SEITEL INC
Form 10-Q/A
June 02, 2004

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q/A

Amendment No. 1

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended March 31, 2004
	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 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 [X] No [   ]

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

Yes [ ] No [X]

As of May 5, 2004, there were 25,375,683 shares of the Company's common stock, par value $.01 per share outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

SEITEL, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	(Unaudited) March 31, 2004	December 31, 2003
	(Revised)	
ASSETS		
Cash and equivalents	$ 48,588	$ 44,362
Restricted cash	161	202
Receivables		
Trade (net)	36,399	37,461
Notes and other	11,308	12,047
Net seismic data library	253,874	247,541
Net property and equipment	14,091	15,431
Oil and gas operations held for sale	544	1,552
Investment in marketable securities	32	99
Prepaid expenses, deferred charges and other	8,118	8,394
TOTAL ASSETS	$ 373,115	$ 367,089
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities not subject to compromise:		
Accounts payable and accrued liabilities	$ 20,679	$ 17,414
Oil and gas operations held for sale	13	17
Term Loans	5,417	5,417
Obligations under capital leases	6,267	6,571
Deferred income taxes	2,509	1,953
Deferred revenue	58,635	58,876
Liabilities subject to compromise	277,554	273,119
TOTAL LIABILITIES	371,074	363,367
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		

Preferred stock, par value $.01 per share; authorized 5,000,000 shares; none issued	-	-
Common stock, par value $.01 per share; authorized 50,000,000 shares; issued and outstanding 25,811,601 at March 31, 2004 and December 31, 2003	258	258
Additional paid-in capital	166,630	166,630
Retained deficit	(160,929)	(159,731)
Treasury stock, 435,918 shares at cost at March 31, 2004 and December 31, 2003	(5,373)	(5,373)
Notes receivable from officers and employees for stock purchases	(89)	(124)
Accumulated other comprehensive income	1,544	2,062
TOTAL STOCKHOLDERS' EQUITY	2,041	3,722
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 373,115	$ 367,089

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

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SEITEL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2004	2003
	(Revised)	
REVENUE	$ 41,264	$ 30,324
EXPENSES		
Depreciation and amortization	24,083	18,075
Cost of sales	74	154
Selling, general and administrative	8,539	8,893
	32,696	27,122
INCOME FROM OPERATIONS	8,568	3,202
Interest expense and other, net	(4,948)	(5,078)
Reorganization items	(4,147)	-
Loss from continuing operations before income taxes	(527)	(1,876)
Provision for income taxes	706	35
Loss from continuing operations	(1,233)	(1,911)
Income (loss) from discontinued operations, net of tax	35	(237)
NET LOSS	$ (1,198)	$ (2,148)
Basic and diluted income (loss) per share:		
Loss from continuing operations	$ (.05)	$ (.07)
Income (loss) from discontinued operations	-	(.01)
Net loss	$ (.05)	$ (.08)
Weighted average number of common and common equivalent shares - basic and diluted	25,376	25,376

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

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

	Three Months Ended March 31,	
	2004	2003
	(Revised)	
Net loss	$ (1,198)	$ (2,148)
Unrealized losses on securities held as available for sale	(65)	-
Foreign currency translation adjustments	(453)	1,278
Comprehensive loss	$ (1,716)	$ (870)

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

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SEITEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Deficit	Treasury Stock		Notes Receivable from Officers & Employees	Accumulated Other Compre-hensive Income (Loss)
	Shares	Amount			Shares	Amount		
Balance, December 31, 2002	25,811,601	$ 258	$ 166,630	$(121,793)	(435,918)	$ (5,373)	$ (1,178)	$ (1,508)
Payments received on notes receivable from officers and employees	-	-	-	-	-	-	1,054	-
Net loss	-	-	-	(37,938)	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-	3,499
Unrealized gain on marketable securities	-	-	-	-	-	-	-	71
Balance, December 31, 2003	25,811,601	258	166,630	(159,731)	(435,918)	(5,373)	(124)	2,062
Payments received on notes receivable from officers and employees	-	-	-	-	-	-	35	-

Net loss	-	-	-	(1,198)	-	-	-	-
Foreign currency translation adjustments	-	-	-	-	-	-	-	(453)
Unrealized losses on marketable securities	-	-	-	-	-	-	-	(65)
Balance, March 31, 2004 (unaudited) (Revised - See Note A)	25,811,601	$ 258	$ 166,630	$ (160,929)	(435,918)	$ (5,373)	$ (89)	$ 1,544

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

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

(In thousands)

	Three Months Ended March 31,	
	2004	2003
	(Revised)	
Cash flows from operating activities:		
Reconciliation of net loss to net cash provided by operating activities of continuing operations:		
Net loss	$ ()	$ (2,148)
	1,198	
Loss (income) from discontinued operations, net of tax	(35)	237
Depreciation and amortization	24,083	18,075
Deferred income tax provision	584	2,835
Amortization of deferred financing costs	1,184	71
Allowance for collection of trade receivables	75	75
Non-cash sales	(5,384)	(3,682)
Decrease (increase) in receivables	871	(2,764)
Decrease (increase) in other assets	217	(604)
Decrease in deferred revenue	2,507	1,415
Increase (decrease) in accounts payable and other liabilities	6,634	(1,144)
Net cash provided by operating activities of continuing operations	29,538	12,366
Cash flows from investing activities:		
Cash invested in seismic data	(25,696)	(15,811)
Cash paid to acquire property and equipment	(300)	(101)
Cash received from disposal of property and equipment	-	5
Decrease in restricted cash	41	4,419
Net cash used in investing activities of continuing operations	(25,955)	(11,488)
Cash flows from financing activities:		
Principal payments on term loans	(8)	(1,113)
Principal payments on capital lease obligations	(266)	(1,110)
Costs of debt and equity transactions	(474)	-
Payments on notes receivable from officers and employees	40	57
Net cash used in financing activities		

of continuing operations		(708)		(2,166)
Effect of exchange rate changes		312		(1,519)
Net cash provided by discontinued operations		1,039		59
Net increase (decrease) in cash and equivalents		4,226		(2,748)
Cash and cash equivalents at beginning of period		44,362		21,517
Cash and equivalents at end of period	$	48,588	$	18,769
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	$	310	$	5,533
Income taxes	$	-	$	868
Supplemental schedule of non-cash investing activities:				
Additions to seismic data library	$	3,161	$	3,159

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

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SEITEL, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)
March 31, 2004

NOTE A-BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the amounts in the prior year's financial statements to conform to the current year's presentation. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. These unaudited financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2003 contained in the Company's Annual Report filed on Form 10-K with the Securities and Exchange Commission ("SEC").

Substantial Doubt About the Company's Ability to Continue as a Going Concern: The Company's financial statements have been prepared on a basis that assumes the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. On July 21, 2003, the Company filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code (see "Note B-Reorganization Proceedings"). Accordingly, there is substantial doubt about the Company's ability to continue as a going concern, including recovering assets and satisfying liabilities in the normal course of business. On January 17, 2004, the Company filed with the Bankruptcy Court the third amended joint plan of reorganization (the "Plan"), which subsequently was amended on February 5, 2004. On March 18, 2004, the Bankruptcy Court confirmed the Plan. Under the Plan, all of the Company's outstanding allowed pre-petition claims will be fully paid, in cash, together with post-petition (non-default rate) interest, except with respect to any disputed claims and any claims that are reinstated under the Plan. The Plan further provides that the Company will receive $75 million of new equity as a result of the exercise of the reorganized common stock purchase warrants and/or the private sale of shares under a standby purchase agreement. Payments to creditors under the Plan will be funded utilizing (i) the net proceeds from the new equity, (ii) net proceeds of not less than $180 million from the Company's anticipated institutional offering of new senior unsecured notes, (iii) available cash and equivalents of not less than $35 million, and, if necessary, (iv) available borrowings under the Company's new revolving credit facility provided on the effective date of the Plan. Certain conditions, as fully described in "Note B-Reorganization Proceedings", are required for the Plan to become effective. The consolidated financial statements reflect the amounts as of March 31, 2004, which the Company believes will ultimately be paid to settle liabilities and contingencies that may be allowed in bankruptcy, including interest. There can be no assurance that the transactions will be consummated in the way contemplated under the Plan, or that the Company will emerge from its reorganization proceedings as contemplated under the Plan.

Contractual Obligations:

As of March 31, 2004, the Company had approximately $271.8 million of outstanding debt and lease obligations, with aggregate contractual cash obligations summarized as follows (in thousands):

		Payments due by period			
Contractual cash obligations	Total	2004	2005	2006	2007 and thereafter
Debt obligations [1]	$ 260,855	$ 260,440	$ 37	$ 38	$ 340
Capital lease obligations	6,267	1,209	2,434	34	2,590

Operating lease obligations	4,669	751	960	677	2,281
Total contractual cash obligations	$ 271,791	$ 262,400	$ 3,431	$ 749	$ 5,211

(1) These debt obligations have contractual maturities ranging from 2003 to 2011. The Company is not in compliance with certain of the covenants related to this debt and the holders of $255 million of such debt have accelerated the maturity thereof. Pursuant to the Company's Plan of Reorganization $260.4 million of this debt will be paid in full in 2004; therefore, the maturities have been reflected as due in 2004.

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As a result of the bankruptcy filing discussed in Note B below, the rights of and ultimate payments related to certain of these contractual obligations may be substantially altered.

Revision to March 31, 2004 Financial Statements:

Effective on March 30, 2004, the Bankruptcy Court allowed the amount of Berkshire Hathaway, Inc.'s claims in respect of its senior unsecured notes which previously had been recorded by the Company at a value of $255 million principal amount, plus accrued interest. Under AICPA Statement of Position No. 90-7 ("SOP 90-7"), "Financial Reporting by Entities in Reorganization Under the Bankruptcy Code", which has been followed by the Company since the commencement of its Chapter 11 Cases, once a debt claim is formally allowed by the Bankruptcy Court, any theretofore existing deferred issue costs in respect of such debt is required to be adjusted to the extent necessary to report the debt at the allowed claim amount. At the time the senior unsecured notes were established as an allowed claim, the Company had $1.0 million of deferred issue costs recorded on its balance sheet and characterized as prepaid expenses. Such amount should have been expensed in the quarter ended March 31, 2004 as a non-cash reorganization charge as opposed to being expensed on the effective date of the Plan. Additionally, certain pre-petition liabilities totaling $426,000 are disputed by the Company and, in accordance with SOP 90-7, it is not probable that such pre-petition liabilities will result in allowed claims. Therefore, such liabilities should have been correspondingly reduced as of March 31, 2004. The previously reported first quarter 2004 results have been revised to reflect the accelerated amortization of the remaining $1.0 million deferred issue costs and the reduction in liabilities subject to compromise of $426,000. Such adjustments are reflected in reorganization items in the consolidated statement of income. These revisions did not affect the Company's previously reported income from operations, cash position or cash flows from operations.

NOTE B-REORGANIZATION PROCEEDINGS

On July 21, 2003, (the "Petition Date"), Seitel, Inc., and its wholly owned U.S. subsidiaries filed voluntary petitions 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 have 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 are being jointly administered. On July 22, 2003, the Debtors filed their joint plan of reorganization. Since the Petition Date, the Debtors have continued to operate their business and manage their properties as "debtors-in-possession" pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. No trustee has been appointed in the Cases.

None of the Company's direct or indirect subsidiaries or affiliates incorporated in Canada or other non-U.S. jurisdictions have filed Chapter 11, and none are expected to file for reorganization or protection from creditors under any insolvency or similar law in the U.S. or elsewhere. Such non-filing, non-U.S. based subsidiaries and affiliates are called "non-Debtors".

The previously filed involuntary bankruptcy petitions which were pending against the Company were dismissed on July 25, 2003 by order of the Bankruptcy Court pursuant to a joint request for such dismissal filed by the Company and Ranch Capital L.L.C. ("Ranch"). Ranch previously purchased all of the senior unsecured notes (the "Notes") held by the entities which filed the involuntary bankruptcy petitions. Ranch subsequently sold the Notes to Berkshire Hathaway Inc. ("Berkshire"). An official equity committee (the "Official Equity Committee") was appointed on August 11, 2003.

On the Petition Date, the Debtors sought, and thereafter obtained, authority to take a broad range of actions, including to honor and perform under their pre-petition customer data agreements and to promote a "business as usual" atmosphere with customers and employees. This relief was essential to minimize disruptions to the Debtors' businesses as a result of the commencement of the Cases and to assure their customers that the data license agreements for selection of seismic data would be honored pending confirmation of a plan. Additionally, other first day orders were obtained, including authority to pay certain, limited pre-petition employee wages and benefits, providing adequate assurance of future payments to utility companies, continued use of cash management systems, payment of pre-petition sales and use taxes and appointment of a claims and balloting agent.

By order dated September 22, 2003, the Bankruptcy Court approved a $20 million debtor-in-possession loan facility (the "DIP Facility") from Wells Fargo Foothill, Inc. ("Foothill"), subject to certain conditions.

On October 6, 2003, the Debtors filed their first amended joint plan of reorganization, which superseded the joint plan of reorganization. The disclosure statement relating to the first amended joint plan of reorganization was approved upon notice, and a hearing to consider confirmation of the first amended joint plan of reorganization was scheduled in the Bankruptcy Court for November 4, 2003. In October 2003, the Company's stockholders voted to reject the first amended joint plan of reorganization.

On October 27, 2003, the Official Equity Committee moved to adjourn the Bankruptcy Court hearing to consider confirmation of the first amended joint plan of reorganization and to terminate the Debtors' statutory exclusivity period. Following a hearing, the Bankruptcy Court ordered the termination of the Debtors' exclusivity period, and on November 6, 2003 the Official Equity Committee filed with the Bankruptcy Court its own proposed, initial plan of reorganization (the "Committee Plan"). The Debtors and the holders of the Notes objected to the Committee Plan on the basis, among others, that the Committee Plan was not "feasible" within the meaning of Section 1129 of the Bankruptcy Code.

The Debtors continued to pursue confirmation of their first amended joint plan of reorganization and filed a motion in the Bankruptcy Court on December 4, 2003 to implement auction procedures in support of such confirmation. At or about that time, the Debtors, the holders of the Notes and the Official Equity Committee commenced discussions with respect to the formulation and implementation of an alternative, consensual Chapter 11 plan of reorganization intended to result in a transaction that would satisfy and address the claims and equity interests of all the Debtors' creditors and stockholders.

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On January 17, 2004, the Debtors filed with the Bankruptcy Court the Plan, which subsequently was amended on February 5, 2004. The Plan was agreed to by the Official Equity Committee, as well as Berkshire and Ranch, 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.

Under the Plan:

- All of the Company's outstanding allowed pre-petition claims will be fully paid, in cash, together with post-petition (non-default rate) interest, except with respect to any disputed claims and any claims that are reinstated under the Plan.
- All 25,375,683 outstanding shares of the Company's common stock will be cancelled and such shares will be converted into the right to receive and be exchanged for:
  - 25,375,683 shares of reorganized common stock, representing all of the issued and 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.
- The Standby Purchasers, as defined in the Plan, will, following the expiration of the Stockholder Warrants, purchase in a private transaction up to $75 million worth of reorganized common stock (representing the maximum number of shares subject to the Stockholder Warrants) not purchased upon the exercise of the Stockholder Warrants.
- The Standby Purchasers will receive, as compensation for their standby purchase agreement, separate warrants (the "Guarantor Warrants) to purchase up to 15,037,568 shares of reorganized common stock, representing 9.10% of the issued and outstanding shares of reorganized common stock on a fully diluted basis. The Guarantor Warrants will expire seven years after their issuance and have an exercise price of $.72 per share.

Payments to creditors under the Plan will be funded utilizing (i) the net proceeds from the exercise of the Stockholder Warrants and/or the sale of shares under the standby purchase agreement, (ii) net proceeds of not less than $180 million from the Company's anticipated institutional offering of new senior unsecured notes, (iii) available cash and equivalents of not less than $35 million and, if necessary, (iv) available borrowings under the Company's new revolving credit facility.

The effective date of the Plan is anticipated to occur in May 2004 or as soon as practicable thereafter. The Plan will not become effective unless and until the following conditions have occurred:

- the contemplated institutional private placement of new senior notes is consummated resulting in net proceeds to the Company of not less than $180 million,
-

the new revolving credit facility providing for a revolving loan commitment, subject to borrowing base, of not less than $25 million, is closed and is in full force and effect,

- the registration statement is declared effective by the SEC, and no stop order has been issued in respect thereof,
- the Company's initial board of directors is appointed as set forth in the Plan and each director has agreed to serve as a director of the Company,
- the Company has cash or cash equivalents in hand as of the effective date of the Plan and available to satisfy claims under the Plan of not less than $35 million, and
- the effective date of the Plan has occurred on or prior to July 31, 2004.

The Company, with the consent of the Official Equity Committee and the Standby Purchasers and in certain cases, Berkshire and Ranch (which consent will not unreasonably be withheld), may waive any of the conditions set forth above, at any time, without notice, without leave or order of the bankruptcy court, and without any formal action other than proceeding to consummate the Plan.

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In addition to the conditions precedent under the Plan, Mellon HBV Alternative Strategies LLC ("Mellon HBV") has required the Company to satisfy separate conditions under the standby funding commitment entered into between the Company and Mellon HBV on January 5, 2004. Mellon HBV has the right to terminate its standby funding commitment if any of the conditions precedent under the standby commitment letter are not met. Mellon HBV also retains the right to terminate the standby funding commitment upon the occurrence and non-occurrence of certain events. Mellon HBV may, at its option, waive any of the conditions or termination events.

There can be no assurance that the transactions will be consummated in the way contemplated under the Plan, that the Company will consummate the Plan by July 31, 2004, or that the Company will emerge from its reorganization proceedings as contemplated under the Plan.

Generally, pre-Petition Date claims against the Debtors fall into two categories: secured and unsecured, including certain contingent or unliquidated claims. Under the Bankruptcy Code, a creditor's claim is treated as secured only to the extent of the value of the collateral securing such claim, with the balance of such claim being treated as unsecured. The amount and validity of pre-Petition Date contingent or unliquidated claims ultimately may be established by the Bankruptcy Court or by agreement of the parties. As a result of the Cases, additional pre-Petition Date claims and liabilities have been asserted, some of which are significant. The Debtors have objected to many of the asserted claims which the Debtors believe are improper or overstated. No provision has been included in the accompanying financial statements for such contingent or unliquidated claims that have been filed with the Bankruptcy Court except to the extent the Company believes such claims to be probable and estimable.

The accompanying consolidated financial statements have been prepared in accordance with SOP 90-7, and on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. However, as a result of the Cases, such realization of assets and liquidation of liabilities is subject to a significant number of uncertainties.

The following tables set forth certain financial information for the Debtors and non-Debtors (in thousands):

Condensed Consolidating Balance Sheets
March 31, 2004

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Cash and equivalents	$ 47,981	$ 607	$ -	$ 48,588
Receivables	37,778	9,929	-	47,707
Investment in subsidiaries	294,708	22,734	(317,442)	-
Intercompany receivables (payables)	21,455	(21,455)	-	-
Net seismic data library	193,559	60,315	-	253,874
Net property and equipment	7,385	6,706	-	14,091
Other assets	7,678	1,177	-	8,855
	$ 610,544	$ 80,013	$ (317,442)	$ 373,115
Liabilities not subject to compromise:				
Accounts payable and accrued liabilities	$ 13,147	$ 7,532	$ -	$ 20,679
Debt, including capital leases	8,988	2,696	-	11,684

Other liabilities	43,050	18,107	-	61,157
Liabilities subject to compromise	277,554	-	-	277,554
Stockholders' equity	267,805	51,678	(317,442)	2,041