SEITEL INC
Form 10-Q
November 13, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

[X]	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended September 30, 2007
	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 its charter)

Delaware (State or other jurisdiction of incorporation or organization)	76-0025431 (I.R.S. Employer Identification No.)
10811 S. Westview Circle Drive Building C, Suite 100 Houston, Texas (Address of principal executive offices)	77043 (Zip Code)
Registrant's telephone number, including area code:	(713) 881-8900

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

Yes [X] No [ ]

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

Large accelerated filer[ ]   Accelerated filer[ ]   Non-accelerated filer[X]

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

Yes [ ]   No [X]

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

Yes [X]   No [ ]

As of November 9, 2007, there were 100 shares of the Company's common stock, par value $.001 per share outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

SEITEL, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	(Unaudited) SUCCESSOR PERIOD September 30, 2007	PREDECESSOR PERIOD December 31, 2006
ASSETS		
Cash and cash equivalents	$ 33,194	$ 107,390
Restricted cash	108	105
Receivables		
Trade, net of allowance for doubtful accounts of $719 and $316, respectively	36,443	52,144
Notes and other, net of allowance for doubtful accounts of $263 and $275, respectively	793	895
Net seismic data library, net of accumulated amortization of $92,604 and $961,549, respectively	362,807	123,123
Net property and equipment, net of accumulated depreciation and amortization of $1,727 and $26,439, respectively	7,352	7,628
Prepaid expenses, deferred charges and other	19,074	9,169
Deferred income taxes	22	4,981
Intangible assets, net	53,671	-
Goodwill	208,566	-
TOTAL ASSETS	$ 722,030	$ 305,435
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES		
Accounts payable and accrued liabilities	$ 30,843	$ 30,837
Income taxes payable	713	659
Debt		
Senior Notes	402,354	185,788
Notes payable	307	337
Obligations under capital leases	3,849	2,913
Deferred revenue	38,440	47,410
Deferred income taxes	18,232	-
TOTAL LIABILITIES	494,738	267,944
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDER'S EQUITY		
Preferred stock, par value $.01 per share; authorized 5,000,000 shares; none issued (Predecessor)	-	-
Common stock, par value $.01 per share; authorized 400,000,000		

shares; issued and outstanding 155,184,084 shares				
at December 31, 2006 (Predecessor)		-		1,552
Common stock, par value $.001 per share; 100 shares authorized,				
issued and outstanding at September 30, 2007 (Successor)		-		-
Additional paid-in capital		262,188		240,431
Retained deficit		(62,302)		(209,539)
Accumulated other comprehensive income		27,406		5,047
TOTAL STOCKHOLDER'S EQUITY		227,292		37,491
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$	722,030	$	305,435

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

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

	SUCCESSOR PERIOD	PREDECESSOR PERIOD
	Three Months Ended September 30,	
	2007	2006
REVENUE	$ 28,356	$ 45,877
EXPENSES:		
Depreciation and amortization	36,005	21,027
Cost of sales	72	40
Selling, general and administrative	9,902	8,373
Merger	807	-
	46,786	29,440
INCOME (LOSS) FROM OPERATIONS	(18,430)	16,437
Interest expense, net	(9,895)	(4,873)
Foreign currency exchange gains (losses)	1,360	(9)
Other income (loss)	39	(1)
Income (loss) from continuing operations before income taxes	(26,926)	11,554
Benefit for income taxes	(3,701)	(2,462)
Income (loss) from continuing operations	(23,225)	14,016
Loss from discontinued operations, net of tax	-	(146)
NET INCOME (LOSS)	$ (23,225)	$ 13,870

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

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

	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
	February 14, 2007 - September 30, 2007	January 1, 2007 - February 13, 2007	Nine Months Ended September 30, 2006
REVENUE	$ 76,025	$ 19,010	$ 139,117
EXPENSES:			
Depreciation and amortization	96,008	11,485	67,839
Gain on sale of seismic data	-	-	(231)
Cost of sales	113	8	203
Selling, general and administrative	23,825	3,577	26,309
Merger	2,087	17,457	-
	122,033	32,527	94,120
INCOME (LOSS) FROM OPERATIONS	(46,008)	(13,517)	44,997
Interest expense, net	(29,018)	(2,284)	(14,770)
Foreign currency exchange gains (losses)	3,017	(102)	1,125
Other income (loss)	39	12	(1)
Income (loss) from continuing operations before income taxes	(71,970)	(15,891)	31,351
Provision (benefit) for income taxes	(9,668)	452	(2,079)
Income (loss) from continuing operations	(62,302)	(16,343)	33,430
Loss from discontinued operations, net of tax	-	-	(142)
NET INCOME (LOSS)	$ (62,302)	$ (16,343)	$ 33,288

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)

	SUCCESSOR PERIOD	PREDECESSOR PERIOD	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
	Three Months Ended September 30,		February 14, 2007 - September 30,	January 1, 2007 - February 13,	Nine Months Ended September 30,
	2007	2006	2007	2007	2006
Net income (loss)	$ (23,225)	$ 13,870	$ (62,302)	$ (16,343)	$ 33,288
Unrealized gains (losses) on securities held as available for sale:					
Unrealized net holding gains arising during period	-	-	-	-	19
Less: Reclassification adjustment for losses included in income	-	1	-	-	1
Foreign currency translation adjustments	11,723	7	27,406	7	982
Comprehensive income (loss)	$ (11,502)	$ 13,878	$ (34,896)	$ (16,336)	$ 34,290

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 STOCKHOLDER'S EQUITY (Unaudited)

(In thousands, except share amounts)

	PREDECESSOR Common Stock Shares	PREDECESSOR Common Stock Amount	SUCCESSOR Common Stock Shares	SUCCESSOR Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income
Predecessor Period:							
Balance, December 31, 2006	155,184,084	$ 1,552	-	$ -	$ 240,431	$ (209,539)	$ 5,047
Cumulative effect of adoption of FIN 48	-	-	-	-	-	(3,082)	-
Issuance of restricted stock	1,032,615	10	-	-	(10)	-	-
Issuance of common stock to employees	25,504	-	-	-	-	-	-
Amortization of stock-based compensation costs	-	-	-	-	379	-	-
Accrual for restricted stock issuance for performance equity awards	-	-	-	-	32	-	-
Retirement of stock to satisfy employee tax withholding	(109,149)	(1)	-	-	(287)	(112)	-
Vesting of restricted stock due to change in control	-	-	-	-	6,294	-	-
Net loss	-	-	-	-	-	(16,343)	-
Foreign currency translation adjustments	-	-	-	-	-	-	7
Balance, February 13, 2007	156,133,054	$ 1,561	-	$ -	$ 246,839	$ (229,076)	$ 5,054
Successor Period:							
Investment by Parent	-	$ -	100	$ -	$ 256,234	$ -	$ -
Amortization of stock-based compensation costs	-	-	-	-	5,954	-	-
Net loss	-	-	-	-	-	(62,302)	-
Foreign currency translation adjustments	-	-	-	-	-	-	27,406
Balance, September 30, 2007	-	$ -	100	$ -	$ 262,188	$ (62,302)	$ 27,406

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

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

(In thousands)

	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
	February 14, 2007 - September 30, 2007	January 1, 2007 - February 13, 2007	Nine Months Ended September 30, 2006
Cash flows from operating activities:			
Reconciliation of net income (loss) to net cash provided by operating activities of continuing operations:			
Net income (loss)	$ (62,302)	$ (16,343)	$ 33,288
Loss from discontinued operations, net of tax	-	-	142
Depreciation and amortization	96,008	11,485	67,839
Deferred income tax provision (benefit)	(10,119)	204	24
Amortization of deferred financing costs	4,952	99	889
Amortization of debt discount (premium)	(51)	70	381
Amortization of stock-based compensation	5,954	6,673	1,349
Amortization of favorable facility lease	166	-	-
Allowance for collection of trade receivables	391	-	160
Reversal of allowance for notes receivable	-	(274)	-
Non-cash compensation expense	-	32	666
Non-cash revenue	(1,881)	(88)	(11,029)
Gain on sale of property and equipment	-	-	(5)
Gain on sale of seismic data	-	-	(231)
Loss on sale of security	-	-	1
Decrease (increase) in receivables	7,124	9,074	(4,533)
Decrease (increase) in other assets	(927)	(472)	184
Increase (decrease) in deferred revenue	24,993	(7,767)	(859)
Increase (decrease) in accounts payable and other liabilities	(8,636)	2,917	(8,491)
Net cash provided by operating activities of continuing operations	55,672	5,610	79,775

Cash flows from investing activities:						
Cash invested in seismic data		(40,619)		(8,369)		(58,624)
Cash from sale of seismic data		-		-		231
Cash paid to acquire property and equipment		(409)		(60)		(912)
Cash from disposal of property and equipment		-		-		3
Cash from sale of security		-		-		12
Decrease (increase) in restricted cash		(3)		-		(18)
Net cash used in investing activities of continuing operations	$	(41,031)	$	(8,429)	$	(59,308)

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)

	SUCCESSOR PERIOD February 14, 2007 - September 30, 2007	PREDECESSOR PERIOD January 1, 2007 - February 13, 2007	Nine Months Ended September 30, 2006
Cash flows from financing activities:			
Issuance of 9.75% Senior Notes	$ 400,000	$ -	$ -
Repayment of 11.75% Senior Notes	(233,352)	-	-
Purchase of Seitel stock	(386,556)	-	-
Principal payments on notes payable	(27)	(3)	(29)
Principal payments on capital lease obligations	(62)	(6)	(29)
Borrowings on line of credit	103	119	25
Payments on line of credit	(103)	(119)	(25)
Payment of financing fees	(17,085)	-	-
Contributed capital	153,473	-	-
Purchase of common stock subsequently retired	-	(400)	(595)
Payments on notes receivable from officers and employees	274	-	14
Net cash used in financing activities of continuing operations	(83,335)	(409)	(639)
Effect of exchange rate changes	(2,320)	46	(969)
Net cash provided by discontinued operations:			
Cash provided by operating activities	-	-	8
Cash provided by investing activities	-	-	9
Net increase (decrease) in cash and equivalents	(71,014)	(3,182)	18,876
Cash and cash equivalents at beginning of period	104,208	107,390	78,097
Cash and cash equivalents at end of period	$ 33,194	$ 104,208	$ 96,973
Supplemental disclosure of cash flow information:			
Cash paid during the period for:			
Interest	$ 21,661	$ 11,207	$ 22,433
Income taxes	$ 1,418	$ 1	$ 284
Income tax refunds received	$ -	$ -	$ 393
Supplemental schedule of non-cash investing activities:			
Additions to seismic data library	$ 2,235	$ (7)	$ 8,889

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, 2007

NOTE A-BUSINESS COMBINATION

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

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

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

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

Pursuant to the Merger, all of the Company's outstanding common stock (other than shares owned by ValueAct Capital and management investors, which were contributed for ownership in Holdings) was exchanged for $3.70 per share. The aggregate purchase price in connection with the Merger was approximately $387.9 million, comprised of $386.6 million for the acquisition of the outstanding shares and $1.3 million for rollover shares by the management investors. In connection with the Merger, the warrants held by ValueAct Capital totaling 15,037,568 were cancelled. In addition, prior to the Merger, ValueAct Capital had invested $127.2 million in acquiring stock of the Company.

The Merger has been accounted for in accordance with the provisions of Statement of Financial Standards ("SFAS") No. 141, "Business Combinations." The total purchase price was allocated to the Company's net tangible and identifiable intangible assets based on their estimated fair values established, in part, by an independent appraisal firm as of March 1, 2006 and February 14, 2007 as set forth below. The excess of the purchase price over the net tangible and identifiable intangible assets was recorded as goodwill. The preliminary allocation of the purchase price for seismic data library, property and equipment, intangible assets and deferred income taxes was based upon valuation data at the date of the Merger and the estimates and assumptions are subject to change. The initial purchase price allocation may be adjusted within one year of the effective date of the Merger (February 14, 2007) for changes in estimates of the fair value of assets acquired and liabilities assumed based on the results of the purchase price allocation process.

During the second quarter ended June 30, 2007, the Company recorded an additional step-up of its seismic data library of $0.7 million with an offsetting adjustment to goodwill of approximately $0.5 million and deferred income tax liability of $0.2 million resulting from the finalization of adjusting the seismic data library to fair value. The Company recorded approximately $107,000 of additional amortization of the additional seismic data library step-up for the period February 14, 2007 through September 30, 2007. During the second and third quarters of 2007, the Company also recorded adjustments totaling approximately $3.1 million to increase goodwill and deferred income tax liability to adjust its accounting for the Merger.

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The following table summarizes the preliminary estimated fair values of the assets acquired and liabilities assumed (in thousands):

Cash and receivables	$	145,106
Property and equipment		8,159
Seismic data library		395,560
Identifiable intangibles		54,101
Goodwill		194,305
Prepaids and other assets		7,410
Accounts payable and accrued liabilities		(37,642)
Debt		(231,253)
Deferred revenue		(13,031)
Deferred income tax		(25,189)
Net assets acquired	$	497,526

A summary of the preliminary allocation of purchase price to identifiable intangible assets, other than goodwill is as follows (in thousands):

Intangible assets:		
Trade name	$	900
Customer relationships		42,848
Internally developed software		7,989
Favorable facility leases		2,184
Covenants not to compete		180
Total	$	54,101

The valuations are based on information that is available as of the date of the Merger and the expectations and assumptions that have been deemed reasonable by management. No assurance can be given, however, that the underlying assumptions of events associated with such assets will occur as projected. For these reasons, among others, the actual results may vary from the projected results.

The goodwill amount as well as adjustments to the fair value of our Canadian net assets recorded in connection with the Merger will vary at each reported balance sheet date due to the impact of foreign currency fluctuations.

Goodwill is tested for impairment at the reporting unit level as defined in SFAS No. 142, "Goodwill and Other Intangible Assets." This test is a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the fair value of the reporting unit with its carrying amount, including goodwill. If the fair value, which is based on future cash flows, exceeds the carrying amount, goodwill is not considered impaired. If the carrying amount exceeds the fair value, the second step must be performed to measure the amount of the impairment loss, if any. The second step compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. The Company will evaluate goodwill in the fourth quarter of each year on a separate reporting unit basis to assess recoverability, and impairments, if any, will be recognized in earnings. An impairment loss would be recognized in an amount equal to the excess of the carrying amount of the goodwill over the implied fair value of the goodwill. SFAS No. 142 also requires that intangible assets with determinable useful lives be amortized over their respective estimated useful lives and reviewed annually for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

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The following unaudited pro forma consolidated financial information has been prepared as if the Merger had taken place at the beginning of each year presented. The following unaudited pro forma information is not necessarily indicative of the results of operations in future periods or results that would have been achieved had the Merger taken place at the beginning of the years presented (in thousands):

	Three Months Ended	Nine Months Ended	
	September 30, 2006	September 30, 2007	September 30, 2006
Revenue	$ 41,714	$ 86,465	$ 119,168
Operating loss	(6,456)	(57,773)	(30,841)
Net loss	(11,603)	(78,531)	(49,584)

The pro forma financial information reflects the decreased revenue from selections of previously deferred revenue, additional amortization and depreciation expense and increased interest expense. The pro forma financial information also reflects the elimination of merger expenses.

NOTE B-BASIS OF PRESENTATION

The accompanying condensed financial statements of the Company and its subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. In preparing the Company's financial statements, a number of estimates and assumptions are made by management that affect the accounting for and recognition of assets, liabilities, revenues and expenses. The condensed consolidated balance sheet of the Company as of December 31, 2006, has been derived from the audited balance sheet of the Company as of that date. These financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2006 contained in the Company's Annual Report.

Although the Company continues as the same legal entity after the Merger, the consolidated financial statements for the first nine months of 2007 are presented for two periods: January 1, 2007 through February 13, 2007 (the "Predecessor Period" or "Predecessor," as context requires) and February 14, 2007 through September 30, 2007 (the "Successor Period" or "Successor," as context requires), which relate to the period preceding the Merger and the period succeeding the Merger, respectively. The consolidated financial statements for the Successor Period (including for the three months ended September 30, 2007) reflect the acquisition of the Company under the purchase method of accounting in accordance with SFAS No. 141. The results between these periods are not comparable to the Predecessor due to the difference in the basis of presentation of purchase accounting as compared to historical cost. The consolidated financial statements as of December 31, 2006 and for the three and nine months ended September 30, 2006 are also presented as Predecessor.

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.

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

The Company outsources the substantial majority of the work required to complete data acquisition projects to third party contractors. The Company's payments to these third party contractors comprise the substantial majority of the total estimated costs of the project and are paid throughout the creation period. A typical survey includes specific activities required to complete the survey; each 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 described above. The customers also receive access to and use of the newly acquired, processed data.

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

Revenue from Non-Exclusive Data Licenses

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

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

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

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

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

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

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

- that all customers must also execute a master license agreement that governs the use of all data received under the Company's non-exclusive license contracts;

- the specific payment terms, generally ranging from 30 days to 18 months, and that such payments are non-cancelable and non-refundable;

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- 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.

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.

In non-monetary exchange transactions, the Company records a data library asset for the seismic 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, which is, when the data is selected by the customer, or revenue from data acquisition, as applicable. The data license to the customer is in the form of one of the four basic forms of contracts discussed above. These transactions are valued at the fair value of the data received or delivered, whichever is more readily determinable.

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

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

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

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- 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):

	SUCCESSOR PERIOD	PREDECESSOR PERIOD	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
	Three Months Ended September 30,		February 14, 2007 - September 30,	January 1, 2007 - February 13,	Nine Months Ended September 30,
	2007	2006	2007	2007	2006
Seismic data library additions	$ 73	$ 2,077	$ 2,235	$ (7)	$ 8,889
Revenue recognized on specific data licenses and selections of data	126	2,998	1,208	71	8,082
Revenue recognized related to acquisition contracts	646	391	673	11	2,927
Revenue recognized related to data management services	-	13	-	6	20

Revenue from Seitel Solutions

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

NOTE D-SEISMIC DATA LIBRARY

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

Costs of Seismic Data Library

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

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

For internally created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data. Such costs include salaries and benefits of the Company's processing personnel and certain other costs incurred for the benefit of the processing activity. The Company believes that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for internal data processing were $506,000 and $464,000 for the three months ended September 30, 2007 and 2006, respectively and $1,218,000, $265,000 and $1,369,000 for the period from February 14, 2007 to September 30, 2007 (Successor Period), for the period from January 1, 2007 to February 13, 2007 (Predecessor Period) and for the nine months ended September 30, 2006 (Predecessor Period), respectively.

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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. 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. 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 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.

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, 2007, the amortization rate utilized under the income forecast method for all components is 70%.

The greater of the income forecast or straight-line amortization policy is applied quarterly on a cumulative basis at the individual survey level. In connection with the Merger, the greater of the income forecast or straight-line amortization policy was applied at February 13, 2007 (for the Predecessor Period), and March 31, 2007, June 30, 2007 and September 30, 2007 (for the Successor Period). Under this policy, the Company first records amortization using the income forecast method. The cumulative amortization recorded for each survey is then compared with the cumulative straight-line amortization. If the cumulative straight-line amortization is higher for any specific survey, additional amortization expense is recorded, resulting in accumulated amortization being equal to the cumulative straight-line amortization for such survey. This requirement is applied regardless of future-year revenue estimates for the library component of which the survey is a part and does not consider the existence of deferred revenue with respect to the library component or to any survey.

Seismic Data Library Impairment

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

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

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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 and other factors that the Company deems relevant. The cash flow estimates exclude expected future revenues attributable to non-monetary data exchanges and future data creation projects.

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

The Company did not have any impairment charges during the period from February 14, 2007 to September 30, 2007 (Successor Period), for the period from January 1, 2007 to February 13, 2007 (Predecessor Period) or during the nine months ended September 30, 2006 (Predecessor Period).

NOTE E-INTANGIBLES

In connection with the Merger, the Company recorded intangible assets both in the U.S. and Canada. The recorded gross carrying amount of intangible assets changed since the Merger due to the impact of foreign currency fluctuations. The following is a summary of the Company's intangible assets other than goodwill as of September 30, 2007 (in thousands):

	SUCCESSOR PERIOD SEPTEMBER 30, 2007			
	Weighted Average Amortization Period	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Intangible assets with determinable useful lives:				
Favorable facility leases	9 years	$ 2,552	$ (208)	$ 2,344
Customer relationships	10 years	44,652	(2,791)	41,861
Covenants not to compete	1 year	180	(113)	67
Internally developed software	7 years	9,332	(833)	8,499

	$ 56,716	$ (3,945)	$ 52,771
Trade names with indefinite lives	900	-	900
Total identifiable intangible assets	$ 57,616	$ (3,945)	$ 53,671

Amortization expense for the Company's intangible assets was $1.5 million for the three months ended September 30, 2007 and $3.8 million during the period from February 14, 2007 to September 30, 2007. Estimated future amortization expense is as follows: remainder of fiscal year end 2007 - $1.6 million, fiscal year ended 2008 - $6.2 million, fiscal year ended 2009 - $6.1 million, fiscal year ended 2010 - $6.1 million, fiscal year ended 2011 - $6.1 million, and thereafter - $26.7 million.

NOTE F-INCOME TAXES

FASB Interpretation No. 48

Effective January 1, 2007, the Company adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition of income tax assets and liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures.

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As of January 1, 2007, the Company recorded the cumulative effect of adopting FIN 48 of $3.1 million as an increase to the balance of retained deficit. The Company has unrecognized tax benefits of approximately $9.2 million, of which $1.9 million would impact the effective income tax rate if recognized.

In conjunction with the adoption of FIN 48, uncertain tax positions are reflected as income tax assets and liabilities. Income tax-related interest and penalty expenses are recorded as a component of income tax expense. The total amount of accrued income tax-related interest and penalties included in the Consolidated Balance Sheets as of September 30, 2007 and January 1, 2007 was $2.0 million and $1.6 million, respectively. Income tax expense (benefit) for the three months ended September 30, 2007, for the period from January 1, 2007 to February 13, 2007 and for the period from February 14, 2007 to September 30, 2007 included $(0.1) million, $0.1 million and $0.3 million, respectively, related to interest on unrecognized tax benefits.

The Company believes it is reasonably possible that, within the next 12 months, the amount of previously unrecognized tax benefits could decrease by approximately $3.1 million primarily as a result of the resolution of tax audits.

With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2003, 2002 and 1999, respectively.

Income Tax Expense (Benefit)

The following is the detail of income tax expense (benefit) recorded in 2007 for the periods indicated (in thousands):

	SUCCESSOR PERIOD February 14, 2007 - September 30, 2007			PREDECESSOR PERIOD January 1, 2007 - February 13, 2007		
	U.S.	Canada	Total	U.S.	Canada	Total
Tax expense (benefit) resulting from:						
Current operations	$ (21,579)	$ (5,693)	$ (27,272)	$ (5,051)	$ 354	$ (4,697)
Change in Valuation Allowance	17,604	-	17,604	5,149	-	5,149
Total tax expense (benefit)	$ (3,975)	$ (5,693)	$ (9,668)	$ 98	$ 354	$ 452

In the Predecessor Period, the Company provided a full valuation allowance against the Federal tax benefit generated from its U.S. operations as it was more likely than not that such benefit would not be realized. The Company recorded a step-up in deferred tax liabilities of $30.0 million due to the step-up in its U.S. and Canadian net asset values as a result of the Merger. Consequently, in the Successor Period, a portion of the Federal tax benefit generated from the Company's U.S. operations was recognized as a tax benefit up to the amount of the U.S. deferred tax liability recorded. The remaining U.S. Federal tax benefit of $17.6 million was offset by a valuation allowance because it was more likely than not that such benefit would not be realized.

Deferred Tax Liability

As of September 30, 2007, the Company had a net deferred tax liability of $18.2 million, all of which was attributable to its Canadian operations. In the U.S., the Company had a net deferred tax asset of $17.6 million, all of which was offset by a valuation allowance, except for $22,000 related to state deferred tax assets. The recognition of the U.S. federal tax asset will not occur until such time that it is more likely than not that some portion or all of the deferred tax asset will be realized.

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NOTE G-DEBT

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

	SUCCESSOR PERIOD September 30, 2007	PREDECESSOR PERIOD December 31, 2006
9.75% Senior Notes	$ 400,000	$ -
11.75% Senior Notes	2,000	189,000
Revolving Credit Facility	-	-
Subsidiary revolving line of credit	-	-
Note payable to former executive	307	337
	402,307	189,337
Plus: Premium on debt	354	-
Less: Debt discount	-	(3,212)
	$ 402,661	$ 186,125

9.75% Senior Unsecured Notes

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

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

11.75% Senior Unsecured Notes

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

January 15 and July 15 of each year. The remaining $2.0 million of notes mature on July 15, 2011. The 11.75% Senior Notes are unsecured and are guaranteed by substantially all of the Company's U.S. subsidiaries on a senior basis.

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As a result of the tender and consent offer, effective February 14, 2007, the 11.75% Senior Notes no longer contain any restrictive covenants, other than the requirement to make excess cash flow offers. Subject to certain conditions, if at the end of each fiscal year the Company has excess cash flow (as defined in the indenture) in excess of $5.0 million, the Company is required to use 50% of the excess cash flow to fund an offer to repurchase the 11.75% Senior Notes on a pro rata basis at 100% of its principal amount, plus accrued and unpaid interest. If the Company has less than $5.0 million in excess cash flow at the end of any fiscal year, such excess cash flow will be carried forward to succeeding years, and such repurchase offer is required to be made in the first year in which the cumulative excess cash flow for all years in which there has not been an offer is at least $5.0 million. Such repurchase offer is required only if there is no event of default under the Company's revolving credit facilities prior to and after giving effect to the repurchase payment. Because of excess cash flow generated for the year ended December 31, 2006, in the first quarter of 2007, the Company made a repurchase offer for the remaining notes. No 11.75% Senior Notes were tendered in the 2006 excess cash flow offer. Upon a change of control (as defined in the indenture), each holder of the 11.75% Senior Notes will have the right to require the Company to offer to purchase all of such holder's notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest.

Revolving Credit Facility

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

Subsidiary Revolving Line of Credit

The Company's wholly owned subsidiary, Olympic Seismic Ltd. ("Olympic"), has a revolving credit facility, which allows it to borrow up to $5.0 million (Canadian) subject to an availability formula by way of prime-based loans, bankers' acceptances or letters of credit. The interest rate applicable to borrowings is the bank's prime rate plus 0.35% per annum and 1.50% per annum for bankers' acceptances. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The facility is secured by the assets of Olympic, but is not guaranteed by the Company or any of its other U.S. subsidiaries. However, all intercompany debt owing by Olympic to the Company or to any other U.S. subsidiary of the Company (approximately $4.4 million (Canadian) at September 30, 2007) has been subordinated to the repayment of Olympic's obligations under 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 Olympic, less prior-ranking claims, if any, relating to inventory or accounts. The facility is subject to repayment upon demand and is available from time to time at the bank's sole discretion.

Note Payable to Former Executive

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

NOTE H-CONTRACTUAL OBLIGATIONS

As of September 30, 2007, the Company had approximately $669.0 million of outstanding debt and lease obligations, with aggregate contractual cash obligations summarized as follows (in thousands):

Payments due by period

Remainder

Contractual cash obligations	Total	of 2007	2008-2010	2011-2012	2013 and thereafter
Debt obligations (1)(2)	$ 656,842	$ 12	$ 117,921	$ 80,379	$ 458,530
Capital lease obligations (2)	6,031	93	1,117	770	4,051
Operating lease obligations	6,112	303	3,613	1,917	279
Total contractual cash obligations	$ 668,985	$ 408	$ 122,651	$ 83,066	$ 462,860

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

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

NOTE G-DEBT

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NOTE I-STOCK-BASED COMPENSATION

Prior to the closing of the Merger, the Company had a stock option plan (the "2004 Stock Option Plan") which provided for the grant of stock-based awards, including stock options, restricted stock or other stock-based awards to eligible employees and directors. In connection with the Merger, Holdings, the Company's parent, adopted a stock-based compensation plan (the "2007 Non-Qualified Stock Option Plan") for the benefit of the Company's key employees and non-employee directors.

The amounts of stock-based compensation expense recognized in the periods presented are as follows (in thousands):

	SUCCESSOR PERIOD		PREDECESSOR PERIOD	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
		Three Months Ended September 30,		February 14, 2007 - September 30, 2007	January 1, 2007 - February 13, 2007	Nine Months Ended September 30, 2006
	2007		2006			
Included in reported selling, general and administrative expenses						
Restricted stock	$ -		$ 618	$ -	$ 412	$ 2,016
Stock options	2,407		-	5,954	-	-
Total	$ 2,407		$ 618	$ 5,954	$ 412	$ 2,016
Included in merger expenses						
Restricted stock	$ -		$ -	$ -	$ 6,294	$ -
Total	$ -		$ -	$ -	$ 6,294	$ -
Stock-based compensation expense	$ 2,407		$ 618	$ 5,954	$ 6,706	$ 2,016

Stock and Equity-Based Compensation Plans

Successor

Non-qualified Options

The 2007 Non-Qualified Stock Option Plan ("the Plan") was adopted effective February 14, 2007, and authorizes stock options to be granted to the Company's key employees and non-employee directors for up to 92,898 shares of Holdings' common stock. During 2007, the Board of Directors of Holdings approved an increase of 1,988 shares for issuance under the Plan. Since adoption of the Plan, 93,793 total non-qualified stock options ("Options"), with an exercise price of $389.42 per share have been issued. The Options vest 25 percent on each of the first, second, third and fourth anniversaries of each grant date.

NOTE G-DEBT

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The fair value of the Options was estimated on each grant date using the Black-Scholes option pricing method. The assumptions used in the model are outlined in the following table:

	SUCCESSOR PERIOD February 14, 2007- September 30, 2007
Weighted average grant date fair value per share	$ 197.95
Weighted average assumptions used:	
Expected volatility	45 %
Expected life (in years)	6.25
Risk free interest rate	4.69 %
Expected dividend yield	0.0 %

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

The following table summarizes stock option activity during the Successor Period:

		SUCCESSOR	
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years
Outstanding at February 14, 2007	-	-	
Granted	93,793	$389.42	
Exercised	-	-	
Cancelled	-	-	
Outstanding at September 30, 2007	93,793	$389.42	
Options exercisable at September 30, 2007	-	-	-
Options vested or expected to vest at September 30, 2007	-	-	-

As of October 1, 2007, the total future compensation cost related to non-vested options, not yet recognized in the Statement of Operations, was $12.6 million and will be recognized using graded vesting over a weighted average period of 3.4 years.

NOTE G-DEBT

Predecessor

Restricted Stock and Common Stock

In accordance with the 2004 Stock Option Plan, 7,500,000 shares of its common stock were initially reserved and available for stock-based awards, including options, restricted stock or other stock-based awards. The exercise price, term and other conditions applicable to each award granted under the 2004 Stock Option Plan were generally determined by the Compensation Committee at the time of grant and varied with each award granted.

As a result of the Merger, any and all unvested restricted stock outstanding at February 13, 2007 immediately vested. The Company recorded in merger expenses a non-cash charge for stock compensation expense of approximately $6.3 million in the Predecessor Period as a result of this accelerated vesting.

NOTE G-DEBT

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The following table summarizes the activity of non-vested restricted stock during the Predecessor Period (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2007	3,692	$2.14
Granted	1,033	$3.56
Vested	(4,725)	$2.45
Forfeited	-	-
Non-vested at February 13, 2007	-	-

The following table summarizes the activity of non-vested restricted stock during the nine months ended September 30, 2006 (shares in thousands):

	Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2006	2,965	$1.36
Granted	1,841	$2.92
Vested	(443)	$1.40
Forfeited	(17)	$1.86
Non-vested at September 30, 2006	4,346	$2.01

During the Predecessor Period and the nine months ended September 30, 2006, 25,504 and 108,327 shares, respectively, of common stock were awarded to employees at an average fair value of $3.56 and $2.99, respectively.

Stock Options

On July 2, 2004, the Company granted its then chairman options to purchase 100,000 shares of its common stock at an exercise price of $1.30, the market price of the common stock on such date. Such options became exercisable on July 2, 2005. Such options were not granted under the 2004 Stock Option Plan. As a result of the Merger, the outstanding stock options were purchased at the Merger consideration price of $3.70 per share, less the exercise price of $1.30 per share.

The following table summarizes stock option activity during the Predecessor Period (shares in thousands):

	PREDECESSOR			
	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (000's)
Outstanding at January 1, 2007	100	$1.30		
Granted	-	-		
Exercised	-	-		
Cancelled	-	-		

Paid out at Merger closing	(100)	$1.30	-	-
Outstanding at February 13, 2007	-	-	-	-

NOTE G-DEBT

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The following table summarizes stock option activity during the nine months ended September 30, 2006 (shares in thousands):

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life in Years	Aggregate Intrinsic Value (000's)
Outstanding at January 1, 2006	100	$1.30		
Granted	-	-		
Exercised	-	-		
Cancelled	-	-		
Outstanding at September 30, 2006	100	$1.30	7.75	$237
Options exercisable at September 30, 2006	100	$1.30	7.75	$237
Options vested or expected to vest at September 30, 2006	100	$1.30	7.75	$237

NOTE J-STATEMENT OF CASH FLOW INFORMATION

The Company had restricted cash at September 30, 2007 and December 31, 2006 of $108,000 and $105,000, respectively, related to collateral on a seismic operations bond.

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

	SUCCESSOR PERIOD February 14, 2007-September 30, 2007	PREDECESSOR PERIOD January 1, 2007-February 13, 2007	Nine Months Ended September 30, 2006
Non-monetary exchanges related to resale licensing revenue	$ 2,873	$ (7)	$ 5,718
Non-monetary exchanges from underwriting of new data acquisition	-	-	1,430
Non-monetary exchanges related to data management services	-	-	52
Completion of data in progress from prior non-monetary exchanges	600	-	2,476
Less: Non-monetary exchanges for data in progress	(1,238)	-	(787)
Total non-cash additions to seismic data library	$ 2,235	$ (7)	$ 8,889

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

SUCCESSOR PREDECESSOR

	PERIOD February 14, 2007- September 30, 2007	January 1, 2007- February 13, 2007	PERIOD	Nine Months Ended September 30, 2006
Acquisition revenue on underwriting from non-monetary exchange contracts	$ 673	$ 11		$ 2,927
Licensing revenue from specific data licenses and selections on non-monetary exchange contracts	1,208	71		8,082
Data management revenue	-	6		20
Total non-cash revenue	$ 1,881	$ 88		$ 11,029

NOTE G-DEBT

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NOTE K-COMMITMENTS AND CONTINGENCIES

Litigation

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

On November 6, 2006, a purported class action complaint was filed in the District Court of Harris County, Texas, 189th Judicial District (No. 2006-71302) by Todd Augenbaum, an alleged stockholder of the Company. The plaintiff filed an amended complaint on January 22, 2007. The amended complaint named as defendants the Company and each member of its Board of Directors as well as ValueAct Capital Master Fund, L.P. ("ValueAct Capital"), Seitel Holdings, Inc. ("Holdings") and Seitel Acquisition Corp. ("Acquisition Corp.") The amended complaint alleged, among other things, that (i) the defendants breached fiduciary duties they assertedly owed to the Company's stockholders in connection with the Company entering into the Agreement and Plan of Merger, dated as of October 31, 2006, with Holdings and Acquisition Corp., or aided and abetted in the breach thereof, (ii) the defendants breached their duty of candor to the Company's stockholders by failing to disclose material information, or aided and abetted in the breach thereof, and (iii) the merger consideration was unfair and inadequate. The plaintiff sought, among other things, certification of a class, an injunction against the consummation of the merger, and the costs and disbursements of the action. On February 1, 2007, the court denied the plaintiff's motion for a temporary restraining order and/or preliminary injunction of the shareholder vote, which then occurred as scheduled on February 9, 2007. On October 1, 2007, the court approved a joint motion filed by the parties and dismissed the plaintiff's case with prejudice and without payment by any party.

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. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At September 30, 2007, the Company did not have any amounts accrued related to the claims set forth above, as the Company believes it is not probable that any amounts will be paid relative to such litigation and claims. 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.

NOTE L-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

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

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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 Guarantors are not presented because (i) the Guarantor Subsidiaries are wholly-owned and have fully and unconditionally guaranteed the 9.75% Senior Notes on a joint and several basis, and (ii) the Company's management has determined such separate financial statements are not material to investors.

The following consolidating condensed financial information presents the consolidating condensed balance sheets as of September 30, 2007 (Successor Period) and December 31, 2006 (Predecessor Period), and the consolidating condensed statements of operations and statements of cash flows for the period from February 14, 2007 to September 30, 2007 (Successor Period), from January 1, 2007 to February 13, 2007 (Predecessor Period) and for the nine months ended September 30, 2006 (Predecessor Period) 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

SUCCESSOR PERIOD

As of September 30, 2007

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
ASSETS					
Cash and cash equivalents	$ -	$ 29,034	$ 4,160	$ -	$ 33,194
Restricted cash	-	108	-	-	108
Receivables					
Trade, net	-	26,302	10,141	-	36,443
Notes and other, net	62	674	57	-	793
Intercompany receivables (payables)	167,888	(154,059)	(13,829)	-	-
Investment in subsidiaries	426,579	463,819	(81)	(890,317)	-
Net seismic data library	-	261,508	101,299	-	362,807
Net property and equipment	-	4,421	2,931	-	7,352
Prepaid expenses, deferred charges and other	13,456	3,711	1,907	-	19,074
Deferred income taxes	-	22	-	-	22
Intangible assets, net	968	30,114	22,589	-	53,671
Goodwill	-	107,108	101,458	-	208,566
TOTAL ASSETS	$ 608,953	$ 772,762	$ 230,632	$ (890,317)	$ 722,030
LIABILITIES AND STOCKHOLDER'S EQUITY					
Accounts payable and accrued liabilities	$ 5,698	$ 17,465	$ 7,680	$ -	$ 30,843
Income taxes payable	708	-	5	-	713
Senior Notes	402,354	-	-	-	402,354
Notes payable	307	-	-	-	307
Obligations under capital leases	-	-	3,849	-	3,849
Deferred revenue	-	30,345	8,095	-	38,440
Deferred income taxes	-	-	18,232	-	18,232
TOTAL LIABILITIES	409,067	47,810	37,861	-	494,738
STOCKHOLDER'S EQUITY					
Common stock	-	-	-	-	-
Additional paid-in capital	262,188	-	-	-	262,188
Parent investment	-	764,762	171,821	(936,583)	-
Retained deficit	(62,302)	(39,810)	(6,456)	46,266	(62,302)
	-	-	27,406	-	27,406

Accumulated other comprehensive income										
TOTAL STOCKHOLDER'S EQUITY		199,886		724,952		192,771		(890,317)		227,292
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$	608,953	$	772,762	$	230,632	$	(890,317)	$	722,030

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CONSOLIDATING CONDENSED BALANCE SHEET

PREDECESSOR PERIOD

As of December 31, 2006

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
ASSETS					
Cash and equivalents	$ -	$ 101,043	$ 6,347	$ -	$ 107,390
Restricted cash	-	105	-	-	105
Receivables					
Trade, net	-	40,786	11,358	-	52,144
Notes and other, net	59	213	623	-	895
Intercompany receivables (payables)	284,395	(268,346)	(15,780)	(269)	-
Investment in subsidiaries	(59,599)	318,146	59,498	(318,045)	-
Net seismic data library	-	84,718	41,636	(3,231)	123,123
Net property and equipment	-	4,122	3,506	-	7,628
Prepaid expenses, deferred charges and other assets	4,651	3,902	616	-	9,169
Deferred income taxes	-	-	4,981	-	4,981
TOTAL ASSETS	$ 229,506	$ 284,689	$ 112,785	$ (321,545)	$ 305,435
LIABILITIES AND STOCKHOLDERS' EQUITY					
Accounts payable and accrued liabilities	$ 10,288	$ 15,732	$ 4,817	$ -	$ 30,837
Income taxes payable	659	-	-	-	659
Senior Notes	185,788	-	-	-	185,788
Notes payable	337	-	-	-	337
Obligations under capital leases	-	-	2,913	-	2,913
Deferred revenue	-	35,974	11,436	-	47,410
TOTAL LIABILITIES	197,072	51,706	19,166	-	267,944
STOCKHOLDERS' EQUITY					
Common stock	1,552	-	-	-	1,552
Additional paid-in capital	240,431	-	-	-	240,431
Parent investment	-	209,770	21,242	(231,012)	-
Retained earnings (deficit)	(209,539)	23,222	67,316	(90,538)	(209,539)
Accumulated other comprehensive income (loss)	(10)	(9)	5,061	5	5,047
TOTAL STOCKHOLDERS' EQUITY	32,434	232,983	93,619	(321,545)	37,491
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 229,506	$ 284,689	$ 112,785	$ (321,545)	$ 305,435

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CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

SUCCESSOR PERIOD

February 14, 2007 - September 30, 2007

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	$ -	$ 59,194	$ 18,143	$ (1,312)	$ 76,025
EXPENSES:					
Depreciation and amortization	113	71,455	24,440	-	96,008
Cost of sales	-	86	27	-	113
Selling, general and administrative	6,570	10,463	8,104	(1,312)	23,825
Merger	-	2,053	34	-	2,087
	6,683	84,057	32,605	(1,312)	122,033
LOSS FROM OPERATIONS	(6,683)	(24,863)	(14,462)	-	(46,008)
Interest expense, net	(11,318)	(16,996)	(704)	-	(29,018)
Foreign currency exchange gains	-	-	3,017	-	3,017
Other income	-	39	-	-	39
Loss before income taxes and equity in loss of subsidiaries	(18,001)	(41,820)	(12,149)	-	(71,970)
Benefit for income taxes	-	(3,975)	(5,693)	-	(9,668)
Equity in loss of subsidiaries	(44,301)	(1,965)	-	46,266	-
NET LOSS	$ (62,302)	$ (39,810)	$ (6,456)	$ 46,266	$ (62,302)

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CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

PREDECESSOR PERIOD

January 1, 2007 - February 13, 2007

(In thousands)

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

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CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Nine Months Ended September 30, 2006

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	$ -	$ 109,736	$ 31,038	$ (1,657)	$ 139,117
EXPENSES:					
Depreciation and amortization	-	45,950	22,389	(500)	67,839
Gain on sale of seismic data	-	(2,377)	-	2,146	(231)
Cost of sales	-	183	20	-	203
Selling, general and administrative expenses	1,571	16,777	9,618	(1,657)	26,309
	1,571	60,533	32,027	(11)	94,120
INCOME (LOSS) FROM OPERATIONS	(1,571)	49,203	(989)	(1,646)	44,997
Interest expense, net	(1,302)	(12,441)	(1,027)	-	(14,770)
Foreign currency exchange gains	-	63	1,062	-	1,125
Loss on sale of security	-	-	(1)	-	(1)
Income (loss) from continuing operations before income taxes and equity in income (loss) of subsidiaries	(2,873)	36,825	(955)	(1,646)	31,351
Benefit for income taxes	-	(1,909)	(170)	-	(2,079)
Equity in income (loss) of subsidiaries	36,161	(784)	-	(35,377)	-
Income (loss) from continuing operations	33,288	37,950	(785)	(37,023)	33,430
Loss from discontinued operations, net of tax	-	(142)	-	-	(142)
NET INCOME (LOSS)	$ 33,288	$ 37,808	$ (785)	$ (37,023)	$ 33,288

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CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

SUCCESSOR PERIOD

February 14, 2007 - September 30, 2007

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	$ (21,929)	$ 55,523	$ 22,078	$ -	$ 55,672
Cash flows from investing activities:					
Cash invested in seismic data	-	(23,711)	(16,908)	-	(40,619)
Cash paid to acquire property and equipment	-	(361)	(48)	-	(409)
Increase in restricted cash	-	(3)	-	-	(3)
Net cash used in investing activities	-	(24,075)	(16,956)	-	(41,031)
Cash flows from financing activities:					
Issuance of 9.75% Senior Notes	400,000	-	-	-	400,000
Repayment of 11.75% Senior Notes	(233,352)	-	-	-	(233,352)
Purchase of Seitel stock	(386,556)	-	-	-	(386,556)
Principal payments on notes payable	(27)	-	-	-	(27)
Principal payments on capital lease obligations	-	-	(62)	-	(62)
Borrowings on line of credit	-	-	103	-	103
Payments on line of credit	-	-	(103)	-	(103)
Payment of financing fees	(17,085)	-	-	-	(17,085)
Contributed capital	153,473	-	-	-	153,473
Payments on notes receivable from officers and employees	-	274	-	-	274
Intercompany transfers	105,476	(105,476)	-	-	-
Net cash provided by (used in) financing activities	21,929	(105,202)	(62)	-	(83,335)
Effect of exchange rate changes	-	-	(2,320)	-	(2,320)
Net increase (decrease) in cash and cash equivalents	-	(73,754)	2,740	-	(71,014)
Cash and cash equivalents at beginning of period	-	102,788	1,420	-	104,208

Cash and cash equivalents at end of period	$ -	$ 29,034	$ 4,160	$ -	$ 33,194

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CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

PREDECESSOR PERIOD

January 1, 2007 - February 13, 2007

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	$ (11,821)	$ 19,894	$ (2,463)	$ -	$ 5,610
Cash flows from investing activities:					
Cash invested in seismic data	-	(7,500)	(869)	-	(8,369)
Cash paid to acquire property and equipment	-	(27)	(33)	-	(60)
Net cash used in investing activities	-	(7,527)	(902)	-	(8,429)
Cash flows from financing activities:					
Principal payments on notes payable	(3)	-	-	-	(3)
Principal payments on capital lease obligations	-	-	(6)	-	(6)
Borrowings on line of credit	-	-	119	-	119
Payments on line of credit	-	-	(119)	-	(119)
Purchase of common stock subsequently retired	(400)	-	-	-	(400)
Intercompany transfers	12,224	(10,622)	(1,602)	-	-
Net cash provided by (used in) financing activities	11,821	(10,622)	(1,608)	-	(409)
Effect of exchange rate changes	-	-	46	-	46
Net increase (decrease) in cash and cash equivalents	-	1,745	(4,927)	-	(3,182)
Cash and cash equivalents at beginning of period	-	101,043	6,347	-	107,390
Cash and cash equivalents at end of period	$ -	$ 102,788	$ 1,420	$ -	$ 104,208

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CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Nine Months Ended September 30, 2006

(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	$ (25,683)	$ 84,007	$ 21,451	$ -	$ 79,775
Cash flows from investing activities:					
Cash invested in seismic data	-	(46,613)	(14,157)	2,146	(58,624)
Cash from sale of seismic data	-	2,377	-	(2,146)	231
Cash paid to acquire property and equipment	-	(703)	(209)	-	(912)
Cash received from disposal of property and equipment	-	3	-	-	3
Cash from sale of security	-	-	12	-	12
Increase in restricted cash	-	(18)	-	-	(18)
Net cash used in investing activities of continuing operations	-	(44,954)	(14,354)	-	(59,308)
Cash flows from financing activities:					
Principal payments on notes payable	(29)	-	-	-	(29)
Principal payments on capital lease obligations	-	-	(29)	-	(29)
Borrowings on line of credit	-	-	25	-	25
Payments on line of credit	-	-	(25)	-	(25)
Purchases of common stock subsequently retired	(595)	-	-	-	(595)
Payments on notes receivable from officers and employees	-	14	-	-	14
Intercompany transfers	26,307	(18,449)	(7,858)	-	-
Net cash provided by (used in) financing activities of continuing operations	25,683	(18,435)	(7,887)	-	(639)
Effect of exchange rate changes	-	-	(969)	-	(969)
Net cash provided by discontinued operations:					
Cash provided by operating activities	-	8	-	-	8

Cash provided by investing activities	-	9	-	-	9
Net increase (decrease) in cash and equivalents	-	20,635	(1,759)	-	18,876
Cash and equivalents at beginning of period	-	71,430	6,667	-	78,097
Cash and equivalents at end of period	$ -	$ 92,065	$ 4,908	$ -	$ 96,973

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NOTE M-RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosure about fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. The Company is currently assessing the impact of adopting SFAS No. 157 but does not expect that it will have a material effect on its consolidated financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB No. 115", which provides a fair value measurement option for eligible financial assets and liabilities. Under SFAS No. 159, an entity is permitted to elect to apply fair value accounting to a single eligible item, subject to certain exceptions, without electing it for other identical items and include unrealized gains and losses in earnings. The fair value option established by this Statement is irrevocable, unless a new election date occurs. This standard reduces the complexity in accounting for financial instruments and mitigates volatility in earnings caused by measuring related assets and liabilities differently. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Management is currently evaluating the impact the adoption of SFAS No. 159 will have on the Company's financial statements, but does not presently anticipate it will have a material effect on its consolidated financial position, results of operations or cash flows.

NOTE N - RELATED PARTY TRANSACTIONS

The Company reimbursed ValueAct Capital approximately $1.1 million in the period from February 14, 2007 to September 30, 2007 for expenses incurred and paid by ValueAct Capital in connection with the Merger. This amount due to ValueAct Capital was recorded as a purchase price adjustment. There were no amounts payable to ValueAct Capital as of September 30, 2007.

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

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

Overview

General

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

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

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Over the last two years, we have achieved an average return on historical investment of approximately 40% on newly created data. In addition, during 2006, we added significant amounts of data through purchases and trades as compared to prior years. We believe that this data will meet our expected returns for purchased data. We determine return on investment by dividing the amount of non-exclusive data license revenue earned on data added to our library by the amount of the gross investment in the data, net of cash underwriting. This percentage is useful because it reflects our ability to recover the capital investment on data added to our library, but should not be considered as an alternative to net income, as an indicator of our operating performance or as a measure of liquidity, including as an alternative to cash flows from operating activities. 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.

Our clients continue to seek our services to create data in the United States and Canada. Our commitment for underwriting on new data creation projects was $30.7 million on September 30, 2007. 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.

Effect of the Merger and Related Transactions on Future Periods

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

In connection with the Merger, we paid $187.0 million aggregate principal amount of our 11.75% senior notes due 2011 (the "11.75% Senior Notes"), issued $400.0 million aggregate principal amount of 9.75% senior notes due 2014 (the "9.75% Senior Notes") and entered into an agreement with Wells Fargo Foothill, Inc. to amend and restate our existing U.S. revolving credit facility. Accordingly, as a result of the increase in our indebtedness our interest expense will be significantly higher in periods following the Merger.

The Merger was accounted for as a business combination in accordance with Statements of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," on a step acquisition basis. ValueAct Capital Master Fund L.P. ("ValueAct Capital") progressively increased its interest in Seitel in a series of transactions with the most significant acquisitions occurring on March 1, 2006 and February 14, 2007. Therefore, the assets and liabilities of Seitel for financial reporting purposes were recorded at the closing of the Merger based on the proportional fair values as of March 1, 2006 and February 14, 2007. For income tax purposes, these assets and liabilities remained at their historic tax basis. This resulted in recording deferred tax liabilities at the closing of the Merger.

The adjustments to our assets and liabilities as a result of the Merger will impact future net income. The significant effects expected on our 2007 financial results are as follows. The book value of our seismic data library was increased by approximately $275.2 million to its estimated fair market value of $395.6 million. As a result of this step up in value and of our maximum four-year straight-line amortization of seismic data, we estimate that our data amortization expense will increase by approximately $60.0 million for the period from February 14, 2007 to December 31, 2007. In addition, we recorded identifiable intangible assets with an estimated fair value of $54.1 million of which $53.2 million is amortizable over their useful lives ranging from 1 to 15 years. As a result of this step up in value, we estimate that amortization expense of acquired intangible assets will total approximately $5.2 million for the period from February 14, 2007 to December 31, 2007. Our deferred revenue liability was reduced by $26.5 million primarily associated with data licensing contracts for which the data was not fully selected as of February 13, 2007. We expect this reduction in deferred revenue to reduce non-cash revenue from selections from February 14, 2007 to December 31, 2007 by approximately $18.7 million.

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Although Seitel continues as the same legal entity after the Merger, the financial information for the first nine months of 2007 is presented for two periods: January 1, 2007 through February 13, 2007 (the "Predecessor Period" or "Predecessor," as context requires) and February 14, 2007 through September 30, 2007 (the "Successor Period" or "Successor," as context requires), which relate to the period preceding the Merger and the period succeeding the Merger, respectively. The combined results for the nine months ended September 30, 2007 represent the addition of the Predecessor and Successor Periods ("Combined"). This combination does not comply with United States generally accept accounting principles, or GAAP, or with the rules for pro forma presentation but is presented because we believe it provides a meaningful comparison of our results. The results of the Successor are not comparable to the results of the Predecessor due to the difference in the basis of presentation of purchase accounting as compared to historical costs. The accompanying consolidated financial information for the three and nine months ended September 30, 2006 are also presented as Predecessor. The Combined results do not reflect the actual results we would have achieved absent the Merger and are not indicative of our future results of operations.

Principal Factors Affecting Our Business

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

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

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

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

Natural Gas Reserve Replacement: Gas reserves in the United States and Canada are currently expected to decline at a rate of 1.9% per year between 2006 and 2010. During that period, gas consumption in the United States and Canada is expected to increase at a rate of 2.9% per year. As a result, we believe there is an increasing need in the oil and gas industry to replace these reserves, which we anticipate will increase the demand for our seismic data.

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

Non-GAAP Key Performance Measures

Management considers certain performance measures in evaluating and managing our financial condition and operating performance at various times and from time to time. Some of these performance measures are non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with 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.

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The following are the key performance measures considered by management.

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

	SUCCESSOR PERIOD	PREDECESSOR PERIOD	COMBINED(1)	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
	Three Months Ended September 30,		Nine Months Ended September 30,	February 14, 2007 - September 30,	January 1, 2007 - February 13,	Nine Months Ended September 30,
	2007	2006	2007	2007	2007	2006
Cash resales	$ 29,162	$ 26,280	$ 78,668	$ 72,683	$ 5,985	$ 86,864
Other revenue components:						
Acquisition revenue	8,511	12,199	29,805	23,707	6,098	36,193
Non-monetary exchanges	135	1,439	2,866	2,873	(7)	5,718
Revenue deferred	(15,984)	(5,224)	(39,938)	(37,302)	(2,636)	(33,202)
Recognition of revenue previously deferred	5,327	9,794	19,786	10,840	8,946	37,341
Solutions and other	1,205	1,389	3,848	3,224	624	6,203
Total revenue, as reported	$ 28,356	$ 45,877	$ 95,035	$ 76,025	$ 19,010	$ 139,117

(1) Our combined results for the nine months ended September 30, 2007 represent the addition of the Predecessor Period from January 1, 2007 through February 13, 2007 and the Successor Period from February 14, 2007 to September 30, 2007. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

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

	SUCCESSOR PERIOD	PREDECESSOR PERIOD	COMBINED[1]	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
	Three Months Ended September 30,		Nine Months Ended September 30,	February 14, 2007 - September 30,	January 1, 2007 - February 13,	Nine Months Ended September 30,
	2007	2006	2007	2007	2007	2006
Cash margin	$ 23,816	$ 19,861	$ 62,466	$ 59,036	$ 3,430	$ 68,782
Add (subtract) other revenue components not included in cash margin:						
Acquisition revenue	8,511	12,199	29,805	23,707	6,098	36,193
Non-monetary exchanges	135	1,439	2,866	2,873	(7)	5,718
Revenue deferred	(15,984)	(5,224)	(39,938)	(37,302)	(2,636)	(33,202)
Recognition of revenue previously deferred	5,327	9,794	19,786	10,840	8,946	37,341
Non-cash Solutions revenue	-	13	6	-	6	20
Less:						
Depreciation and amortization	(36,005)	(21,027)	(107,493)	(96,008)	(11,485)	(67,839)
Merger expenses	(807)	-	(19,544)	(2,087)	(17,457)	-
Merger and acquisition transaction costs	(948)	-	(948)	(948)	-	-
Non-cash operating expenses	(2,475)	(618)	(6,531)	(6,119)	(412)	(2,016)
Operating income (loss), as reported	$ (18,430)	$ 16,437	$ (59,525)	$ (46,008)	$ (13,517)	$ 44,997

(1) Our combined results for the nine months ended September 30, 2007 represent the addition of the Predecessor Period from January 1, 2007 through February 13, 2007 and the Successor Period from February 14, 2007 to September 30, 2007. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

Growth of Our Seismic Data Library: We regularly add to our seismic data library through four different methods: (1) recording new data; (2) buying ownership of existing data for cash; (3) obtaining ownership of existing data sets through non-monetary exchanges; and (4) creating new value-added products from existing data within our library. For the period from January 1, 2007 to September 30, 2007, we completed the addition of approximately 860 square miles of seismic data to our library. As of September 30, 2007, we had approximately 1,120 square miles of seismic data in progress. For the year ended December 31, 2006, we completed the addition of approximately 2,600 square miles of seismic data to our library.

Critical Accounting Policies

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

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As of January 1, 2007, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"). There have not been any other changes in our critical accounting policies since December 31, 2006.

Results of Operations

Revenue

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

	SUCCESSOR PERIOD	PREDECESSOR PERIOD	COMBINED[1]	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
	Three Months Ended September 30,		Nine Months Ended September 30,	February 14, 2007 - September 30,	January 1, 2007 - February 13,	Nine Months Ended September 30,
	2007	2006	2007	2007	2007	2006
Acquisition revenue:						
Cash underwriting	$ 7,865	$ 11,808	$ 29,121	$ 23,034	$ 6,087	$ 33,266
Underwriting from non-monetary exchanges	646	391	684	673	11	2,927
Total acquisition revenue	8,511	12,199	29,805	23,707	6,098	36,193
Licensing revenue:						
Cash resales	29,162	26,280	78,668	72,683	5,985	86,864
Non-monetary exchanges	135	1,439	2,866	2,873	(7)	5,718
Revenue deferred	(15,984)	(5,224)	(39,938)	(37,302)	(2,636)	(33,202)
Recognition of revenue previously deferred	5,327	9,794	19,786	10,840	8,946	37,341
Total resale revenue	18,640	32,289	61,382	49,094	12,288	96,721
Total seismic revenue	27,151	44,488	91,187	72,801	18,386	132,914
Solutions and other	1,205	1,389	3,848	3,224	624	6,203
Total revenue	$ 28,356	$ 45,877	95,035	$ 76,025	$ 19,010	$ 139,117

(1) Our combined results for the nine months ended September 30, 2007 represent the addition of the Predecessor Period from January 1, 2007 through February 13, 2007 and the Successor Period from February 14, 2007 to September 30, 2007. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

Total revenue was $28.4 million in the third quarter of 2007 compared to $45.9 million in the third quarter of 2006. Acquisition revenue decreased from $12.2 million in the third quarter of 2006 to $8.5 million in the third quarter of 2007. This decrease was primarily due to continued weather related delays on U.S. seismic surveys during the third quarter of 2007. In addition, the 2006 third quarter included acquisition revenue on a summer program shot in Canada; in the 2007 third quarter, the Company made a decision not to shoot a summer program in Canada. Total resale revenue was $18.6 million in the third quarter of 2007 compared to $32.3 million in the third quarter of 2006. This decrease was the result of various changes in the components of resale revenue. Cash resales increased $2.9 million or 11.0% during this period. Revenue deferred increased from $5.2 million to $16.0 million due to a larger amount of library card contracts entered into in the 2007 third quarter as compared to the same period in 2006. Revenue recognized from previously deferred contracts, or selections, decreased $4.5 million between the quarters. This decrease was partially a result of the purchase accounting adjustments related to data licensing contracts for which the data was not fully selected as of the Merger date (February 14, 2007); for these contracts, selections made after the Merger date are not recognizable as revenue. During the third quarter of 2007, selections from these contracts totaled $2.3 million. The remaining decrease is primarily due to the timing of selections by our customers on library card contracts. Solutions and other revenue decreased from $1.4 million in the third quarter of 2006 to $1.2 million in the third quarter of 2007 primarily due to the lower level of seismic revenue.

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Total revenue for the first nine months of 2007 was $95.0 million compared to $139.1 million for the first nine months of 2006. Acquisition revenue decreased from $36.2 million to $29.8 million primarily due to weather related delays on U.S. seismic surveys experienced during the first nine months of 2007. Cash resales decreased 9.4% between the nine month periods primarily due to a slowdown in spending by our customers in the first quarter of 2007 due to uncertainty in commodity prices during the 2007 first quarter. In addition, the slowdown in Canadian drilling and delayed licensing rounds in the Gulf of Mexico also had an impact on cash resales. Revenue deferred increased from $33.2 million to $37.3 million due to a larger amount of library card contracts entered into in the first nine months of 2007 as compared to the same period in 2006. Revenue recognized from previously deferred contracts, or selections, decreased $17.6 million partially due to selection revenue totaling $11.6 million that could not be recognized in the 2007 period as a result of the purchase accounting adjustments, as well as the timing of selections by our customers on library card contracts. Solutions and other revenue decreased from $6.2 million to $3.8 million between the nine month periods primarily resulting from the lower level of seismic revenue and the types of products delivered.

At September 30, 2007, we had a deferred revenue balance of $38.4 million, compared to the December 31, 2006 balance of $47.4 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.

Depreciation and Amortization

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

	SUCCESSOR PERIOD	PREDECESSOR PERIOD	COMBINED[1]	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
	Three Months Ended September 30,		Nine Months Ended September 30,	February 14, 2007 - September 30,	January 1, 2007 - February 13,	Nine Months Ended September 30,
	2007	2006	2007	2007	2007	2006
Amortization of seismic data	$ 34,027	$ 20,343	$ 102,127	$ 90,920	$ 11,207	$ 65,813
Depreciation of property and equipment	498	684	1,724	1,446	278	2,026
Amortization of acquired intangibles	1,480	-	3,642	3,642	-	-
Total	$ 36,005	$ 21,027	$ 107,493	$ 96,008	$ 11,485	$ 67,839

(1) Our combined results for the nine months ended September 30, 2007 represent the addition of the Predecessor Period from January 1, 2007 through February 13, 2007 and the Successor Period from February 14, 2007 to September 30, 2007. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

Seismic data library amortization amounted to $34.0 million in the third quarter of 2007 compared to $20.3 million in the third quarter of 2006 and $102.1 million for the first nine months of 2007 compared to $65.8 million for the first nine months of 2006. The amount of seismic data library amortization fluctuates based on the level and location of specific seismic surveys licensed (including licensing resulting from new data acquisition) and selected by our customers during any period as well as the amount of straight-line amortization required under our accounting policy. The Successor Period reflects the higher level of amortization as a result of the step-up to fair value of our seismic data library in connection with the Merger.

Seismic data amortization as of percentage of total seismic revenue is summarized as follows (in thousands):

SUCCESSOR PREDECESSOR SUCCESSOR PREDECESSOR

Components of Amortization	PERIOD Three Months Ended September 30, 2007	PERIOD Three Months Ended September 30, 2006	COMBINED(1) Nine Months Ended September 30, 2007	PERIOD February 14, 2007 - September 30, 2007	PERIOD January 1, 2007 - February 13, 2007	PERIOD Nine Months Ended September 30, 2006
Income forecast	$ 17,435	$ 13,053	$ 55,489	$ 48,578	$ 6,911	$ 44,509
Straight-line	16,592	7,290	46,638	42,342	4,296	21,304
Total	$ 34,027	$ 20,343	$ 102,127	$ 90,920	$ 11,207	$ 65,813

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Components of Amortization	SUCCESSOR PERIOD	PREDECESSOR PERIOD	COMBINED(1)	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
	Three Months Ended September 30,		Nine Months Ended September 30,	February 14, 2007 - September 30,	January 1, 2007 - February 13,	Nine Months Ended September 30,
	2007	2006	2007	2007	2007	2006
Income forecast	64.2 %	29.3 %	60.9 %	66.7 %	37.6%	33.5 %
Straight-line	61.1 %	16.4 %	51.1 %	58.2 %	23.4%	16.0 %
Total	125.3 %	45.7 %	112.0 %	124.9 %	61.0%	49.5 %

(1) Our combined results for the nine months ended September 30, 2007 represent the addition of the Predecessor Period from January 1, 2007 through February 13, 2007 and the Successor Period from February 14, 2007 to September 30, 2007. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

The increase in the percentage of income forecast amortization to total seismic revenue in 2007 was due to an increase in income forecast amortization recorded in the Successor Period. As a result of the Merger, our data whose costs had previously been fully amortized now have net book value as a result of being stepped up to fair value. Consequently, the majority of resale revenue attracted income forecast amortization compared to the third quarter of 2006 when 79% of our resale revenue was attributable to data whose costs had been fully amortized. Such percentage was 71% in the first nine months of 2006. The increase in the amount of straight-line amortization was due to the step up to fair value of our seismic data library in connection with the Merger.

In connection with the Merger, we recorded acquired intangible assets of $54.1 million of which $53.2 million are amortizable over their useful lives ranging from 1 to 15 years. The Successor Period included amortization related to customer relationships, internally developed software, favorable capital lease and covenants not to compete of $1.5 million and $3.6 million for the three and nine months ended September 30, 2007, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative ("SG&A") expenses were $9.9 million in the third quarter of 2007 compared to $8.4 million in the third quarter of 2006 and $27.4 million in the first nine months of 2007 compared to $26.3 million in the first nine months of 2006. SG&A expense is made up of the following expense categories (in thousands):

	SUCCESSOR PERIOD	PREDECESSOR PERIOD	COMBINED(1)	SUCCESSOR PERIOD	PREDECESSOR PERIOD	
	Three Months Ended September 30,		Nine Months Ended September 30,	February 14, 2007 - September 30,	January 1, 2007 - February 13,	Nine Months Ended September 30,
	2007	2006	2007	2007	2007	2006
Cash SG&A expenses	$ 7,427	$ 7,755	$ 20,871	$ 17,706	$ 3,165	$ 24,293
Non-cash equity compensation expense	2,407	618	6,366	5,954	412	2,016
Non-cash rent expense	68	-	165	165	-	-
Total	$ 9,902	$ 8,373	$ 27,402	$ 23,825	$ 3,577	$ 26,309

(1) Our combined results for the nine months ended September 30, 2007 represent the addition of the Predecessor Period from January 1, 2007 through February 13, 2007 and the Successor Period from February 14, 2007 to September 30, 2007. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

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The decrease in cash SG&A expenses of $0.3 million from the third quarter of 2006 to the third quarter 2007 was primarily due to (1) a reduction in commission expense of $0.4 million due to lower revenue in the third quarter of 2007; (2) a decrease of $0.4 million in performance based compensation expense associated with our incentive compensation plan; and (3) a reduction of $0.5 million in professional fees and director fees as a result of the 2006 third quarter including professional and director fees related to evaluation of strategic alternatives. These decreases were partially offset by $0.9 million of professional fees related to strategic merger and acquisition activities incurred in the third quarter of 2007.

The decrease in cash SG&A expenses of $3.4 million from the first nine months of 2006 to the first nine months of 2007 was primarily due to (1) a reduction in commission expense of $1.0 million due to lower revenues in the first nine months of 2007; (2) a decrease of $1.3 million in performance based compensation expense associated with our incentive compensation plan; (3) settlement of litigation resulting in a payment of $0.6 million to us; (4) partial collection of a previously reserved receivable from one of our former officers resulting in a payment to us of $0.3 million; and (5) a reduction of $1.1 million in professional fees and director fees as a result of the 2006 period including professional and director fees related to evaluation of strategic alternatives. These decreases were partially offset by $0.9 million of professional fees related to strategic merger and acquisition activities incurred in the third quarter of 2007.

The increase in non-cash equity compensation expense between the 2007 and 2006 periods was primarily due to the expense related to stock options granted to certain key employees and non-employee directors in the Successor Period.

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

Merger Expenses

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

	SUCCESSOR PERIOD		PREDECESSOR PERIOD
	Three Months Ended September 30, 2007	February 14, 2007 - September 30, 2007	January 1, 2007 - February 13, 2007
Investment banking fees	$ -	$ -	$ 7,789
Legal and advisory fees	190	545	629
Change in control payments	617	1,542	2,745
Early vesting of restricted stock (non-cash)	-	-	6,294
	$ 807	$ 2,087	$ 17,457

Other Income (Expense)

Interest expense, net, was $9.9 million and $4.9 million in the third quarters of 2007 and 2006, respectively, and was $31.3 million and $14.8 million for the nine months ended September 30, 2007 and 2006, respectively. The increase in interest expense between the third quarters of 2007 and 2006 was due to the higher level of debt outstanding in the 2007 period compared to 2006 and less interest income in the third quarter of 2007 resulting from the lower cash balance post merger. The increase between the first nine months of 2007 versus 2006 was due to $4.0 million related to fees from the non-utilized acquisition financing bridge facility and interest expense on $400.0 million of 9.75% Senior Notes issued on February 14, 2007 in connection with the Merger. In addition, on February 14, 2007, $187.0 million of our 11.75% Senior Notes were paid, leaving only $2.0 million of such notes outstanding.

In the first quarter of 2006, we sold certain seismic surveys located in Canada as required by an agreement entered into in 1993. We recorded a gain of $231,000 related to such sale for the nine months ended September 30, 2006.

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Income Taxes

Tax benefit was $3.7 million in the third quarter of 2007 and primarily resulted from a benefit on our Canadian operations. The benefit from the U.S. book loss in the third quarter of 2007 was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

Tax benefit was $2.5 million in the third quarter of 2006 and resulted from (1) the reversal of a reserve totaling $2.0 million on a U.S. tax position which we no longer deemed necessary and (2) a benefit on our Canadian operations. Additionally, in the third quarter of 2006, the income tax expense recorded on our U.S. operations was substantially offset by a reduction in our deferred tax asset valuation allowance resulting in $22,000 tax expense in the U.S. for estimated alternative minimum tax for the 2006 period.

Tax benefit was $9.2 million for the first nine months of 2007 and related to both our U.S. and Canadian operations. In the U.S., a deferred tax liability of $4.4 million was recorded in connection with the Merger due to the step-up in asset value related to the Merger. In the period from February 14, 2007 to September 30, 2007, a U.S. Federal tax benefit was recorded equivalent to the amount of deferred tax liability with the remainder of the benefit from our U.S. book loss being offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized. In Canada, a tax benefit of $5.6 million was recognized on our Canadian operations in the period from February 14, 2007 to September 30, 2007. Additionally, we recorded other tax expense primarily related to state income tax and FIN 48 totaling approximately $0.2 million in the period from February 14, 2007 to September 30, 2007. Tax expense in the period from January 1, 2007 to February 13, 2007 primarily related to taxes on our Canadian operations and FIN 48. The Federal income tax expense recorded on our U.S. operations was offset by a reduction in our deferred tax asset valuation allowance resulting in no Federal tax expense in the U.S. for the period from January 1, 2007 to February 13, 2007.

Tax benefit was $2.1 million for the first nine months of 2006. This benefit resulted from (1) the reversal of a U.S. reserve totaling $2.0 million discussed above and (2) a benefit on our Canadian operations. The income tax expense recorded on our U.S. operations was substantially offset by a reduction in our deferred tax asset valuation allowance resulting in $22,000 tax expense in the U.S. for estimated alternative minimum tax for the 2006 period.

Liquidity and Capital Resources

During the first nine months of 2007, we used approximately $98.3 million of our existing cash to fund the transactions in connection with the Merger. In addition, we issued $400.0 million of 9.75% Senior Notes due 2014 and ValueAct Capital made an equity contribution of $153.5 million. In connection with the transactions, we paid $187.0 million principal of our 11.75% Senior Notes along with accrued interest and a tender and consent fee totaling $48.1 million, purchased the remaining stock not held by ValueAct Capital or management investors for $386.6 million and paid fees and expenses of approximately $30.1 million. As of September 30, 2007, we had $33.2 million in cash, cash equivalents and short-term investments. Other sources of liquidity include our credit facilities described below.

U.S. Credit Facility: On February 14, 2007, we entered into an amended and restated U.S. revolving credit facility which provides for up to $25 million, subject to borrowing base limitations. The borrowing base is determined from time to time based on the lesser of:

- $25 million,
- 75% of our trailing twelve months' U.S. cash margin (defined as cash resales and Solutions revenue, plus gain on sale of seismic data, less cash cost of sales and cash SG&A expenses, before depreciation and amortization expense), or
- the sum of (1) 85% of eligible U.S. short term accounts (defined as accounts that are not long term accounts and within 90 days of invoice date), plus (2) the lesser of (a) 50% of eligible U.S. long term accounts (defined as accounts with contracts for periods of performance from one month to 18 months, where the account debtor makes payments over the term of the contract) and (b) $7.5 million, plus (3) $15 million.

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At September 30, 2007, there was no outstanding balance under the facility and there was $25.0 million of availability.

Canadian Credit Facility: Our wholly owned subsidiary, Olympic Seismic Ltd. ("Olympic"), has in place a revolving credit facility which allows it to borrow up to $5.0 million (Canadian), subject to an availability formula, by way of prime-based loans, bankers' acceptances or letters of credit. Available borrowings under the facility are equivalent to a maximum of $5.0 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of Olympic, less prior-ranking claims, if any, relating to inventory or accounts. As of September 30, 2007, no amounts were outstanding on this revolving line of credit and $5.0 million (Canadian) was available on the line of credit.

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

11.75% Senior Unsecured Notes: On July 2, 2004, we issued, in a private placement, $193.0 million aggregate principal amount of our 11.75% Senior Notes. In connection with our 2004 excess cash flow offer in March 2005, $4.0 million aggregate principal amount of these notes were tendered and accepted. In connection with the Merger and related transactions, $187.0 million aggregate principal amount of these notes was tendered and accepted on February 14, 2007. As of September 30, 2007, $2.0 million of the 11.75% Senior Notes remain outstanding.

Contractual Obligations: As of September 30, 2007, we had outstanding debt and lease obligations, with aggregate contractual cash obligations summarized as follows (in thousands):

		Payments due by period			
Contractual cash obligations	Total	Remainder of 2007	2008-2010	2011-2012	2013 and thereafter
Debt obligations (1)(2)	$ 656,842	$ 12	$ 117,921	$ 80,379	$ 458,530
Capital lease obligations (2)	6,031	93	1,117	770	4,051
Operating lease obligations	6,112	303	3,613	1,917	279
Total contractual cash obligations	$ 668,985	$ 408	$ 122,651	$ 83,066	$ 462,860

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

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

Cash Flows from Operating Activities: Cash flows provided by operating activities from continuing operations were $55.7 million, $5.6 million and $79.8 million for the period from February 14, 2007 to September 30, 2007, for the period from January 1, 2007 to February 13, 2007 and for the nine months ended September 30, 2006, respectively. Operating cash flows for the combined period from January 1, 2007 to September 30, 2007 decreased from the first nine months of 2006 primarily due to the payment of fees and expenses totaling approximately $13.0 million related to the Merger and an increase in interest expense paid of approximately $10.4 million.

Cash Flows from Investing Activities: Cash flows used in investing activities from continuing operations were $41.0 million, $8.4 million and $59.3 million for the period from February 14, 2007 to September 30, 2007, for the period from January 1, 2007 to February 13, 2007 and for the nine months ended September 30, 2006, respectively. Cash expenditures for seismic data were $40.6 million, $8.4 million and $58.6 million for the period from February 14, 2007 to September 30, 2007, for the period from January 1, 2007 to February 13, 2007 and for the nine months ended September 30, 2006, respectively. The decrease in cash invested in seismic data for the combined period from January 1, 2007 to September 30, 2007 compared to the first nine months of 2006 was primarily due to a decrease in cash purchases of seismic data.

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Cash Flows from Financing Activities: Cash flows used in financing activities were $83.3 million, $0.4 million and $0.6 million for the period from February 14, 2007 to September 30, 2007, for the period from January 1, 2007 to February 13, 2007 and for the nine months ended September 30, 2006, respectively. The period from February 14, 2007 to September 30, 2007 included (i) the issuance of $400.0 million of our 9.75% Senior Notes, (ii) a cash capital contribution of $153.5 million by ValueAct Capital in connection with the Merger, (iii) acquisition of all of our outstanding common stock (other than shares owned by ValueAct Capital and management investors) in connection with the Merger for a total of $386.6 million, (iv) payment of $233.4 million of principal and tender and consent fee on our 11.75% Senior Notes and (v) payment of $17.1 million of financing fees in connection with the Merger.

Anticipated Liquidity: Our ability to make required payments of principal and interest on borrowings under our revolving credit facilities and in respect of our 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 senior notes, borrowings under our revolving credit facilities and our other indebtedness, from our operating cash flows, cash and cash equivalents on hand and, if required, from additional borrowings (to the extent available under our revolving credit facilities and otherwise subject to the borrowing base). Our ability to satisfy our payment obligations depends substantially on our future operating and financial performance, which necessarily will be affected by, and subject to, industry, market, economic and other factors. We will not be able to predict or control many of these factors, such as economic conditions in the markets where we operate and competitive pressures.

Deferred Taxes

As of September 30, 2007, we had a net deferred tax liability of $18.2 million attributable to our Canadian operations. In the U.S., we had a net deferred tax asset of $17.6 million, all of which was fully offset by a valuation allowance, except for $22,000 related to state deferred tax assets. The recognition of the U.S. federal deferred tax asset will not occur until such time that it is more likely than not that some portion or all of the deferred tax asset will be realized. As of September 30, 2007, it was more likely than not that all of the U.S. federal deferred tax asset will not be realized.

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

Off-Balance Sheet Transactions

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

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Capital Expenditures

During the period from January 1, 2007 to February 13, 2007 and the period from February 14, 2007 to September 30, 2007, capital expenditures for seismic data and other property and equipment amounted to $8.5 million and $42.7 million, respectively. Our capital expenditures for the remainder of 2007 are presently estimated to be $42.0 million. The actual for the nine months ended September 30, 2007 and 2007 estimated remaining capital expenditures are comprised of the following (in thousands):

	PREDECESSOR PERIOD January 1, 2007 - February 13, 2007	SUCCESSOR PERIOD February 14, 2007- September 30, 2007	COMBINED[(1)] Nine Months Ended September 30, 2007	Estimate for Remainder of 2007	Total Estimate for 2007
New data acquisition	$ 7,966	$ 34,527	$ 42,493	$ 22,807	$ 65,300
Cash purchases of seismic data and other	526	5,576	6,102	14,498	20,600
Non-monetary exchanges	(7)	2,235	2,228	4,272	6,500
Other property and equipment	60	409	469	431	900
Total capital expenditures	8,545	42,747	51,292	42,008	93,300
Less: Non-monetary exchanges	7	(2,235)	(2,228)	(4,272)	(6,500)
Changes in working capital	(123)	516	393	-	393
Cash investment per statement of cash flows	$ 8,429	$ 41,028	$ 49,457	$ 37,736	$ 87,193

(1) Our combined results for the nine months ended September 30, 2007 represent the addition of the Predecessor Period from January 1, 2007 through February 13, 2007 and the Successor Period from February 14, 2007 to September 30, 2007. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

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

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

	PREDECESSOR PERIOD January 1, 2007 - February 13, 2007	SUCCESSOR PERIOD February 14, 2007- September 30, 2007	COMBINED[(1)] Nine Months Ended September 30, 2007	Estimate for Remainder of 2007	Total Estimate for 2007
Total capital expenditures	$ 8,545	$ 42,747	$ 51,292	$ 42,008	$ 93,300
Less: Non-cash additions	7	(2,235)	(2,228)	(4,272)	(6,500)
Cash underwriting	(6,087)	(23,034)	(29,121)	(16,179)	(45,300)
Capital expenditures funded from operating cash flow	$ 2,465	$ 17,478	$ 19,943	$ 21,557	$ 41,500

(1) Our combined results for the nine months ended September 30, 2007 represent the addition of the Predecessor Period from January 1, 2007 through February 13, 2007 and the Successor Period from February 14, 2007 to September 30, 2007. This combination does not comply with GAAP or with the rules for pro forma presentation, but is presented because we believe it provides a meaningful comparison of our results.

As of September 30, 2007, we had capital expenditure commitments related to data acquisition projects of approximately $43.0 million of which we have obtained approximately $22.3 million of cash underwriting and $8.4 million of underwriting from non-monetary exchanges.

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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, 2007, we did not have any open interest rate swap or interest rate lock agreements. Therefore, our exposure to changes in interest rates primarily results from our short-term and long-term debt with both fixed and floating interest rates.

Foreign Currency Exchange Rate Risk

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

We have not had any significant changes in our market risk exposures during the quarter ended September 30, 2007.

Item 4T. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our President and Chief Executive Officer along with our Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2007 are effective in ensuring that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

(b) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal controls over financial reporting during the quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

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

Item 6. EXHIBITS

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

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

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

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

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

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

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* Filed herewith.

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

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SIGNATURES

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

		SEITEL, INC.
Dated: November 13, 2007	/s/	Robert D. Monson
		Robert D. Monson Chief Executive Officer and President
Dated: November 13, 2007	/s/	William J. Restrepo
		William J. Restrepo Chief Financial Officer

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EXHIBIT

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

* Filed herewith.

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