

SEITEL INC  
Form 10-Q  
August 13, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, DC 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2009

OR

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

Commission File Number: 333-144844

**SEITEL, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

incorporation or organization)

**10811 S. Westview Circle Drive**

**Building C, Suite 100**

**Houston, Texas**  
(Address of principal executive offices)

**Registrant's telephone number, including area code: (713) 881-8900**

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

**77043**  
(Zip Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes  No

As of August 10, 2009, there were 100 shares of the Company's common stock outstanding, par value \$.001 per share.

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**Table of Contents****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) June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 28,723	\$ 42,678
Receivables		
Trade, net of allowance for doubtful accounts of \$1,092 and \$845, respectively	32,337	60,779
Notes and other, net of allowance for doubtful accounts of \$225	232	152
Net seismic data library, net of accumulated amortization of \$363,719 and \$287,153, respectively	245,252	279,257
Net property and equipment, net of accumulated depreciation and amortization of \$5,813 and \$4,611, respectively	7,419	8,344
Investment in marketable securities	1,925	1,317
Prepaid expenses, deferred charges and other	14,852	20,033
Intangible assets, net of accumulated amortization of \$13,704 and \$10,633, respectively	39,816	41,859
Goodwill	193,545	189,187
Deferred income taxes	210	219
<b>TOTAL ASSETS</b>	<b>\$ 564,311</b>	<b>\$ 643,825</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 35,745	\$ 46,290
Income taxes payable	90	255
Debt		
Senior Notes	402,201	402,247
Notes payable	233	256
Obligations under capital leases	3,096	2,996
Deferred revenue	41,855	67,727
Deferred income taxes	6,045	8,269
<b>TOTAL LIABILITIES</b>	<b>489,265</b>	<b>528,040</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDER'S EQUITY</b>		
Common stock, par value \$.001 per share; 100 shares authorized, issued and outstanding at June 30, 2009 and December 31, 2008		
Additional paid-in capital	273,576	271,297
Retained deficit	(201,718)	(151,187)
Accumulated other comprehensive income (loss)	3,188	(4,325)
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>75,046</b>	<b>115,785</b>

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TOTAL LIABILITIES AND STOCKHOLDER S EQUITY	\$ 564,311	\$ 643,825
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The accompanying notes are an integral part of these condensed consolidated financial statements.

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

	<b>Three Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>REVENUE</b>	<b>\$ 22,446</b>	<b>\$ 44,719</b>
<b>EXPENSES:</b>		
Depreciation and amortization	36,072	44,259
Cost of sales	93	165
Selling, general and administrative	6,424	9,813
	42,589	54,237
<b>LOSS FROM OPERATIONS</b>	<b>(20,143)</b>	<b>(9,518)</b>
Interest expense, net	(10,169)	(10,179)
Foreign currency exchange gains	609	133
Other income	43	39
Loss before income taxes	(29,660)	(19,525)
Provision (benefit) for income taxes	(1,621)	884
<b>NET LOSS</b>	<b>\$ (28,039)</b>	<b>\$ (20,409)</b>

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

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

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
REVENUE	\$ 57,168	\$ 92,101
EXPENSES:		
Depreciation and amortization	75,246	89,114
Cost of sales	107	279
Selling, general and administrative	14,684	20,248
Merger		357
	90,037	109,998
LOSS FROM OPERATIONS	(32,869)	(17,897)
Interest expense, net	(20,285)	(20,074)
Foreign currency exchange gains (losses)	366	(713)
Other income	74	39
Loss before income taxes	(52,714)	(38,645)
Provision (benefit) for income taxes	(2,183)	190
NET LOSS	\$ (50,531)	\$ (38,835)

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net loss	\$ (28,039)	\$ (20,409)	\$ (50,531)	\$ (38,835)
Unrealized gains (losses) on securities held as available for sale, net of tax	491	(311)	608	385
Foreign currency translation adjustments	11,240	1,598	6,905	(5,851)
Comprehensive loss	\$ (16,308)	\$ (19,122)	\$ (43,018)	\$ (44,301)

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

**Table of Contents****SEITEL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY (Unaudited)***(In thousands, except share amounts)*

	Common Stock				Accumulated Other Comprehensive Income (Loss)
	Shares	Amount	Additional Paid-In Capital	Retained Deficit	
Balance, December 31, 2008	100	\$	\$ 271,297	\$ (151,187)	\$ (4,325)
Amortization of stock-based compensation costs			2,279		
Net loss				(50,531)	
Foreign currency translation adjustments					6,905
Unrealized gain on marketable securities, net of tax					608
Balance, June 30, 2009	100	\$	\$ 273,576	\$ (201,718)	\$ 3,188

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

**Table of Contents****SEITEL, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)***(In thousands)*

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Reconciliation of net loss to net cash provided by operating activities:		
Net loss	\$ (50,531)	\$ (38,835)
Depreciation and amortization	75,246	89,114
Deferred income tax benefit	(2,419)	(1,553)
Amortization of deferred financing costs	878	795
Amortization of debt premium	(46)	(42)
Amortization of stock-based compensation	2,279	2,775
Amortization of favorable facility lease	119	142
Allowance for collection of trade receivables	252	46
Reversal of allowance for notes receivable		(54)
Non-cash compensation expense		604
Non-cash other income		(24)
Non-cash revenue	(4,725)	(8,359)
Loss on sale of subsidiary	19	
Decrease in receivables	28,608	9,000
Decrease (increase) in other assets	997	(231)
Decrease in deferred revenue	(21,068)	(6,318)
Increase (decrease) in accounts payable and other liabilities	(7,306)	231
<b>Net cash provided by operating activities</b>	<b>22,303</b>	<b>47,291</b>
<b>Cash flows from investing activities:</b>		
Cash invested in seismic data	(35,648)	(49,087)
Cash paid to acquire property and equipment and other	(243)	(503)
Advances to Seitel Holdings, Inc.	(7)	(14)
Cash transferred upon sale of subsidiary	(22)	
Cash from disposal of property and equipment	14	
Increase in restricted cash		(1)
<b>Net cash used in investing activities</b>	<b>(35,906)</b>	<b>(49,605)</b>
<b>Cash flows from financing activities:</b>		
Principal payments on notes payable	(23)	(21)
Principal payments on capital lease obligations	(58)	(66)
Borrowings on line of credit	196	286
Payments on line of credit	(196)	(286)
<b>Net cash used in financing activities</b>	<b>(81)</b>	<b>(87)</b>
Effect of exchange rate changes	(271)	388
Net decrease in cash and equivalents	(13,955)	(2,013)
Cash and cash equivalents at beginning of period	42,678	43,333

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Cash and cash equivalents at end of period	\$ 28,723	\$ 41,320
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Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest	\$ 19,727	\$ 19,754
Income taxes	\$ 250	\$ 44

Supplemental schedule of non-cash investing activities:

Additions to seismic data library	\$ 609	\$ 13,741
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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)**

**June 30, 2009**

**NOTE A-ORGANIZATION**

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

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

In addition, on February 14, 2007, the Company issued \$400.0 million aggregate principal amount of 9.75% senior notes due 2014 (the 9.75% Senior Notes ) pursuant to an indenture by and among the Company, certain subsidiary guarantors and Bank of America, N.A. (as successor by merger to LaSalle Bank National Association), as trustee. Effective April 29, 2009, Wilmington Trust, FSB became trustee.

The Company also entered into an Amended and Restated Loan and Security Agreement with Wells Fargo Foothill, Inc. with the ability to borrow up to \$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 facility, subject to customary exceptions, exclusions and release mechanisms. The facility is secured by a lien on substantially all of the Company's domestic assets, including equity interests in the Company's U.S. subsidiaries.

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

**NOTE B-BASIS OF PRESENTATION**

The accompanying condensed consolidated financial statements of 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. Certain reclassifications have been made to the amounts in the prior year's financial statements to conform to the current year's presentation. 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. Operating results for the three and six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for any other quarter of 2009 or for the year ending December 31, 2009. The condensed consolidated balance sheet of the Company as of December 31, 2008, 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, 2008 contained in the Company's Annual Report on Form 10-K. The Company has evaluated subsequent events for potential recognition and/or disclosure through August 13, 2009, the date the condensed consolidated interim financial statements were issued.



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**NOTE C-REVENUE RECOGNITION**

***Revenue from Data Acquisition***

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

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

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

    permitting for land access, mineral rights, and regulatory approval;

    surveying;

    drilling for the placement of energy sources;

    recording the data in the field; and

    processing the data.

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

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

***Revenue from Non-Exclusive Data Licenses***

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

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

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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.

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

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

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

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

the specific payment terms, generally ranging from 30 days to 12 months, and that such payments are non-cancelable and non-refundable;

the actual data that is accessible to the customer; and

that the data is licensed in its present form, where is and as is and the Company is under no obligation to make any enhancements, modifications or additions to the data unless specific terms to the contrary are included.

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

the Company has an arrangement with the customer that is validated by a signed contract;

the sales price is fixed and determinable;

collection is reasonably assured;

the customer has selected the specific data or the contract has expired without full selection; and

the license term has begun.

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

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

***Revenue from Non-Monetary Exchanges***

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

the data license delivered is always distinct from the data received;

the customer forfeits ownership of its data; and

the Company retains ownership in its data.

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

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

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

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

Third, the Company obtains concurrence from an independent third party on the portfolio of all non-monetary exchanges for data of \$500,000 or more in order to support the Company's valuation of the data received. The Company obtains this concurrence on an annual basis, usually in connection with the preparation of its annual financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Seismic data library additions	\$ (1,122)	\$ 3,972	\$ 609	13,741
Revenue recognized on specific data licenses and selections of data	1,477	1,048	2,252	2,737
Revenue recognized related to acquisition contracts	1,547	1,900	2,473	5,622

During the three months ended June 30, 2009, the Company reversed a non-monetary exchange valued at \$1.3 million that was originally entered into in 2008. The Company was notified that the client was unable to provide clear title to one of the seismic surveys included in the original contract resulting in the negative amount of seismic data library additions in the second quarter of 2009.

**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



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readily determinable. See Note C Revenue Recognition Revenue from Non-Monetary Exchanges 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 \$416,000 and \$435,000 for the three months ended June 30, 2009 and 2008, respectively, and \$921,000 and \$941,000 for the six months ended June 30, 2009 and 2008, respectively.

***Data Library Amortization***

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

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

The actual aggregate rate of amortization depends on the specific seismic surveys licensed and selected by the Company's customers during the period and the amount of straight-line amortization recorded. The income forecast amortization rates can vary by component and, as of July 1, 2009, is 70% for all components. For those seismic surveys which have been fully amortized, no amortization expense is required on revenue recorded.

The greater of the income forecast or straight-line amortization policy is applied quarterly on a cumulative basis at the individual survey level. 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.

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

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

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

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

The Company did not have any impairment charges during the six months ended June 30, 2009 or 2008.

**NOTE E-DEBT**

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

	June 30, 2009	December 31, 2008
9.75% Senior Notes	\$ 400,000	\$ 400,000
11.75% Senior Notes	2,000	2,000
Revolving Credit Facility		
Subsidiary revolving line of credit		
Note payable to former executive	233	256
	402,233	402,256
Plus: Premium on debt	201	247
	\$ 402,434	\$ 402,503

**9.75% Senior 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 Merger and the related transactions. As required by their terms, the 9.75% Senior Notes were exchanged for senior notes of like amounts and terms in a registered exchange offer in August 2007. The 9.75% Senior 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.

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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 governing the 9.75% Senior Notes), each holder of the 9.75% Senior Notes will have the right to require

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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 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 registered exchange offer in February 2005. In connection with an 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 financial statements related to these notes. Interest on the remaining notes is payable semi-annually in arrears on January 15 and July 15 of each year. The remaining \$2.0 million of notes mature on July 15, 2011. The 11.75% Senior Notes are unsecured and are guaranteed by substantially all of the Company's U.S. subsidiaries on a senior basis.

As a result of the tender and consent offer, effective February 14, 2007, the 11.75% Senior Notes no longer contain any restrictive covenants, other than the requirement to make excess cash flow offers. Subject to certain conditions, if at the end of each fiscal year the Company has excess cash flow (as defined in the indenture governing the 11.75% Senior Notes) in excess of \$5.0 million, the Company is required to use 50% of the excess cash flow to fund an offer to repurchase the 11.75% Senior Notes on a pro rata basis at 100% of its principal amount, plus accrued and unpaid interest. If the Company has less than \$5.0 million in excess cash flow at the end of any fiscal year, such excess cash flow will be carried forward to succeeding years, and such repurchase offer is required to be made in the first year in which the cumulative excess cash flow for all years in which there has not been an offer is at least \$5.0 million. Such repurchase offer is required only if there is no event of default under the Company's revolving credit facilities prior to and after giving effect to the repurchase payment. The Company was not required to make an excess cash flow offer for the year ended December 31, 2008. Upon a change of control (as defined in the indenture governing the 11.75% Senior Notes), 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 the ability to borrow 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. As of June 30, 2009, the Company was not in compliance with a financial covenant resulting in an event of default which prohibits the Company from borrowing under this facility without the lender's consent. The event of default has not been subsequently cured.

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

**Table of Contents****NOTE F-FAIR VALUE MEASUREMENTS**

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

The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In measuring the fair value of the Company's assets and liabilities, market data or assumptions are used that the Company believes market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. As of June 30, 2009, the Company's assets that are measured at fair value on a recurring basis include the following (in thousands):

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash equivalents	\$ 28,626	\$ 28,626	\$	\$
Investment in equity securities	1,772	1,772		
Investment in stock options related to equity securities	153		153	

Cash equivalents consist primarily of treasury bills and money market funds that invest in United States government obligations with original maturities of three months or less. The original costs of these assets approximates fair value due to their short-term maturity.

Investment in marketable securities are available-for-sale equity securities with total unrealized gains of \$1.9 million reflected in accumulated other comprehensive income (loss) at June 30, 2009.

**Other Financial Instruments:** Other financial instruments that are not subject to the disclosure requirements of SFAS No. 157 are as follows:

**Debt** Based upon the rates available to the Company, the fair value of the 9.75% Senior Notes, the 11.75% Senior Notes and the note payable to a former executive approximated \$264.8 million as of June 30, 2009, compared to the book value of \$402.4 million. The quoted market price of the 9.75% Senior Notes was \$263.0 million at June 30, 2009.

**Accounts Receivable and Accounts Payable** The fair values of accounts receivable and accounts payable approximated carrying value due to the short-term maturity of these instruments.

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

Cash and cash equivalents at June 30, 2009 and December 31, 2008 includes \$113,000 of restricted cash related to collateral on a seismic operations bond.

During the six months ended June 30, 2009 and 2008, the Company had non-cash additions to its seismic data library comprised of the following (in thousands):

	Six Months Ended June 30,	
	2009	2008
Non-monetary exchanges related to resale licensing revenue	\$ 176	\$ 6,269
Non-monetary exchanges from underwriting of new data acquisition	(1,291)	9,681
Other non-monetary exchanges		24
Completion of data in progress from prior non-monetary exchanges	1,724	367

Less: Non-monetary exchanges for data in progress		(2,600)
Total non-cash additions to seismic data library	\$ 609	\$ 13,741

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During the six months ended June 30, 2009, the Company reversed a non-monetary exchange valued at \$1.3 million that was originally entered into in 2008. The Company was notified that the client was unable to provide clear title to one of the seismic surveys included in the original contract resulting in the negative amount of non-monetary exchanges from underwriting of new data acquisition in the 2009 period. This portion of non-cash underwriting was subsequently satisfied with a cash payment.

Non-cash revenue consisted of the following for the six months ended June 30, 2009 and 2008 (in thousands):

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Acquisition revenue on underwriting from non-monetary exchange contracts	\$ 2,473	\$ 5,622
Licensing revenue from specific data licenses and selections on non-monetary exchange contracts	2,252	2,737
<b>Total non-cash revenue</b>	<b>\$ 4,725</b>	<b>\$ 8,359</b>

**NOTE H-COMMITMENTS AND CONTINGENCIES**

The Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, losses, if any, resulting from the ultimate resolutions of these matters should not be material to the Company's financial position or results of operation. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At June 30, 2009, the Company did not have any amounts accrued related to litigation and claims, as the Company believes it is not probable that any amounts will be paid relative to such litigation and claims.

**NOTE I-RECENT ACCOUNTING PRONOUNCEMENTS*****Recently Adopted Accounting Pronouncements***

In September 2006, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. In February 2008, the FASB issued Staff Position FAS 157-2, Effective Date of FASB Statement No. 157, which delayed the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are measured at fair value on a recurring basis. Effective January 1, 2009, the Company adopted SFAS No. 157 with respect to non-financial assets and liabilities measured on a non-recurring basis. The application of the fair value framework established by SFAS No. 157 to these fair value measurements did not have a material impact on the Company's consolidated financial statements. See Note F for disclosures about the Company's fair value measurements.

In April 2009, the FASB issued three final staff positions intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FASB Staff Position ( FSP ) FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, provides guidelines for making fair value measurements more consistent with the principles presented in SFAS No. 157. FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. The adoption of the Staff Positions did not have a material impact on the Company's consolidated financial statements. See Note F for expanded disclosures about the Company's investments and the fair value measurements used for the Company's financial instruments.

In May 2009, the FASB issued SFAS No. 165, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of SFAS No. 165 for the Company's interim reporting period ended June 30, 2009 did not have a material impact on the Company's consolidated financial statements.



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***Accounting Pronouncements Issued But Not Yet Adopted***

In June 2009, the FASB issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. This Statement identifies the FASB Accounting Standards Codification as the authoritative source of generally accepted accounting principles in the United States. Rules and interpretive releases of the Securities and Exchange Commission ( SEC ) under federal securities laws are also sources of authoritative GAAP for SEC registrants. SFAS No. 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS No. 168 will result in disclosure modifications.

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

The Company's payment obligations under the 9.75% Senior Notes are jointly and severally guaranteed by certain of its wholly-owned U.S. subsidiaries ( Guarantor Subsidiaries ). All subsidiaries of the Company that do not guaranty the 9.75% Senior Notes are referred to as Non-Guarantor Subsidiaries.

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

The following consolidating condensed financial information presents: the consolidating condensed balance sheets as of June 30, 2009 and December 31, 2008, and the consolidating condensed statements of operations and statements of cash flows for the six months ended June 30, 2009 and 2008 of (a) the Company; (b) the Guarantor Subsidiaries; (c) the Non-Guarantor Subsidiaries; (d) elimination entries; and (e) the Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis.

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

**Table of Contents****CONSOLIDATING CONDENSED BALANCE SHEET**

As of June 30, 2009

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>					
Cash and cash equivalents	\$	\$ 26,955	\$ 1,768	\$	\$ 28,723
Receivables					
Trade, net		26,576	5,761		32,337
Notes and other, net		145	87		232
Intercompany receivables (payables)	155,812	(153,411)	(2,401)		
Investment in subsidiaries	323,222	442,197	659	(766,078)	
Net seismic data library		183,899	61,353		245,252
Net property and equipment		2,676	4,743		7,419
Investment in marketable securities		1,925			1,925
Prepaid expenses, deferred charges and other	9,531	4,827	494		14,852
Intangible assets, net	900	24,492	14,424		39,816
Goodwill		107,688	85,857		193,545
Deferred income taxes		210			210
<b>TOTAL ASSETS</b>	<b>\$ 489,465</b>	<b>\$ 668,179</b>	<b>\$ 172,745</b>	<b>\$ (766,078)</b>	<b>\$ 564,311</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>					
Accounts payable and accrued liabilities	\$ 15,083	\$ 10,514	\$ 10,148	\$	\$ 35,745
Income taxes payable	90				90
Senior Notes	402,201				402,201
Notes payable	233				233
Obligations under capital leases			3,096		3,096
Deferred revenue		33,975	7,880		41,855
Deferred income taxes			6,045		6,045
<b>TOTAL LIABILITIES</b>	<b>417,607</b>	<b>44,489</b>	<b>27,169</b>		<b>489,265</b>
<b>STOCKHOLDER'S EQUITY</b>					
Common stock					
Additional paid-in capital	273,576				273,576
Parent investment		764,753	172,570	(937,323)	
Retained deficit	(201,718)	(142,988)	(28,257)	171,245	(201,718)
Accumulated other comprehensive income		1,925	1,263		3,188
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>71,858</b>	<b>623,690</b>	<b>145,576</b>	<b>(766,078)</b>	<b>75,046</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$ 489,465</b>	<b>\$ 668,179</b>	<b>\$ 172,745</b>	<b>\$ (766,078)</b>	<b>\$ 564,311</b>

**Table of Contents****CONSOLIDATING CONDENSED BALANCE SHEET****As of December 31, 2008**

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>					
Cash and cash equivalents	\$	\$ 33,034	\$ 9,644	\$	\$ 42,678
Receivables					
Trade, net		42,693	18,086		60,779
Notes and other, net		152			152
Intercompany receivables (payables)	162,182	(147,700)	(14,482)		
Investment in subsidiaries	364,424	446,600	1,243	(812,267)	
Net seismic data library		210,895	68,362		279,257
Net property and equipment		3,342	5,002		8,344
Investment in marketable securities		1,317			1,317
Prepaid expenses, deferred charges and other	10,365	9,149	519		20,033
Intangible assets, net	900	26,098	14,861		41,859
Goodwill		107,688	81,499		189,187
Deferred income taxes		210	9		219
<b>TOTAL ASSETS</b>	<b>\$ 537,871</b>	<b>\$ 733,478</b>	<b>\$ 184,743</b>	<b>\$ (812,267)</b>	<b>\$ 643,825</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>					
Accounts payable and accrued liabilities	\$ 15,003	\$ 13,168	\$ 18,119	\$	\$ 46,290
Income taxes payable	255				255
Senior Notes	402,247				402,247
Notes payable	256				256
Obligations under capital leases			2,996		2,996
Deferred revenue		56,597	11,130		67,727
Deferred income taxes			8,269		8,269
<b>TOTAL LIABILITIES</b>	<b>417,761</b>	<b>69,765</b>	<b>40,514</b>		<b>528,040</b>
<b>STOCKHOLDER'S EQUITY</b>					
Common stock					
Additional paid-in capital	271,297				271,297
Parent investment		764,753	172,217	(936,970)	
Retained deficit	(151,187)	(102,357)	(22,346)	124,703	(151,187)
Accumulated other comprehensive income (loss)		1,317	(5,642)		(4,325)
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>120,110</b>	<b>663,713</b>	<b>144,229</b>	<b>(812,267)</b>	<b>115,785</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$ 537,871</b>	<b>\$ 733,478</b>	<b>\$ 184,743</b>	<b>\$ (812,267)</b>	<b>\$ 643,825</b>

Table of Contents**CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****For the Six Months Ended June 30, 2009**

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$	\$ 41,505	\$ 17,130	\$ (1,467)	\$ 57,168
EXPENSES:					
Depreciation and amortization		55,047	20,199		75,246
Cost of sales		101	6		107
Selling, general and administrative	2,304	8,269	5,578	(1,467)	14,684
	2,304	63,417	25,783	(1,467)	90,037
LOSS FROM OPERATIONS	(2,304)	(21,912)	(8,653)		(32,869)
Interest expense, net	(7,596)	(12,587)	(102)		(20,285)
Foreign currency exchange gains			366		366
Other income (loss)		93	(19)		74
Loss before income taxes and equity in loss of subsidiaries	(9,900)	(34,406)	(8,408)		(52,714)
Provision (benefit) for income taxes		314	(2,497)		(2,183)
Equity in loss of subsidiaries	(40,631)	(5,911)		46,542	
NET LOSS	\$ (50,531)	\$ (40,631)	\$ (5,911)	\$ 46,542	\$ (50,531)

**Table of Contents****CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS****For the Six Months Ended June 30, 2008**

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$	\$ 62,582	\$ 31,956	\$ (2,437)	\$ 92,101
EXPENSES:					
Depreciation and amortization	22	57,529	31,563		89,114
Cost of sales		243	36		279
Selling, general and administrative	3,390	10,406	8,889	(2,437)	20,248
Merger		357			357
	3,412	68,535	40,488	(2,437)	109,998
LOSS FROM OPERATIONS	(3,412)	(5,953)	(8,532)		(17,897)
Interest expense, net	(9,442)	(10,126)	(506)		(20,074)
Foreign currency exchange losses		(123)	(590)		(713)
Other Income		15	24		39
Loss before income taxes and equity in loss of subsidiaries	(12,854)	(16,187)	(9,604)		(38,645)
Provision (benefit) for income taxes		(220)	410		190
Equity in loss of subsidiaries	(25,981)	(10,014)		35,995	
NET LOSS	\$ (38,835)	\$ (25,981)	\$ (10,014)	\$ 35,995	\$ (38,835)

**Table of Contents****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****For the Six Months Ended June 30, 2009**

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>Cash flows from operating activities:</b>					
Net cash provided by (used in) operating activities	\$ (18,520)	\$ 24,316	\$ 16,507	\$	\$ 22,303
<b>Cash flows from investing activities:</b>					
Cash invested in seismic data		(23,661)	(11,987)		(35,648)
Cash paid to acquire property and equipment and other		(198)	(45)		(243)
Advances to Seitel Holdings, Inc.		(7)			(7)
Cash transferred upon sale of subsidiary			(22)		(22)
Cash from disposal of property and equipment		14			14
<b>Net cash used in investing activities</b>		<b>(23,852)</b>	<b>(12,054)</b>		<b>(35,906)</b>
<b>Cash flows from financing activities:</b>					
Principal payments on notes payable	(23)				(23)
Principal payments on capital lease obligations			(58)		(58)
Borrowing on of credit			196		196
Principal payments on line of credit			(196)		(196)
Intercompany transfers	18,543	(6,543)	(12,000)		
<b>Net cash provided by (used in) financing activities</b>	<b>18,520</b>	<b>(6,543)</b>	<b>(12,058)</b>		<b>(81)</b>
<b>Effect of exchange rate changes</b>			<b>(271)</b>		<b>(271)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(6,079)</b>	<b>(7,876)</b>		<b>(13,955)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>33,034</b>	<b>9,644</b>		<b>42,678</b>
<b>Cash and cash equivalents at end of period</b>	<b>\$</b>	<b>\$ 26,955</b>	<b>\$ 1,768</b>	<b>\$</b>	<b>\$ 28,723</b>

**Table of Contents****CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS****For the Six Months Ended June 30, 2008**

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>Cash flows from operating activities:</b>					
Net cash provided by (used in) operating activities	\$ (21,015)	\$ 43,477	\$ 24,829	\$	\$ 47,291
<b>Cash flows from investing activities:</b>					
Cash invested in seismic data		(27,616)	(21,471)		(49,087)
Cash paid to acquire property and equipment		(63)	(440)		(503)
Advances to Seitel Holdings, Inc.		(14)			(14)
Increase in restricted cash		(1)			(1)
Net cash used in investing activities		(27,694)	(21,911)		(49,605)
<b>Cash flows from financing activities:</b>					
Principal payments on notes payable	(21)				(21)
Principal payments on capital lease obligations			(66)		(66)
Borrowings on line of credit			286		286
Payments on line of credit			(286)		(286)
Intercompany transfers	21,036	(16,071)	(4,965)		
Net cash provided by (used in) financing activities	21,015	(16,071)	(5,031)		(87)
Effect of exchange rate changes			388		388
Net decrease in cash and cash equivalents		(288)	(1,725)		(2,013)
Cash and cash equivalents at beginning of period		36,847	6,486		43,333
Cash and cash equivalents at end of period	\$	\$ 36,559	\$ 4,761	\$	\$ 41,320

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**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.*

**CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING INFORMATION**

This Quarterly Report on Form 10-Q (this Quarterly Report ) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Statements contained in this report about our future outlook, prospects, strategies and plans, and about industry conditions, demand for seismic services and the future economic life of our seismic data are forward-looking. All statements that express belief, expectation, estimates or intentions, as well as those that are not statements of historical fact, are forward-looking. The words proposed, anticipates, anticipated, will, would, should, estimates and similar expressions are intended to forward-looking statements. Forward-looking statements represent our present belief and are based on our current expectations and assumptions with respect to future events. While we believe our expectations and assumptions are reasonable, they involve risks and uncertainties beyond our control that could cause the actual results or outcome to differ materially from the expected results or outcome reflected in our forward-looking statements. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report may not occur. Such risks and uncertainties include, without limitation, actual customer demand for our seismic data and related services, the timing and extent of changes in commodity prices for natural gas, crude oil and condensate and natural gas liquids, conditions in the capital markets during the periods covered by the forward-looking statements, the effect of the current global financial crisis on our business, our ability to obtain financing on satisfactory terms if internally generated funds are insufficient to fund our capital needs, the impact on our financial condition as a result of our debt and our debt service, our ability to obtain and maintain normal terms with our vendors and service providers, our ability to maintain contracts that are critical to our operations, changes in the oil and gas industry or the economy generally, changes in the exploration budgets of our customers, and our ability to comply with the terms of our final judgment of permanent injunction by the Securities and Exchange Commission ( SEC ). The foregoing and other risk factors are identified in our Annual Report on Form 10-K for the year ended December 31, 2008 filed with the SEC.

The forward-looking statements contained in this report speak only as of the date hereof. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason. All forward-looking statements attributable to Seitel, Inc. or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in our Annual Report filed on Form 10-K for the year ended December 31, 2008 filed with the SEC and in our future periodic reports filed with the SEC.

**Overview**

***General***

Our products and services are used by oil and gas companies to assist in oil and gas exploration and development and management of hydrocarbon reserves. We own 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 available for licensing in the United States and Canada. 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. Exploration activity in North America began to decline in late 2008 as a result of the economic downturn and weak commodity prices. North American drilling activity continued to fall during the second quarter of 2009, with the average year-to-date rig count dropping by 38% compared to the same period of 2008.

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We have experienced a reduction in cash resales during the first six months of 2009 as oil and gas companies continued to reduce their exploration and development spending due to weak commodity prices, economic uncertainty and tough credit markets. Although we are unable to predict the duration of this decline, we currently do not anticipate any significant recovery in North America drilling activity before 2010; therefore, we continue to expect cash resales for the full year of 2009 to be lower than our 2008 results. In order to address the current industry challenges, we have reduced our planned 2009 net cash capital expenditures by more than 50% from the level we had in 2008. In addition, we have implemented measures to reduce our cash operating expenses by approximately one-third in 2009, including workforce reductions implemented in January and April of 2009.

***The Merger***

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

***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, the willingness of these companies to forgo ownership in the seismic data. Capital expenditures by oil and gas companies depend upon several factors, including actual and forecasted oil and natural gas commodity prices, prospect availability and the companies' own short-term and strategic plans. These capital expenditures may also be affected by worldwide economic or industry-wide conditions. Demand for our seismic data is more likely to be influenced by natural gas prices rather than crude oil prices due to the geographic location of our seismic data. The economic downturn has resulted in lower commodity prices and reduced exploration capital expenditures, which, in turn, has caused demand for seismic data to decline. However, we are unable to predict the severity or duration of this decrease in demand.

***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. The reduction in cash flows being experienced by our customers resulting from the declines in commodity prices, along with the reduced availability of credit and increased costs of borrowing due to the tightening of the credit markets, 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.

***North America Drilling Activity:*** Although there has been a sharp reduction in drilling activity in North America in 2009, we believe the production of natural gas has not fallen significantly and continues to exceed current demand. Until this imbalance is corrected, we expect drilling activity to continue to fall significantly in North America, reducing 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.

**Table of Contents****Non-GAAP Key Performance Measures**

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

The following are the key performance measures considered by management.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cash resales	\$ 7,248	\$ 32,670	\$ 17,260	\$ 52,505
Other revenue components:				
Acquisition revenue	8,349	12,546	26,375	30,949
Non-monetary exchanges	169	798	176	4,457
Revenue deferred	(2,665)	(13,922)	(8,099)	(29,017)
Recognition of revenue previously deferred	8,234	10,651	18,994	29,563
Solutions and other	1,111	1,976	2,462	3,644
Total revenue, as reported	\$ 22,446	\$ 44,719	\$ 57,168	\$ 92,101

**Cash EBITDA:** Cash EBITDA represents cash generated from licensing data from our data library net of recurring operating expenses. 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). Cash EBITDA includes cash resales plus all other cash revenues other than from data acquisitions, less cost of goods sold and cash selling, general and administrative expenses (excluding non-recurring corporate expenses such as merger and acquisition transaction costs and severance costs). The following is a quantitative reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, operating loss (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cash EBITDA	\$ 3,310	\$ 26,335	\$ 8,540	\$ 39,103
Add (subtract) other revenue components not included in cash EBITDA:				
Acquisition revenue	8,349	12,546	26,375	30,949
Non-monetary exchanges	169	798	176	4,457
Revenue deferred	(2,665)	(13,922)	(8,099)	(29,017)
Recognition of revenue previously deferred	8,234	10,651	18,994	29,563
Recognition of Solutions revenue previously deferred				44
Less:				
Depreciation and amortization	(36,072)	(44,259)	(75,246)	(89,114)
Merger expenses				(357)

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Merger and acquisition transaction costs		(4)		(5)
One-time costs associated with cost reduction measures	(411)		(1,211)	
Non-cash operating expenses	(1,057)	(1,663)	(2,398)	(3,520)
Operating loss, as reported	\$ (20,143)	\$ (9,518)	\$ (32,869)	\$ (17,897)

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**Growth of Our Seismic Data Library:** We regularly add to our seismic data library through four different methods: (1) recording new data; (2) 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, 2009 to June 30, 2009, we completed the addition of approximately 190 square miles of seismic data to our library. As of June 30, 2009, we had approximately 710 square miles of seismic data in progress.

**Critical Accounting Policies**

We operate in one business segment, which is made up of seismic data acquisition, seismic data licensing, seismic data processing and seismic reproduction services. There have not been any changes in our critical accounting policies since December 31, 2008.

**Results of Operations****Revenue**

The following table summarizes the components of our revenue for the three and six months ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Acquisition revenue:				
Cash underwriting	\$ 6,802	\$ 10,646	\$ 23,902	\$ 25,327
Underwriting from non-monetary exchanges	1,547	1,900	2,473	5,622
Total acquisition revenue	8,349	12,546	26,375	30,949
Resale licensing revenue:				
Cash resales	7,248	32,670	17,260	52,505
Non-monetary exchanges	169	798	176	4,457
Revenue deferred	(2,665)	(13,922)	(8,099)	(29,017)
Recognition of revenue previously deferred	8,234	10,651	18,994	29,563
Total resale revenue	12,986	30,197	28,331	57,508
Total seismic revenue	21,335	42,743	54,706	88,457
Solutions and other	1,111	1,976	2,462	3,644
Total revenue	\$ 22,446	\$ 44,719	\$ 57,168	\$ 92,101

Total revenue for the second quarter of 2009 was \$22.4 million, a decrease of \$22.3 million, or 50%, from the second quarter of 2008 total revenue of \$44.7 million. Acquisition revenue was \$8.3 million for the second quarter of 2009, a 33% decrease from the second quarter of 2008. The decrease was primarily due to an 87% reduction in Canada's acquisition revenue between periods as the majority of their acquisition programs were completed in the first quarter of 2009 resulting in minimal revenue in the second quarter of 2009. In addition, the U.S. had a 20% reduction in acquisition revenue between periods as we have not added any new acquisition programs in the second quarter of 2009 due to our planned reduction in this area resulting from the current poor industry conditions. Total resale licensing revenue was \$13.0 million in the second quarter of 2009 compared to \$30.2 million in the second quarter of 2008, a decrease of 57%. Resale licensing revenue in the 2009 second quarter continued to be impacted by weak natural gas prices and the slowdown in drilling activity in North America with companies continuing to curtail their exploration and development spending. Cash resales for the second quarter of 2009 were \$7.2 million, down 78% from the second quarter of 2008. For the second quarter of 2009, core cash resales (onshore 3D and Canadian 2D data) and non-core cash resales (U.S. 2D

and offshore data) were down 78% and 77%, respectively, from the second quarter of 2008. Cash resales reflected decreases throughout all of our geographical areas, with both large and small clients curtailing their expenditures on data from our library. The absence of large licensing deals and the low number of library card contracts continued to hurt our licensing revenue in the second quarter of 2009. Revenue deferred was lower in the second quarter of 2009 as a result of fewer library cards purchased. Recognition of previously deferred revenue, primarily selections, was lower between the quarters as customers made fewer selections on open library cards. Solutions and other revenue was \$1.1 million in the second quarter of 2009 compared to \$2.0 million in the second quarter of 2008. Solutions revenue is primarily driven by the level of seismic revenue; therefore, the \$0.9 million reduction was primarily due to the lower level of total seismic revenue.

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Total revenue for the first six months of 2009 was \$57.2 million, a decrease of \$34.9 million, or 38%, from the first six months of 2008 total revenue of \$92.1 million. Acquisition revenue was \$26.4 million for the first six months of 2009, a 15% decrease from the first six months of 2008. The decrease was primarily attributable to lower acquisition revenue in Canada in the 2009 period as a result of a very strong seismic data shooting season in 2008. Total resale licensing revenue was \$28.3 million in the first six months of 2009 compared to \$57.5 million in the first six months of 2008, reflecting the lower activity levels by our clients. Cash resales for the first six months of 2009 were \$17.3 million, down 67% from the first six months of 2008. For the first six months of 2009, core cash resales and non-core cash resales were down 67% and 69%, respectively, from the first six months of 2008. Revenue deferred was lower in the 2009 year-to-date period as a result of fewer library cards purchased. Recognition of previously deferred revenue, primarily selections, was lower between the six-month periods as customers made fewer selections on open library cards. Solutions and other revenue decreased \$1.2 million between the six-month periods due to the lower level of total seismic revenue.

At June 30, 2009, we had a deferred revenue balance of \$41.9 million, compared to the December 31, 2008 balance of \$67.7 million. The deferred revenue balance was related to (i) data licensing contracts on which selection of specific data had not yet occurred, (ii) deferred revenue on data acquisition projects and (iii) contracts in which the data products are not yet available or the revenue recognition criteria has not yet been met. The deferred revenue will be recognized when selection of specific data is made by the customer, upon expiration of the data selection period specified in the data licensing contracts, as work progresses on the data acquisition contracts, as the data products become available or as all of the revenue recognition criteria are met.

**Depreciation and Amortization**

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Amortization of seismic data:				
Income forecast	\$ 13,275	\$ 25,983	\$ 34,180	\$ 54,756
Straight-line	20,871	16,227	37,271	30,238
Total amortization of seismic data	34,146	42,210	71,451	84,994
Depreciation of property and equipment	563	593	1,116	1,184
Amortization of acquired intangibles	1,363	1,456	2,679	2,936
<b>Total</b>	<b>\$ 36,072</b>	<b>\$ 44,259</b>	<b>\$ 75,246</b>	<b>\$ 89,114</b>

Total seismic data library amortization amounted to \$34.1 million in the second quarter of 2009 compared to \$42.2 million in the second quarter of 2008 and \$71.5 million for the first half of 2009 compared to \$85.0 million for the first half of 2008. 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 acquisitions) and selected by our customers during any period as well as the amount of straight-line amortization required under our accounting policy.

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

Components of Amortization	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Income forecast	62.2%	60.8%	62.5%	61.9%
Straight-line	97.8%	38.0%	68.1%	34.2%
<b>Total</b>	<b>160.0%</b>	<b>98.8%</b>	<b>130.6%</b>	<b>96.1%</b>

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The percentage of income forecast amortization to total seismic revenue increased slightly between the 2009 and 2008 periods presented due to the mix of data being licensed. In all periods, we had resale revenue recognized which was from data whose costs were fully amortized. In the second quarter and first six months of 2009, 19% and 20%, respectively, of resale revenue recognized was from data whose costs were fully amortized as compared to 20% and 18%, respectively, in the second quarter and first six months of 2008. Straight-line amortization represents the expense required under our accounting policy to ensure our data value is fully

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amortized within four years of when the data becomes available for sale. The amount of straight-line amortization increased \$4.6 million between the 2008 and 2009 second quarter periods and \$7.0 million in the first half of 2009 compared to the first half of 2008 due to lower revenues in the 2009 periods and the distribution of revenue among the various seismic surveys, resulting in more straight-line amortization in 2009.

**Selling, General and Administrative Expenses**

Selling, general and administrative ( SG&A ) expenses were \$6.4 million in the second quarter of 2009 compared to \$9.8 million in the second quarter of 2008 and \$14.7 million in the first six months of 2009 compared to \$20.2 million in the first six months of 2008. SG&A expenses are made up of the following cash and non-cash expenses (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Cash SG&A expenses	\$ 5,367	\$ 8,150	\$ 12,286	\$ 16,728
Non-cash compensation expense	995	1,592	2,279	3,378
Non-cash rent expense	62	71	119	142
Total	\$ 6,424	\$ 9,813	\$ 14,684	\$ 20,248

The decrease in cash SG&A expenses of \$2.8 million from the second quarter of 2008 to the second quarter of 2009 was primarily due to (1) a decrease of \$1.1 million in personnel costs resulting from workforce reductions and reductions in base salaries and employee benefits implemented in 2009, (2) a decrease of \$0.8 million due to no performance incentive accruals in 2009 because of the current economic environment and lower cash resales, (3) a decrease of \$0.5 million in sales commissions as a result of lower revenues and (4) a decrease of \$0.6 million in various expenses resulting from cost cutting measures implemented in 2009. These decreases were partially offset by \$0.4 million of one-time costs incurred to implement cost reduction measures and an increase in reserves for bad debt in the second quarter of 2009 of \$0.1 million.

The decrease in cash SG&A expenses of \$4.4 million from the first six months of 2008 to the first six months of 2009 was primarily due to (1) a decrease of \$2.2 million in personnel costs resulting from workforce reductions and reductions in base salaries and employee benefits implemented in 2009, (2) a decrease of \$1.7 million due to no performance incentive accruals in 2009 because of the current economic environment and lower cash resales, (3) a decrease of \$0.9 million in sales commissions as a result of lower revenues and (4) a decrease of \$0.8 million in various expenses resulting from cost cutting measures implemented in 2009. These decreases were partially offset by \$1.2 million of one-time costs incurred to implement cost reduction measures and additional reserves for bad debt in 2009 of \$0.2 million.

The decrease in non-cash compensation expense between 2009 and 2008 was primarily due to our using graded vesting to amortize the compensation expense related to our stock option issuances, thus recognizing more expense in the earlier periods and gradually reducing in later years. There have been no additional option issuances since the second quarter of 2008. In addition, the second quarter and first six months of 2008 included a charge of \$0.6 million related to the issuance of fully vested restricted stock units to certain key employees.

**Merger Expenses**

During the six months ended June 30, 2008, we recorded \$357,000 related to change in control payments resulting from the Merger.

**Income Taxes**

Tax expense (benefit) was \$(1.6) million in the second quarter of 2009 compared to \$0.9 million in the second quarter of 2008. The benefit in the second quarter of 2009 was comprised of (i) a benefit of \$1.6 million related to our Canadian operations, (ii) a benefit of \$0.1 million primarily related to the reversal of an uncertain tax position following the expiration of the statute of limitations and (iii) \$0.1 million in U.S. state tax expense. The expense in the second quarter of 2008 was comprised of (i) a benefit of \$1.8 million related to our Canadian operations, (ii) an expense of \$2.4 million related to an additional reserve on uncertain tax positions and

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(iii) \$0.3 million of state tax expense in the U.S. The Federal tax benefit in both the second quarter of 2009 and 2008 resulting from our U.S. operations was

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offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

Tax expense (benefit) was \$(2.2) million and \$0.2 million for the six months ended June 30, 2009 and 2008, respectively. The benefit for the first six months of 2009 was comprised of (i) a benefit of \$2.6 million related to our Canadian operations, (ii) \$0.2 million of state tax expense in the U.S. and (iii) \$0.2 million expense related to penalties and interest on uncertain tax positions. The expense for the first six months of 2008 was comprised of (i) a benefit of \$2.8 million related to our Canadian operations, (ii) an expense of \$2.4 million related to an additional reserve on uncertain tax positions, (iii) \$0.5 million of state tax expense in the U.S. and (iv) \$0.1 million of Canadian withholding taxes. The Federal tax benefit in both the first six months of 2009 and 2008 resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

**Liquidity and Capital Resources**

As of June 30, 2009, we had \$28.7 million in consolidated cash, cash equivalents and short-term investments, including \$113,000 of restricted cash. As described below, an event of default has occurred and is continuing under our U.S. credit facility which prohibits us from borrowing under this facility without the lender's consent. We currently expect to satisfy our debt service as well as our operating and capital needs for the remainder of 2009 from our available cash and operating cash flows.

**U.S. Credit Facility:** On February 14, 2007, we entered into an amended and restated U.S. revolving credit facility which provides for the ability to borrow up to \$25.0 million, subject to borrowing base limitations. The facility expires on February 14, 2010. The borrowing base is determined from time to time based on the lesser of:

\$25.0 million,

75% of our trailing twelve months U.S. cash margin (defined as cash resales and Solutions revenue, plus gain on sale of seismic data, less cash cost of sales and cash SG&A expenses, before depreciation and amortization expense), or

the sum of (1) 85% of eligible U.S. short term accounts (defined as accounts that are not long term accounts and within 90 days of invoice date), plus (2) the lesser of (a) 50% of eligible U.S. long term accounts (defined as accounts with contracts for periods of performance from one month to 18 months, where the account debtor makes payments over the term of the contract) and (b) \$7.5 million, plus (3) \$15.0 million.

The facility contains financial covenants, including a covenant requiring us to achieve and maintain a minimum level of cash margin (as defined in the agreement governing the facility) for our U.S. operations. As of June 30, 2009, we are in compliance with all of the covenants of our credit facility except the cash margin covenant. As a result of our non-compliance with this covenant, an event of default has occurred which prohibits us from borrowing under the credit facility without the lender's consent. This event of default has not been waived and is continuing. At June 30, 2009, there was no outstanding balance under the facility and there was \$21.6 million of borrowing base capacity which is not accessible to us due to the event of default.

**Canadian Credit Facility:** Our wholly owned subsidiary, Olympic Seismic Ltd. ( Olympic ), has a revolving credit facility which allows it to borrow up to \$5.0 million (Canadian), subject to an availability formula, by way of prime-based loans or letters of credit. Available borrowings under the facility are equivalent to a maximum of \$5.0 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of Olympic, less prior-ranking claims, if any, relating to inventory or accounts. As of June 30, 2009, no amounts were outstanding on this revolving line of credit and \$3.3 million (Canadian) was available on the line of credit.

**9.75% Senior 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 Merger and the related transactions. Interest on these senior notes is payable in cash, semi-annually in arrears on February 15 and August 15.



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**11.75% Senior Notes:** On July 2, 2004, we issued in a private placement \$193.0 million aggregate principal amount of our 11.75% Senior Notes. As of June 30, 2009, \$2.0 million of the 11.75% Senior Notes remain outstanding. Interest on these senior notes is payable in cash, semi-annually in arrears on January 15 and July 15.

**Contractual Obligations:** As of June 30, 2009, we had outstanding debt and lease obligations, with aggregate contractual cash obligations summarized as follows (in thousands):

Contractual cash obligations	Total	Remainder of 2009	Payments due by period		2015 and Thereafter
			2010-2012	2013-2014	
Debt obligations <sup>(1)(2)</sup>	\$ 597,870	\$ 19,654	\$ 119,686	\$ 458,530	\$
Capital lease obligations <sup>(2)</sup>	4,611	160	979	705	2,767
Operating lease obligations	3,752	569	2,932	251	
Total contractual cash obligations	\$ 606,233	\$ 20,383	\$ 123,597	\$ 459,486	\$ 2,767

(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 were \$22.3 million and \$47.3 million for the six months ended June 30, 2009 and 2008, respectively. Operating cash flows for 2009 decreased from 2008 primarily due to decreased collections from our cash license resales in the 2009 period as a result of the slowdown in activity.

**Cash Flows from Investing Activities:** Cash flows used in investing activities were \$35.9 million and \$49.6 million for the six months ended June 30, 2009 and 2008, respectively. Cash expenditures for seismic data were \$35.6 million and \$49.1 million for the six months ended June 30, 2009 and 2008, respectively. The decrease in cash invested in seismic data for 2009 compared to 2008 was primarily due to a decrease in cash paid for new data acquisition projects in both the U.S. and Canada and a reduction in payments on cash purchases.

**Cash Flows from Financing Activities:** Cash flows used in financing activities were \$0.1 million for both the six months ended June 30, 2009 and 2008.

**Anticipated Liquidity:** Our ability to make required payments of interest on our 9.75% and 11.75% Senior Notes and on borrowings under our revolving credit facilities, incur additional indebtedness, and comply with our various debt covenants, will depend primarily on our ability to generate substantial operating cash flows. Over the next 12 months, we expect to obtain the funds necessary to pay our operating, capital and other expenses and principal and interest on our senior notes, borrowings under our revolving credit facilities and our other indebtedness, from our operating cash flows and cash and cash equivalents on hand. 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. To the extent our operating cash flows and cash on hand are not sufficient to cover our anticipated expenditures, we could seek to obtain additional debt or equity financing; however, there can be no assurance that we would be able to accomplish any such debt or equity financing on satisfactory terms or at all. If necessary, we could reduce our spending on capital projects and operating expenses to ensure we operate within the cash flow generated from our operations. 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 June 30, 2009, we had a net deferred tax liability of \$6.0 million attributable to our Canadian operations and a \$210,000 deferred tax asset attributable to U.S. state deferred taxes. In the U.S., we had a deferred tax asset of \$73.5 million, all of which was fully offset by a valuation allowance. The recognition of the U.S. deferred tax asset will not occur until such time that it is more likely than not that some portion or all of the deferred tax asset will be realized. As of June 30, 2009, it was more likely than not that

all of the U.S. deferred tax asset will not be realized.

**Table of Contents****Off-Balance Sheet Transactions**

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

**Capital Expenditures**

During the six months ended June 30, 2009, capital expenditures for seismic data and other property and equipment amounted to \$34.5 million. Our capital expenditures for the remainder of 2009 are presently estimated to be \$29.6 million. The first six months of 2009 actual and 2009 estimated remaining capital expenditures are comprised of the following (in thousands):

	Six Months Ended June 30, 2009	Estimate for Remainder of 2009	Total Estimate for 2009
New data acquisition	\$ 32,164	\$ 20,836	\$ 53,000
Cash purchases of seismic data and other	1,482	118	1,600
Non-monetary exchanges	609	8,291	8,900
Property and equipment and other	274	326	600
<b>Total capital expenditures</b>	<b>34,529</b>	<b>29,571</b>	<b>64,100</b>
Less: Non-monetary exchanges	(609)	(8,291)	(8,900)
Changes in working capital	1,971		1,971
Cash investment per statement of cash flows	\$ 35,891	\$ 21,280	\$ 57,171

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):

	Six Months Ended June 30, 2009	Estimate for Remainder of 2009	Total Estimate for 2009
Total capital expenditures	\$ 34,529	\$ 29,571	\$ 64,100
Less: Non-cash additions	(609)	(8,291)	(8,900)
Cash underwriting	(23,902)	(11,298)	(35,200)
Capital expenditures funded from operating cash flow	\$ 10,018	\$ 9,982	\$ 20,000

As of August 10, 2009, we had capital expenditure commitments related to data acquisition projects of approximately \$22.0 million, of which we have obtained approximately \$12.4 million of cash underwriting and \$0.4 million of underwriting from non-monetary exchanges.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

**Interest Rate Risk**

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We may enter into various financial instruments, such as interest rate swaps or interest rate lock agreements, to manage the impact of changes in interest rates. As of June 30, 2009, 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.

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**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 June 30, 2009.

**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 June 30, 2009 were 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 June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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**PART II - OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

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

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

**Item 6. EXHIBITS**

- |        |   |
|--------|---|
| 3.1    | Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007). |
| 3.2    | Bylaws of Seitel, Inc. (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).                      |
| 10.1+  | Form of Amendment to Employment Agreement (incorporated by reference from Exhibit 10.1 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on June 8, 2009).              |
| 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.                                      |

+ Management contract, compensation plan or arrangement.

\* 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 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: August 13, 2009

/s/ Robert D. Monson  
Robert D. Monson

Chief Executive Officer and President

Dated: August 13, 2009

/s/ William J. Restrepo  
William J. Restrepo

Chief Financial Officer

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EXHIBIT

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<b>Exhibit</b>	<b>Title</b>
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