capital expenditures	\$	44,249	\$	20,813
Less:				
Non-cash additions		(6,640)		(2,763)
Cash underwriting		(17,550)		(4,215)
Capital expenditures funded from operating cash flow	\$	20,059	\$	13,835

As of November 2, 2005, we had capital expenditure commitments related to data acquisition projects of approximately \$41.5 million, for which approximately \$30.9 million of cash underwriting has been obtained.

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**Recent Accounting Pronouncements**

In December 2002, the Financial Accounting Standards Board ("FASB") issued SFAS No. 148 - "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." In December 2004, the FASB issued SFAS No. 123(R), "Share-Based Payment," which supersedes SFAS No. 148. SFAS No. 123(R) establishes standards for transactions in which an entity exchanges its equity instruments for goods or services. This standard requires a public entity to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This eliminates the exception to account for such awards using the intrinsic method previously allowable under Accounting Principles Board ("APB") Opinion No. 25. In March 2005, the SEC issued Staff Accounting Bulletin ("SAB") 107. Among other things, SAB 107 provides interpretive guidance related to the interaction between SFAS No. 123(R) and certain SEC rules and regulations, as well as provides the SEC staff's views regarding the valuation of share-based payment arrangements for public companies. On April 14, 2005, the SEC issued press release 2005-57 which amends the compliance date of SFAS No. 123(R). As a result, SFAS No. 123(R) will be effective for annual reporting periods beginning on or after June 15, 2005. Seitel currently expects to adopt SFAS No. 123(R) effective January 1, 2006. We have not yet quantified the financial impact of adoption of this standard.

In December 2004, the FASB issued SFAS No. 153, "Exchanges of Nonmonetary Assets - an amendment of APB Opinion No. 29". This statement addresses the measurement of exchanges of nonmonetary assets. It eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29, Accounting for Nonmonetary Transactions, and replaces it with an exception for exchanges that do not have commercial substance. This statement specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 will be effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. The Company does not expect the adoption of SFAS No. 153 to have any effect on its financial position or results of operations.

**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, to manage the impact of changes in interest rates. As of September 30, 2005, 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, therefore, we are 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. As of September 30, 2005, we did not have any open forward exchange contracts.

We have not had any significant changes in the market risk exposures since December 31, 2004.

**Item 4. 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 the Company's President and Chief Executive Officer and 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, the Company's President and Chief Executive Officer along with the Company's Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2005 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 Securities Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including the Company's President and Chief Executive Officer and the Company's 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 September 30, 2005 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.



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**PART II - OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

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

**Items 2., 3. and 4.** Not applicable.

**Item 5. OTHER INFORMATION**

**(a) Not applicable.**

**(b) Advance Notice for Director Nominations**

On October 19, 2005, the Company's Board of Directors (the "Board") amended Section 3.3 (Nominations) of Company's Amended and Restated Bylaws to include advance notice provisions. These provisions include: (1) requiring Company's receipt of the stockholder's written notice of a proposed nominee no later than the date that in the current year corresponds to the 120th day prior to the date Company's proxy statement was released to stockholders in connection with the previous year's annual meeting of stockholders; (2) requiring Company's receipt of the stockholder's written notice of a proposed nominee no later than the tenth day following the day on which Company gives public notice of a current year annual meeting if no annual meeting was held in the prior year or if the current year annual meeting has changed by more than 30 days from the prior year; (3) notwithstanding the notice deadlines described in (1) and (2) to the contrary, if the number of directors to be elected to the Board is increased and there is no public announcement naming all of the nominees for directors or specifying the size of the increased Board at least 130 days prior to the date Company's proxy statement was released to stockholders in connection with the previous year's annual meeting of stockholders, a stockholder's written notice shall be considered timely, but only with respect to nominees for any new positions created by such increase, if it is received no later than the close of business on the tenth day following the day on which such Company makes public notice of such increase; (4) in the case of a special meeting of stockholders at which directors are to be elected, requiring Company's receipt of the stockholder's written notice of a proposed nominee no later than the tenth day following the day on which Company gives public notice of the special meeting; and (5) requiring the stockholder's written notice to include certain information, including information required to be disclosed in a proxy statement under the rules of the Securities and Exchange Commission.

The deadline for stockholder's written notice of a proposed nominee for the 2006 Annual Meeting of Stockholders is December 19, 2005. These deliveries and notices must be made at the principal executive offices of the Company at 10811 S. Westview Circle, Building C, Suite 100, Houston, Texas 77043.

**Item 6. EXHIBITS**

- 3.1\* Amended and Restated Bylaws of Seitel, Inc., adopted October 19, 2005
- 10.1†\*Form of Restricted Stock Award Agreement for Canadian employee grants made under the Seitel, Inc. 2004 Stock Option Plan
- 10.2†\*Amended and Restated Employment Agreement, dated October 19, 2005, by and between Robert D. Monson and the Company
- 10.3†\*Amended and Restated Employment Agreement, dated October 19, 2005, by and between Kevin P. Callaghan and the Company
- 10.4†\*Amended and Restated Employment Agreement, dated October 19, 2005, by and between William Restrepo and the Company
- 10.5†\*Revised Summary of 2005 Non-Employee Director and Executive Officer Compensation and Incentive Arrangements
- 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

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† Management contract, compensation plan or arrangement.

\* Filed herewith.

\*\* Furnished, not filed, pursuant to Item 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.

Dated: November 8, 2005

**SEITEL, INC.**  
/s/ Robert D.  
Monson  
Robert D.  
Monson  
C h i e f  
Executive  
Officer  
a n d  
President

Dated: November 8, 2005

/s/ William J.  
Restrepo  
William J.  
Restrepo  
C h i e f  
Financial  
Officer

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EXHIBIT

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† Management contract, compensation plan or arrangement.

\* Filed herewith.

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

