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Rice Energy Inc.
Form 10-Q
November 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from _____ to _____

Commission File Number: 001-36273

Rice Energy Inc.

(Exact name of registrant as specified in its charter)

Delaware

46-3785773

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

400 Woodcliff Drive

15317

Canonsburg, Pennsylvania

(Address of principal executive offices)

(Zip code)

(724) 746-6720

(Registrant's telephone number, including area 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 small 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

(Do not check if a 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

Number of shares of the registrant's common stock outstanding at November 2, 2015: 136,383,510 shares

RICE ENERGY INC.
QUARTERLY REPORT ON FORM 10-Q
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Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q (the “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”). All statements, other than statements of historical fact included in this Quarterly Report, regarding our strategy, future operations, financial position, estimated revenues and income/losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this Quarterly Report, the words “may,” “assume,” “forecast,” “position,” “predict,” “strategy,” “expect,” “intend,” “plan,” “estimate,” “anticipate,” “budget,” “potential,” or “continue,” and similar expressions are used to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on our current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events. You are cautioned not to place undue reliance on any forward-looking statements. You should also understand that it is not possible to predict or identify all such factors and should not consider the following list to be a complete statement of all potential risks and uncertainties. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements described under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2014 (the “2014 Annual Report”) on file with the Securities and Exchange Commission (the “SEC”).

Forward-looking statements may include statements about our:

- business strategy;
- reserves;
- financial strategy, liquidity and capital required for our development program;
- realized natural gas, NGLs and oil prices;
- timing and amount of future production of natural gas, NGLs and oil;
- hedging strategy and results;
- future drilling plans;
- competition and government regulations;
- pending legal or environmental matters;
- marketing of natural gas, NGLs and oil;
- leasehold or business acquisitions;
- costs of developing our properties and conducting our gathering and other midstream operations;
- consummation of our planned midstream joint venture with Gulfport Energy Corporation (“Gulfport”);
- operations of Rice Midstream Partners LP;
- general economic conditions;
- credit and capital markets;
- uncertainty regarding our future operating results; and
- plans, objectives, expectations and intentions contained in this Quarterly Report that are not historical.

We caution you that these forward-looking statements are subject to all of the risks and uncertainties, most of which are difficult to predict and many of which are beyond our control, incident to the exploration for and development, production, gathering and sale of natural gas, NGLs and oil. These risks include, but are not limited to: commodity price volatility; inflation; lack of availability of drilling and production equipment and services; environmental risks; drilling and other operating risks; regulatory changes; the uncertainty inherent in estimating natural gas reserves and in projecting future rates of production, cash flow and access to capital; the timing of development expenditures; and the other risks described under the heading “Item 1A. Risk Factors” in our 2014 Annual Report.

Reserve engineering is a process of estimating underground accumulations of natural gas, NGLs and oil that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data, the interpretation of such data and price and cost assumptions made by reserve engineers. In addition, the results of drilling, testing and production activities may justify revisions of estimates that were made previously. If significant, such revisions could change the schedule of any further production and development drilling. Accordingly, reserve estimates may differ significantly from the quantities of natural gas, and NGLs and oil that are ultimately recovered.

Should one or more of the risks or uncertainties described in this Quarterly Report occur, or should underlying assumptions prove incorrect, our actual results and plans could differ materially from those expressed in any forward-looking statements.

All forward-looking statements, expressed or implied, included in this Quarterly Report are expressly qualified in their entirety by this cautionary statement. This cautionary statement should also be considered in connection with any subsequent written or oral forward-looking statements that we or persons acting on our behalf may issue.

Except as otherwise required by applicable law, we disclaim any duty to update any forward-looking statements, all of which are expressly qualified by the statements in this section, to reflect events or circumstances after the date of this Quarterly Report.

Commonly Used Defined Terms

As used in the Quarterly Report, unless the context indicates or otherwise requires, the following terms have the following meanings:

- “Rice Energy,” the “Company,” “we,” “our,” “us” or like terms refer collectively to Rice Energy Inc. and its consolidated subsidiaries, including Rice Drilling B;
- “Rice Drilling B” refers to Rice Drilling B LLC, a wholly-owned subsidiary of Rice Energy;
- “RMP” or the “Partnership” refer to Rice Midstream Partners LP (NYSE: RMP);
- “Rice Midstream OpCo” refers to Rice Midstream OpCo LLC, a wholly-owned subsidiary of RMP;
- “Midstream Holdings” refers to Rice Midstream Holdings LLC, a wholly-owned subsidiary of Rice Energy; and
- “Marcellus joint venture” refers collectively to Alpha Shale Resources, LP and its general partner, Alpha Shale Holdings, LLC.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Rice Energy Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands)

| | September 30, 2015 | December 31, 2014 |
|---|--------------------|-------------------|
| Assets | | |
| Current assets: | | |
| Cash | \$216,084 | \$256,130 |
| Accounts receivable | 224,336 | 199,900 |
| Prepaid expenses and other | 5,874 | 3,427 |
| Derivative assets | 157,476 | 133,034 |
| Total current assets | 603,770 | 592,491 |
| Gas collateral account | 4,036 | 3,995 |
| Property, plant and equipment, net | 3,101,313 | 2,461,331 |
| Deferred financing costs, net | 30,078 | 25,103 |
| Goodwill | 334,050 | 334,050 |
| Intangible assets, net | 46,568 | 47,791 |
| Derivative assets | 105,795 | 63,188 |
| Total assets | \$4,225,610 | \$3,527,949 |
| Liabilities and stockholders' equity | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$— | \$680 |
| Accounts payable | 125,633 | 152,329 |
| Royalties payable | 54,141 | 37,172 |
| Accrued capital expenditures | 98,686 | 108,290 |
| Accrued interest | 38,645 | 9,375 |
| Leasehold payable | 21,907 | 30,702 |
| Deferred tax liabilities | 63,486 | 54,688 |
| Other accrued liabilities | 46,403 | 43,439 |
| Total current liabilities | 448,901 | 436,675 |
| Long-term liabilities: | | |
| Long-term debt | 1,521,128 | 900,000 |
| Leasehold payable | 7,010 | 4,279 |
| Deferred tax liabilities | 214,716 | 209,218 |
| Other long-term liabilities | 16,528 | 12,609 |
| Total liabilities | 2,208,283 | 1,562,781 |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value; authorized - 650,000,000 shares; issued and outstanding - 136,383,293 shares and 136,280,766 shares, respectively | 1,364 | 1,363 |
| Preferred stock, \$0.01 par value; authorized - 50,000,000 shares; none issued | — | — |
| Additional paid in capital | 1,422,590 | 1,368,001 |
| Accumulated earnings | 142,767 | 153,346 |
| Stockholders' equity before noncontrolling interest | 1,566,721 | 1,522,710 |

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| | | |
|---|-------------|-------------|
| Noncontrolling interests in consolidated subsidiaries | 450,606 | 442,458 |
| Total liabilities and stockholders' equity | \$4,225,610 | \$3,527,949 |

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

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Rice Energy Inc.
 Condensed Consolidated Statements of Operations
 (Unaudited)

| (in thousands, except share data) | Three Months Ended | | Nine Months Ended | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Operating revenues: | | | | |
| Natural gas, oil and natural gas liquids (“NGL”) sales | \$ 130,145 | \$ 67,831 | \$ 327,947 | \$ 246,816 |
| Firm transportation sales, net | 88 | 9,733 | 3,353 | 11,851 |
| Gathering, compression and water distribution | 13,388 | 1,563 | 34,755 | 2,878 |
| Total operating revenues | 143,621 | 79,127 | 366,055 | 261,545 |

make certain investments;

sell assets without using the net proceeds thereof as
 set forth in the indenture;

grant and permit certain liens;

enter into sale-leaseback transactions;

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enter into agreements affecting the ability of our restricted subsidiaries to pay dividends;

enter into transactions with affiliates; and

consolidate, merge or sell all or substantially all of our assets.

These covenants are subject to very important and detailed exceptions and qualifications, which are described under the heading *Description of New Notes Certain Covenants* in this prospectus.

Absence of a Public Market The new notes are a new issue of securities and there currently is no established market for them. Accordingly, there can be no assurance as to the development or liquidity of any market for the new notes. The initial purchasers have advised us that they currently intend to make a market for the new notes as permitted by applicable laws and regulations. However, they are not obligated to do so and may discontinue any such market making activities at any time without notice. We expect that the new notes will be eligible for trading in The PORTAL Market, a subsidiary of The Nasdaq Stock Market, Inc.

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Summary Historical and Pro Forma Consolidated Financial Data

The following is a summary of our historical consolidated financial data as of and for each of our fiscal years ended December 31, 2001, 2002 and 2003, and as of and for the nine months ended September 30, 2003 and 2004. The following also sets forth unaudited summary pro forma consolidated financial data illustrating the estimated effects of the Plan, including the financings required by the Plan, as if they had occurred on January 1, 2003, in the case of the unaudited pro forma consolidated income statements.

Our consolidated balance sheets after September 30, 2004, and our consolidated statements of operations for the periods after September 30, 2004, will not be comparable to our historical consolidated financial statements published before the effective date of the Plan and included elsewhere in this prospectus. Among other things, our consolidated statement of operations for future periods will include numerous adjustments required by the Plan, including substantially less professional expenses related to our reorganization proceedings.

The consolidated balance sheet data and the consolidated statement of operations data presented below as of December 31, 2001, 2002 and 2003, and for each of the years in the three-year period ended December 31, 2003, have been derived from our consolidated financial statements, which have been audited by Ernst & Young LLP, independent registered public accounting firm (Ernst & Young). The auditors' report issued by Ernst & Young with respect to their audit of our financial statements for the years ended December 31, 2003 and 2002 included an explanatory paragraph relating to our ability to continue as a going concern. The consolidated balance sheet data and the consolidated statement of operations data presented below as of and for the nine-month periods ended September 30, 2003 and 2004, respectively, are unaudited. However, we believe that this information contains all adjustments, consisting only of normal recurring adjustments, which are necessary to present fairly our consolidated financial position and results of operations for those periods. The consolidated balance sheet data as of September 30, 2004, and the consolidated statement of operations data presented for the nine-month period ended September 30, 2004, are not necessarily indicative of the results that may be expected for the fiscal year. Certain reclassifications have been made to the amounts in the prior years financial statements to conform to the current year's presentation.

The Unaudited Pro Forma Consolidated Financial Data do not purport to be indicative of the financial position that would actually have been reported had such transactions in fact been consummated on such dates or of the financial position that may be reported by us in the future. The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable. The Unaudited Pro Forma Consolidated Financial Data do not include the effects of the fresh start accounting provisions of AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, because the criteria for fresh start reporting were not met.

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All of the information presented below should be read in conjunction with Selected Historical Consolidated Financial Data, Unaudited Pro Forma Consolidated Financial Data and Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as our audited and unaudited consolidated financial statements and their accompanying notes, all of which are included elsewhere in this prospectus.

| | Year Ended December 31, | | | Nine Months Ended September 30, | | Pro Forma Nine Months Ended, September 30, |
|--|-------------------------|------------|------------|------------------------------------|-------------|---|
| | 2001 | 2002 | 2003 | 2003 | 2004 | 2004 |
| | | | | (unaudited) | (unaudited) | (unaudited) |
| Statement of Operations Data: | | | | | | |
| (In thousands) | | | | | | |
| Revenue | \$ 115,238 | \$ 149,795 | \$ 131,465 | \$ 101,296 | \$ 103,764 | \$ 103,764 |
| Expenses and Costs: | | | | | | |
| Depreciation and amortization | 49,448 | 129,856 | 82,638 | 61,506 | 139,193 | 139,193 |
| Cost of sales | 1,196 | 928 | 815 | 510 | 261 | 261 |
| Selling, general and administrative | 34,490 | 71,857 | 33,814 | 24,571 | 23,287 | 23,287 |
| Impairment of seismic data library | | 82,964 | 29,959 | 13,354 | | |
| | 85,134 | 285,605 | 147,226 | 99,941 | 162,741 | 162,741 |
| Income (loss) from operations | 30,104 | (135,810) | (15,761) | 1,355 | (58,977) | (58,977) |
| Interest expense, net | (13,461) | (20,856) | (19,950) | (15,072) | (18,415) | (18,310) |
| Loss on sale of marketable securities | | (332) | | | | |
| Foreign currency exchange gains (losses) | (315) | 125 | 4,136 | 3,358 | 953 | 953 |
| Gain on extinguishment of liabilities | | | 681 | 681 | | |
| Reorganization items | | | (5,984) | (1,675) | (12,415) | (12,415) |
| Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle | 16,328 | (156,873) | (36,878) | (11,353) | (88,854) | (88,749) |
| Provision (benefit) for income taxes | 6,748 | (18,304) | 2,199 | 621 | (2,272) | (2,272) |
| Income (loss) from continuing operations before cumulative effect of change in accounting principle | 9,580 | (138,569) | (39,077) | (11,974) | (86,582) | (86,477) |
| Income (loss) from discontinued | (24,573) | (62,709) | 1,139 | (179) | 133 | 133 |

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| | | | | | | |
|---|--|----------|--|--|--|--|
| operations, net of tax | | | | | | |
| Cumulative effect of change in accounting principle, net of tax | | (11,162) | | | | |

| | | | | | | |
|--------------|-------------|--------------|-------------|-------------|-------------|-------------|
| Net loss (1) | \$ (14,993) | \$ (212,440) | \$ (37,938) | \$ (12,153) | \$ (86,449) | \$ (86,344) |
|--------------|-------------|--------------|-------------|-------------|-------------|-------------|

Earnings (loss) per share:

Basic:

| | | | | | | |
|--|--------|-----------|-----------|----------|-----------|----------|
| Income (loss) from continuing operations | \$.38 | \$ (5.48) | \$ (1.54) | \$ (.47) | \$ (1.65) | \$ (.58) |
|--|--------|-----------|-----------|----------|-----------|----------|

| | | | | | | |
|--|-------|--------|-----|-------|--|-----|
| Income (loss) from discontinued operations | (.98) | (2.48) | .04 | (.01) | | .01 |
|--|-------|--------|-----|-------|--|-----|

| | | | | | | |
|--|--|-------|--|--|--|--|
| Cumulative effect of accounting change | | (.44) | | | | |
|--|--|-------|--|--|--|--|

| | | | | | | |
|----------|----------|-----------|-----------|----------|-----------|----------|
| Net loss | \$ (.60) | \$ (8.40) | \$ (1.50) | \$ (.48) | \$ (1.65) | \$ (.57) |
|----------|----------|-----------|-----------|----------|-----------|----------|

Diluted:

| | | | | | | |
|--|--------|-----------|-----------|----------|-----------|----------|
| Income (loss) from continuing operations | \$.37 | \$ (5.48) | \$ (1.54) | \$ (.47) | \$ (1.65) | \$ (.58) |
|--|--------|-----------|-----------|----------|-----------|----------|

| | | | | | | |
|--|-------|--------|-----|-------|--|-----|
| Income (loss) from discontinued operations | (.95) | (2.48) | .04 | (.01) | | .01 |
|--|-------|--------|-----|-------|--|-----|

| | | | | | | |
|--|--|-------|--|--|--|--|
| Cumulative effect of accounting change | | (.44) | | | | |
|--|--|-------|--|--|--|--|

| | | | | | | |
|----------|----------|-----------|-----------|----------|-----------|----------|
| Net loss | \$ (.58) | \$ (8.40) | \$ (1.50) | \$ (.48) | \$ (1.65) | \$ (.57) |
|----------|----------|-----------|-----------|----------|-----------|----------|

Weighted average shares (in thousands):

| | | | | | | |
|---------|--------|--------|--------|--------|--------|---------|
| Basic | 24,986 | 25,300 | 25,376 | 25,376 | 52,544 | 150,376 |
| Diluted | 25,692 | 25,300 | 25,376 | 25,376 | 52,544 | 150,376 |

Other Financial Data:

(In thousands)

| | | | | | | |
|-----------------------------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cash Operating Income(2)(3) | \$ 64,157 | \$ 19,843 | \$ 85,400 | \$ 60,249 | \$ 61,525 | \$ 61,525 |
| EBITDA(3) | 79,237 | 76,803 | 95,669 | 78,579 | 68,754 | 68,754 |

| | | | | | | |
|--|--------|--------|--------|--------|--------|-----|
| Cash flows provided by operating activities of continuing operations | 30,767 | 21,716 | 80,314 | 61,798 | 21,694 | n/a |
|--|--------|--------|--------|--------|--------|-----|

| | | | | | | |
|---|----------|----------|----------|----------|----------|-----|
| Cash flows used in investing activities of continuing operations(4) | (79,565) | (49,358) | (48,668) | (29,884) | (39,684) | n/a |
|---|----------|----------|----------|----------|----------|-----|

| | | | | | | |
|--|--------|---------|---------|---------|---------|-----|
| Cash flows provided by (used in) financing activities of continuing operations | 61,255 | (2,630) | (5,646) | (4,786) | (8,890) | n/a |
|--|--------|---------|---------|---------|---------|-----|

Financial Ratios:

| | | | | | | |
|--|-------|-------|-------|-------|--------|--------|
| Cash Operating Income(2)/Interest Expense, net | 4.8 | 1.0 | 4.3 | 4.0 | 3.3 | 3.4 |
| EBITDA(3)/Interest Expense, net | 5.9 | 3.7 | 4.8 | 5.2 | 3.7 | 3.8 |
| Net Debt(4)/Cash Operating Income(2) | 3.8 | 12.6 | 2.6 | n/a | n/a | n/a |
| Net Debt(4)/EBITDA(3) | 3.1 | 3.3 | 2.3 | n/a | n/a | n/a |
| Net Debt(4)/Total Net Book Capitalization | 50.0% | 87.1% | 98.4% | 88.7% | 106.8% | 106.8% |

| | |
|--|-----|
| Ratio of Earnings to Fixed Charges(5) | 1.8 |
|--|-----|

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In the second quarter of 2002, we changed our accounting policy for amortizing our created seismic data library from the income forecast method to the greater of the income forecast method or the straight-line method over the data's useful life and reported the adoption of the new method as a cumulative effect of a change in accounting principle retroactive to January 1, 2002. Pro forma net loss for the year ended December 31, 2001, assuming the new seismic data amortization policy had been applied retroactively, was as follows (in thousands, except per share amounts):

| | |
|---|-------------|
| Income from continuing operations before cumulative effect of change in accounting principle | \$ 5,178 |
| Income from continuing operations before cumulative effect of change in accounting principle per share: | |
| Basic | \$.21 |
| Diluted | .20 |
| Net loss | \$ (19,395) |
| Net loss per share: | |
| Basic | \$ (.78) |
| Diluted | (.75) |

| | <u>As of December 31,</u> | | | <u>As of September 30,</u> | |
|--|---------------------------|-------------|-------------|----------------------------|-------------|
| | <u>2001</u> | <u>2002</u> | <u>2003</u> | <u>2003</u> | <u>2004</u> |
| | | | | | |
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| | | | | | |

(unaudited) (unaudited)

| Balance Sheet Data: | | | | | |
|---|-----------|-----------|-----------|-----------|-----------|
| (In thousands) | | | | | |
| Cash and cash equivalents | \$ 25,223 | \$ 21,517 | \$ 44,362 | \$ 45,739 | \$ 17,924 |
| Seismic data library, net | 455,845 | 284,396 | 247,541 | 259,461 | 165,393 |
| Total assets | 661,469 | 398,136 | 367,089 | 371,345 | 259,060 |
| Total debt(6) | 268,350 | 272,061 | 267,434 | 268,210 | 194,612 |
| Stockholders' equity (deficit) | 243,587 | 37,036 | 3,722 | 28,334 | (11,218) |
| Book value per common share outstanding | \$ 9.71 | \$ 1.46 | \$.15 | \$ 1.12 | \$ (0.07) |
| Common shares outstanding | 25,075 | 25,376 | 25,376 | 25,376 | 150,414 |

(1) In the fourth quarter of 2002, we reevaluated our estimate of the useful life of our seismic data library and reduced the estimated useful life of offshore data from ten to five years and onshore data from ten to seven years. The effect from this change on reported results was a reduction in net income of \$58.8 million for the year ended December 31, 2002. In the third quarter of 2004, we further evaluated our estimate of the useful life of our seismic data library and reduced the estimated useful life to four years from five years for offshore data and from seven years for onshore data. The effect on reported results was a reduction in net income of \$66.6 million for the nine months ended September 30, 2004.

(2) Cash operating income is defined as cash revenue (derived primarily from seismic data acquisition revenue, cash library licensing revenue, and Solutions revenue) less cost of sales and SG&A. Cash operating income is a non-GAAP financial measure which should not be construed as an alternative to operating income (loss) (as determined in

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accordance with U.S. generally accepted accounting principles (GAAP) as an indication of our operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Included in cash operating income are a number of special items that are not necessarily indicative of our core operations or our future prospects, and impact comparability between years. Cash operating income for the year ended December 31, 2001 included \$1.3 million for charges related to former executives. Cash operating income for the year ended December 31, 2002 included \$28.5 million of costs and expenses related to our restructuring efforts, various litigation, severance costs, the acceleration of certain lease obligations, allowances for doubtful accounts and certain

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other accruals. Cash operating income for the year ended December 31, 2003 included \$5.5 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings and various litigation, net of reduction in litigation accruals. Cash operating income for the nine months ended September 30, 2003 included \$3.5 million of costs and expenses related to our restructuring efforts and various litigation, net of reduction in litigation accruals. Cash operating income for the nine months ended September 30, 2004 included \$1.5 million of costs and expenses related to various litigation and severance costs. Cash operating income for the pro forma nine months ended September 30, 2004, included \$1.5 million costs and expenses related to our various litigation and severance costs. We believe that cash operating income is a useful measure in evaluating our performance because of our revenue recognition policies. We believe that, in addition to operating income, cash flows from operating activities and EBITDA, cash operating income is a useful financial performance measurement reflecting our ability to incur and service debt and to fund capital expenditures.

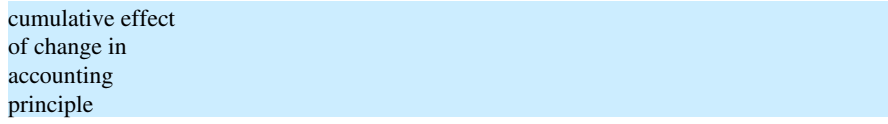
- (3) EBITDA is defined as earnings from continuing operations before income taxes (benefit), interest expense, net, impairment of seismic data, and depreciation and amortization. EBITDA is a non-GAAP financial measure, which should not be construed as an alternative to operating income (loss) (as determined in accordance with GAAP) as an indicator of our operating performance or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Our method of calculating EBITDA may differ from methods used by other companies and, as a result, EBITDA measures disclosed herein might not be comparable to other similarly titled measures used by other companies. Included in earnings and EBITDA are a number of special items that are not necessarily indicative of our core operations or our future prospects, and impact comparability between years. EBITDA for the year ended December 31, 2001 included \$1.3 million for charges related to former executives. EBITDA for the year ended December 31, 2002 included \$28.5 million of costs and expenses related to our restructuring efforts, various litigation, severance costs, the acceleration of certain lease obligations, allowances for doubtful accounts and certain other accruals. EBITDA for the year ended December 31, 2003 included \$11.5 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings and various litigation, net of reduction in litigation accruals. EBITDA for the nine months ended September 30, 2003 included \$5.2 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings and various litigation, net of reduction litigation accruals. EBITDA for the nine months ended September 30, 2004 included \$13.9 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings, various litigation and severance costs. EBITDA for the pro forma nine months ended September 30, 2004 included \$13.9 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings, various litigation and severance costs. We believe that, in addition to cash flow from operating activities and net earnings (loss), EBITDA is a useful financial performance measurement for assessing operating performance since it provides an additional basis to evaluate our ability to incur and service debt and to fund capital expenditures. To evaluate EBITDA, the components of EBITDA such as revenue and SG&A and the variability of such components over time also should be considered.

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The following table reconciles our cash operating income to EBITDA and EBITDA to income (loss) from continuing operations determined in accordance with GAAP (in thousands):

| | Year Ended December 31, | | | Nine Months Ended September 30, | | Pro Forma Nine Months Ended September 30, |
|--|-------------------------|---------------------|--------------------|---------------------------------|--------------------|---|
| | 2001 | 2002 | 2003 | 2003 | 2004 | 2004 |
| | | | | (unaudited) | (unaudited) | (unaudited) |
| Cash operating income | \$ 64,157 | \$ 19,843 | \$ 85,400 | \$ 60,249 | \$ 61,525 | \$ 61,525 |
| Add (subtract) other revenue components not included in cash operating income: | | | | | | |
| Acquisition underwriting from non-monetary exchanges | | | 624 | | 1,870 | 1,870 |
| Non-monetary exchanges | 57,045 | 13,551 | 10,630 | 9,218 | 10,470 | 10,470 |
| Deferral of revenue | (89,764) | (38,366) | (51,421) | (35,685) | (31,639) | (31,639) |
| Selections of data | 48,114 | 81,982 | 51,603 | 42,433 | 37,990 | 37,990 |
| Less: | | | | | | |
| Loss on sale of marketable securities | | (332) | | | | |
| Foreign currency exchange gains (losses) | (315) | 125 | 4,136 | 3,358 | 953 | 953 |
| Gain on extinguishment of liabilities | | | 681 | 681 | | |
| Reorganization items | | | (5,984) | (1,675) | (12,415) | (12,415) |
| EBITDA | 79,237 | 76,803 | 95,669 | 78,579 | 68,754 | 68,754 |
| Less: | | | | | | |
| Interest expense, net | (13,461) | (20,856) | (19,950) | (15,072) | (18,415) | (18,310) |
| Taxes | (6,748) | 18,304 | (2,199) | (621) | 2,272 | 2,272 |
| Impairment of seismic data library | | (82,964) | (29,959) | (13,354) | | |
| Depreciation and amortization | (49,448) | (129,856) | (82,638) | (61,506) | (139,193) | (139,193) |
| Income (loss) from continuing operations before | \$ 9,580 | \$ (138,569) | \$ (39,077) | \$ (11,974) | \$ (86,582) | \$ (86,477) |

cumulative effect
of change in
accounting
principle



- (4) Net debt reflects total debt less cash and cash equivalents.
- (5) See Ratio of Earnings to Fixed Charges.
- (6) Total debt includes capital lease obligations.

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Risk Factors

*In considering whether to participate in the exchange offer, we urge you to carefully consider all of the information we have included in this prospectus and any prospectus supplement. In particular, we urge you to carefully consider the risk factors described below and other information contained in this prospectus. In addition, we urge you to read *Forward-Looking Statements*, where we describe additional uncertainties associated with our business and forward-looking statements in this prospectus.*

Risks Related to the Exchange Offer and the New Notes

If you do not properly tender your outstanding notes, you will continue to hold unregistered outstanding notes and your ability to transfer outstanding notes will be adversely affected.

We will only issue new notes in exchange for outstanding notes that you timely and properly tender. Therefore, you should allow sufficient time to ensure timely delivery of the outstanding notes and you should carefully follow the instructions on how to tender your outstanding notes. Neither we nor the exchange agent is required to tell you of any defects or irregularities with respect to your tender of outstanding notes.

If you do not exchange your outstanding notes for new notes pursuant to the exchange offer, the outstanding notes you hold will continue to be subject to the existing transfer restrictions. In general, you may not offer or sell the outstanding notes except under an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not plan to register outstanding notes under the Securities Act unless our exchange and registration rights agreement with the initial purchasers of the outstanding notes requires us to do so. Further, if you continue to hold any outstanding notes after the exchange offer is consummated, you may have trouble selling them because there will be fewer such notes outstanding.

Our substantial level of indebtedness could adversely affect our financial condition and prevent us from fulfilling our obligations on the new notes.

We have a significant amount of leverage and interest expense resulting from new indebtedness incurred in the financing and other transactions completed in connection with the Plan, indebtedness of our Canadian subsidiaries, and other indebtedness in respect of certain capital lease obligations. Subject to certain restrictions and limitations in the indenture and in our new revolving credit facility, we may incur additional indebtedness.

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On the effective date of the Plan, we completed the sale of the outstanding notes, which were issued at an original issue discount. These proceeds were used to partially fund payments of allowed creditors' claims required under the Plan. On April 16, 2004, we entered into a new revolving credit facility with Wells Fargo Foothill, Inc. (WFF) pursuant to which a revolving loan commitment of \$30 million, subject to borrowing base limitations, was made available to us for borrowing on the effective date of the Plan. Permitted borrowings under the new revolving credit facility will be used by us from time to time to fund our working capital requirements. Accordingly, while the principal amount of our indebtedness has been reduced, our annual interest expense is higher than it was prior to the effective date of the Plan and our total annual debt service requirements continue to be substantial. The funds required to satisfy these requirements, which will derive principally from our operating cash flows, will not be available for working capital or to make investments in the future growth and development of our business. See

Description of The New Revolving Credit Facility for a discussion of the interest rates of our new revolving credit facility.

As of September 30, 2004, we and the guarantors had approximately \$191.8 million of total indebtedness, including \$2.8 million of secured indebtedness, and our consolidated annual debt service requirements together with the guarantors' aggregated approximately \$24.7 million, which is approximately \$4.2 million higher than our historical annual debt service. Although we issued \$193 million aggregate principal amount at maturity of outstanding notes, such notes were issued at a discount of 2.325% resulting in gross proceeds to us of approximately \$188.5 million. Thus, while not receiving gross proceeds equal to the principal amount of the

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outstanding notes, we are obligated to repay the full principal amount thereof at maturity and, except as set forth under Description of New Notes Redemption with Proceeds from Equity Offerings, we may not optionally redeem the new notes prior to maturity.

Our high level of indebtedness and annual debt service requirements could have important consequences to you. For example, it could:

make it more difficult for us to satisfy our obligations on the new notes;

require us to dedicate a substantial portion of our cash flow from operations to interest and principal payments on our indebtedness, thereby reducing the availability of our operating cash flows for other purposes, such as capital expenditures, funding seismic data acquisitions and working capital;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

increase our vulnerability to general adverse economic and industry conditions;

place us at a disadvantage compared to our competitors that have less debt;

expose us to fluctuations in the interest rate environment because the new revolving credit facility is at a variable rate of interest; and

limit our ability to borrow additional funds.

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

If, for any reason, we do not have sufficient funds from operating cash flows, cash and cash equivalents on hand, and borrowings available under our new revolving credit facility to pay principal and interest, when due, on the notes and on our other outstanding debt obligations (including borrowings under the new revolving credit facility), we will be

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required to seek to refinance all or a portion of our existing debt, sell assets or seek to borrow additional funds or raise additional equity capital. We cannot guarantee that we would be able to complete any of the aforementioned refinancing transactions on terms that are commercially reasonable or otherwise acceptable to us, if at all. In addition, the terms of our agreements governing our indebtedness, including our new revolving credit facility and the indenture governing the new notes, presently restrict us from implementing such refinancing transactions. The failure to generate sufficient operating cash flows could significantly and adversely affect the value of the new notes and our ability to pay principal of and interest on the new notes.

Our new revolving credit facility contains covenants requiring us to achieve and maintain certain financial results, and restricts, among other things, the amount of our capital expenditures and our ability to borrow money, grant additional liens on our assets, make particular types of investments and restricted payments, sell our assets, and merge or consolidate. Additionally, the indenture governing the new notes contains covenants that, among other things, limit our ability to incur certain additional indebtedness, incur indebtedness that is subordinate to any other indebtedness unless such indebtedness is expressly subordinate to the new notes and the guarantees, pay cash dividends or make other cash distributions on or repurchase or redeem for cash our capital stock, make certain investments, sell assets without using the net proceeds thereof as set forth in the indenture, make certain capital expenditures in excess of \$65 million plus unused excess cash flow (as defined in the

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indenture) in any fiscal year, grant and permit certain liens, enter into sale-leaseback transactions, enter into agreements affecting the ability of our restricted subsidiaries to pay dividends, enter into transactions with affiliates, merge, consolidate or sell all or substantially all of our assets, and grant security interests or liens on our assets. In addition, the indenture governing the new notes provides that subject to certain conditions, if, at the end of each fiscal year we have excess cash flow (as defined) in excess of \$5 million, we will be required to use 50% of excess cash flow to fund an offer to repurchase the new notes on a pro rata basis at 100% of the principal amount of such notes plus accrued and unpaid interest to the repurchase date. If such future repurchase offers are accepted, the funds expended would not otherwise be available to be used by us for other corporate purposes. Borrowings under the new revolving credit facility are secured by a first priority, perfected security interest in, and lien on, all of our U.S. tangible and intangible assets, and we have pledged to WFF all of the issued and outstanding capital stock of our U.S. subsidiaries. Any default in respect of these covenants could materially and adversely affect our ability to conduct our business in the ordinary course, enter into business transactions and impair our rights under our other commercial agreements.

The new notes are unsecured debt obligations.

The new notes are not secured by any of our or our subsidiaries' assets or other collateral. The indenture governing the new notes permits us and our subsidiaries to incur secured indebtedness, including pursuant to our new revolving credit facility, purchase money instruments and other forms of secured indebtedness. As a result, the new notes and the guarantees are effectively subordinated to all of our and our guarantor subsidiaries' secured obligations to the extent of the value of the collateral and other assets securing such indebtedness. The new notes are also structurally subordinated to all existing and future indebtedness and obligations of our non-guarantor subsidiaries (primarily our non-U.S. subsidiaries). As of September 30, 2004, we had \$5.6 million of secured indebtedness.

If we or the subsidiary guarantors were to become insolvent or otherwise fail to make payment on the new notes or under the guarantees, holders of any of our and our subsidiary guarantors' secured obligations would be entitled to be paid first and in full and would receive payments from the assets securing their loans to us before the holders of the new notes would receive any payments. You may therefore not be fully repaid if we or the subsidiary guarantors become insolvent or otherwise fail to make payment on the new notes.

Our Canadian subsidiaries and our other future foreign subsidiaries are not guarantors, and claims in respect of your new notes and your loan of funds to us evidenced by your new notes are structurally subordinated to the claims of all creditors of our non-guarantor subsidiaries.

Not all of our subsidiaries guarantee the new notes. Unrestricted Subsidiaries and Foreign Subsidiaries (as defined in the indenture) are not guarantors. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor subsidiaries, these non-guarantor subsidiaries will be required to pay the holders of their debts and their trade creditors before they will be able to distribute any of their assets to us. The non-guarantor

subsidiaries generated 27% of our consolidated cash operating income for the nine-month period ended September 30, 2004 and owned 27% of our combined assets as of September 30, 2004. As of September 30, 2004, our non-guarantor subsidiaries had \$2.8 million of indebtedness.

We may not be able to satisfy our obligations to holders of the new notes upon a change of control.

Upon the occurrence of a change of control (as defined in the indenture), each holder of the new notes will have the right to require us to offer to purchase all of such holder's notes tendered to us at a price equal to 101% of the principal amount thereof, together with accrued and unpaid interest, if any, on the change of control purchase date. Our failure to purchase or provide notice of purchase of the new notes would constitute a default under the indenture governing the new notes, which, in turn, would result in a cross-default under our new revolving credit facility. In addition, a change of control would constitute an event of default under our new revolving credit facility. A default under our new revolving credit facility would result in an event of default.

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under the indenture if the lenders accelerate the maturity date and repayment of all borrowings outstanding under our new revolving credit facility.

If a change of control occurs, we may not have sufficient assets to repay our outstanding borrowings under our new revolving credit facility and the new notes. Upon the occurrence of a change of control, we could seek to refinance the indebtedness under our new revolving credit facility and the new notes, or obtain a waiver from the lenders or you as a holder of the new notes. We cannot assure you, however, that we would be able to obtain such waivers or refinance our indebtedness on commercially reasonable or other terms acceptable to us, if at all.

There is no established trading market for the new notes, and you may not be able to sell them quickly, at any particular time you select, or at the price that you originally paid.

Like the outstanding notes, there is no established trading market for the new notes. We do not intend to apply for the new notes or any exchange notes to be listed on any national securities exchange or to arrange for their quotation on any U.S. automated inter-dealer quotation system of a registered national securities association. We have applied for trading eligibility for the new notes in The PORTAL Market. Each initial purchaser has advised us that it intends to make a market in the new notes, but no initial purchaser is obligated to do so. The initial purchasers may discontinue making any market in the new notes at any time, in their sole discretion. As a result, we cannot assure you as to the liquidity of any trading market for the new notes.

We also cannot assure you that you will be able to sell your new notes at any particular time you may select or that the prices that you receive when you attempt to sell your new notes will be greater than or equal to the 100% principal (stated face) amount of the new notes. We also cannot assure you as to the availability of any willing purchasers of the new notes following the exchange offer. Future trading prices and the liquidity in any market for the new notes, to the extent such a market ever develops, will depend on many factors, including:

our reputation, competitive position, operating performance and financial condition;

the completion of the exchange offer;

the interest of securities dealers in making a market for the new notes; and

the market for similar securities.

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Historically, the market for non-investment grade debt has been subject to disruptions that have caused a high degree of volatility in prices. It is possible that any market for the new notes will be subject to such disruptions. Any disruptions would likely have a negative effect on noteholders, regardless of our prospects, operating performance and financial condition.

The guarantees of the new notes by our subsidiaries may be voidable, unenforceable, subordinated or limited in scope under various federal, state and foreign laws governing fraudulent transfers and insolvency.

Under federal and foreign bankruptcy laws and comparable provisions of state and foreign fraudulent transfer laws, a guarantee of the new notes by a guarantor could be voided, if, among other things, at the time the guarantor issued its guarantee, such guarantor:

intended to hinder, delay or defraud any present or future creditor; or

received less than reasonably equivalent value or fair consideration for the incurrence of such indebtedness; and:

was insolvent or rendered insolvent by reason of such incurrence;

was engaged in a business or transaction for which such guarantor's remaining assets constituted unreasonably small capital; or

intended to incur, or believed that it would incur, debts beyond its ability to pay such debts as they mature.

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The measures of insolvency for purposes of the foregoing considerations will vary depending upon the law applied in any proceeding with respect to the foregoing. Generally, however, a guarantor in the U.S. would be considered insolvent if:

the sum of its debts, including contingent liabilities, was greater than the saleable value of all of its assets;

the present fair saleable value of its assets was less than the amount that would be required to pay its probable liabilities on its existing debts, including contingent liabilities, as they become absolute and mature; or

it could not pay its debts as they become due.

Risks Related to our Business

Failure to comply with the SEC's final judgment of permanent injunction entered on consent against us could adversely affect our business, and could subject us to further SEC investigations, enforcement action, criminal prosecution and significant penalties.

Seitel was the subject of a formal investigation by the SEC's Division of Enforcement. Seitel cooperated fully with the SEC during the course of its investigation, and reached a consensual resolution of the SEC's civil complaint resulting in its consent to a final judgment of permanent injunction (the SEC Injunction) being entered on June 16, 2003 in the United States District Court for the Southern District of Texas, Houston Division. The agreement for the entry of the SEC Injunction was without admitting or denying the allegations in the SEC's complaint, which had alleged violations of the reporting, books and records, internal controls and proxy statement provisions of the Securities Exchange Act of 1934, as amended (the Exchange Act) and rules and regulations adopted under the Exchange Act. Seitel's chief executive officer and chief financial officer at the time of the events giving rise to the SEC's complaint have been replaced.

The SEC Injunction, by its terms, permanently restrains and enjoins us from, among other things: (1) filing with the SEC any annual report under the Exchange Act that contains any untrue statement of a material fact, which omits to state any material fact necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading, or that omits to disclose any information required to be disclosed, (2) failing to make and keep accurate books, records and accounts, (3) failing to devise and maintain an adequate system of internal accounting controls and procedures, or (4) soliciting any proxy or consent or authorization in respect of any security registered under Section 12 of the Exchange Act in contravention of the SEC's proxy rules, or making any solicitation by means of any proxy statement, form of proxy, notice of meeting or other communication subject to the SEC's proxy rules which, at the time and in light of the circumstances under which it is made, is false or misleading with respect to any material fact, or which omits to state any material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading.

If we fail to comply with any of the provisions of the SEC Injunction, such failure could adversely affect us, and the market price of our common stock and the notes could significantly decline.

Limitations on our ability to utilize net operating losses and other tax benefits may result in future net operating income being taxable income.

Companies, which have had a change in ownership as defined by the Internal Revenue Code, are subject to limitations on certain tax attributes. The testing period for ownership changes is a three-year moving period. We have had significant ownership changes since the effective date of the Plan, but do not yet know whether there has been a change in ownership as defined by the Internal Revenue Code. In any event, we do not expect a significant impact to our financial position or results of operation because we have a full valuation allowance against the tax attributes subject to these limitations.

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Our internal controls for financial reporting and our disclosure controls and procedures may not prevent all possible errors that could occur. Internal controls for financial reporting and disclosure controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objective will be met.

Each quarter, our chief executive officer and chief financial officer evaluate our internal controls for financial reporting and our disclosure controls and procedures, which includes a review of the objectives, design, implementation and effect of the controls in respect of the information generated for use in our periodic reports. In the course of our controls evaluation, we seek to identify data errors, control problems and to confirm that appropriate corrective action, including process improvements, were being undertaken. The overall goals of these various evaluation activities are to monitor our internal controls for financial reporting and our disclosure controls and procedures and to make modifications as necessary. Our intent in this regard is that our internal controls for financial reporting and our disclosure controls and procedures will be maintained as dynamic systems that change (including with improvements and corrections) as conditions warrant.

In connection with the post-December 31, 2003 audit procedures conducted by Ernst & Young, we identified, and Ernst & Young concurred, that a material weakness existed with our internal controls for financial reporting which arose from our Plan having been confirmed on March 18, 2004, thereby requiring the expensing of an item carried by us as a prepaid expense and reduction of certain disputed pre-bankruptcy petition claims which had a partial offsetting effect. We accordingly amended our Quarterly Report on Form 10-Q for the quarter ended March 31, 2004.

A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be satisfied. Our management has concluded that our internal controls for financial reporting and our disclosure controls and procedures are designed to give a reasonable assurance that they are effective to achieve their objectives. We cannot provide absolute assurance that all possible future control issues within our company have been detected. These inherent limitations include the real world possibility that judgments in our decision-making could be faulty, and that isolated breakdowns could occur because of simple human error or mistake. The design of our system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed absolutely in achieving our stated goals under all potential future or unforeseeable conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error could occur and not be detected.

Our business could be adversely affected by low exploration and development spending by oil and gas companies and by low oil and gas prices.

Our business depends upon exploration and development spending by oil and gas companies. Capital expenditures by oil and gas companies depend upon several factors, including actual and forecasted petroleum commodity prices and the companies' own short-term and strategic plans. These capital expenditures may also be affected by

worldwide economic conditions. While we anticipate continued attractive commodity pricing, there can be no assurance that oil and gas prices will not decline in the future. Low oil and gas prices could result in decreased exploration and development spending by oil and gas companies, which could affect our seismic data business. Any future decline in oil and gas prices or sustained periods of reduced capital expenditures by oil and gas companies could result in a material adverse effect on our results of operations and cash flow.

A downturn in the availability of private equity could have a negative impact on the ability of our customers to raise capital necessary to purchase our seismic data.

Many of our customers consist of independent oil and gas companies and private prospect-generating companies that rely primarily on private equity capital to fund their exploration, production, development and field management activities. A significant downturn in the availability of private equity capital could have a material adverse impact on the ability of such companies to obtain funding necessary to purchase our seismic data which, in turn, could have a material adverse effect on our results of operations and cash flow.

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We invest significant amounts of money in acquiring and processing seismic data for our data library with only partial underwriting of the costs by customers.

We invest significant amounts of money in acquiring and processing new seismic data to add to our data library. A portion of these investments is funded by customer underwriters or sponsors, while the remainder is sought to be recovered through future data licensing fees. The amounts of underwriting and sponsorship and of these future data licensing fees are uncertain and depend on a variety of factors, including the market prices of oil and gas, customer demand for seismic data in our library, availability of similar data from competitors and governmental regulations affecting oil and gas exploration. We may not be able to recover all of the costs of or earn any return on such investments. In periods where sales do not meet original expectations, we may be required to record additional amortization and/or impairment charges to reduce the carrying value of our data library, which charges may be material to operating results in any period. In addition, timing of the receipt of license fees can vary greatly from period to period. Technological or regulatory changes or other developments could also adversely affect the value of the data.

Because our business is concentrated in the U.S. Gulf Coast and Canada, it could be adversely affected by developments in the oil and gas business that affect these areas.

While we have seismic surveys in other areas, most of the seismic data in our library covers areas along the U.S. Gulf Coast, offshore in the U.S. Gulf of Mexico and in Canada. Because of this geographic concentration, our results of operations and our cash flow could be materially and adversely affected by events relating primarily to one of these regions even if conditions in the oil and gas industry worldwide were favorable.

The amounts we amortize from our data library each period have fluctuated in the past, and these fluctuations may result in future material impairment charges.

We amortize the cost of our seismic data library based, in part, on our estimates of future cash sales of data, excluding non-monetary exchanges and deferred revenue. Changes in estimates of future sales could result in impairment charges. Substantial changes in amortization rates can have a significant effect on our reported results of operations. Additionally, our accounting policy requires that we record amortization of our seismic data library based on the greater of the income forecast method or the straight-line method over the data's useful life. In the fourth quarter of 2002, we revised the estimated useful life of our seismic data library from ten years to five years for offshore data and from ten years to seven years for onshore data, resulting in additional amortization charges of \$45.7 million in the fourth quarter of 2002. In the third quarter of 2004, we further revised the estimated useful life of our seismic data library from five years to four years for offshore data and from seven years to four years for onshore data, resulting in additional amortization charges of \$59.1 million in the third quarter of 2004.

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During 2003 and 2002, Seitel recorded impairment charges of \$30 million and \$83 million, respectively, related to several different components of our data library. Additional impairment charges may also be required in the future based on industry conditions and our results of operations.

Extensive governmental regulation of our business affects our operations.

Our operations are subject to a variety of federal, provincial, state, foreign and local laws and regulations, including environmental laws. We invest financial and managerial resources to comply with these laws and related permit requirements. Failure to timely obtain required permits may result in delays in acquiring new data for the data library or cause operating losses. Because these laws and our business may change from time to time, we cannot predict the future cost of complying with these laws, and expenditures to ensure our compliance could be material in the future. Modification of existing laws or regulations or adoption of new laws or regulations limiting exploration or production activities by oil and gas companies could adversely affect us by reducing the demand for our seismic data.

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Our competitors may have certain advantages.

Competition among geophysical service providers historically has been, and will continue to be, intense. Certain competitors have significantly greater financial and other resources than we do. These larger and better-financed operators could enjoy an advantage over us in a competitive environment for contract awards and data sales and in the development of new technologies.

Our operating results may vary due to circumstances beyond our control.

Our operating results and available cash flow may, in the future, vary in material respects from quarter to quarter. Factors that could cause variations include (1) timing of the receipt and commencement of contracts for data acquisition, (2) our customers' budgetary cycles and their effect on the demand for geophysical activities, (3) seasonal factors and (4) the timing of sales and selections of significant geophysical data from our data library, which are not typically made in a linear or consistent pattern. Reduced actual or estimated future sales may result in a requirement to record impairment charges to reduce the carrying value of our data library. Such charges, if required, could be material to operating results in the periods in which they are recorded. For purposes of evaluating potential impairment losses, we estimate the future cash flows attributable to a library component by evaluating historical revenue trends, oil and gas prospectivity in particular regions, general economic conditions affecting our customer base, expected changes in technology and other factors that we deem relevant. The estimation of future cash flows is highly subjective, inherently imprecise and could change materially from period to period based on the factors described in the immediately preceding sentence, among others. Accordingly, if conditions change in the future, we may record further impairment losses relative to our seismic data library, which could be material to our results of operations in any particular reporting period.

We may face risks associated with our foreign revenue generating activities.

Portions of our revenues are derived from our Canadian activities and operations and, as a result, are denominated in Canadian dollars. We are subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing and investing transactions in currencies other than the U.S. dollar. Foreign currency fluctuations could result in a material adverse affect our results of operations.

We may be unable to attract and retain key employees.

Our success depends upon attracting and retaining highly skilled geophysical professionals and other technical personnel. A failure to continue to attract and retain such individuals could adversely affect our ability to compete in the geophysical services industry. We may confront significant and potentially adverse competition for key personnel, particularly

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during periods of increased demand for geophysical services. Our success also will depend to a significant extent upon the abilities and efforts of members of our senior management, the loss of whom could adversely affect our business. Moreover, certain of our senior executive officers have a very limited history of working together and may not be able to develop an effective working relationship. Our president and chief executive officer was appointed in December 2004, after serving as our chief financial officer since May 2004. Currently, we are working to fill our chief financial officer position. The failure of our executive officers and management personnel to develop an effective or sustained working relationship could require us to incur additional expenses and devote substantial senior management time and resources to identify qualified replacement personnel.

Only our president and chief executive officer has an employment or other retention agreement with us. We cannot be certain that our senior executives will continue to be employed by us for an indefinite period of time and, if they do, how long they will remain so employed. Our inability to attract and retain key personnel could have a material adverse effect on our ability to manage our business properly.

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Mellon HBV and ValueAct Capital Partners, L.P. each own a large percentage of our common stock, which would enable them to influence the election of our directors and other matters requiring the vote of our stockholders.

Mellon HBV Alternative Strategies, LLC (Mellon HBV) and its affiliates have represented to us that they beneficially own 36,518,051 shares (or 21.9%) of our outstanding common stock on a fully diluted basis. ValueAct Capital Partners, L.P. (ValueAct) and its affiliates have represented to us that they own 20,330,063 shares (or 13.3%) of our outstanding common stock. This substantial ownership of our common stock enables Mellon HBV and ValueAct to significantly influence the election of our directors, with respect to which there is cumulative voting, and possibly other corporate matters and transactions that require stockholder approval.

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The Exchange Offer

Purpose And Effect; Registration Rights

On July 2, 2004 (the issue date), we sold \$193 million of our 3/4% Senior Notes due 2011 in a private placement. The outstanding notes were resold under an offering memorandum dated June 28, 2004, in reliance on Rule 144A and other available exemptions under the Securities Act. On July 2, 2004, we, the guarantors and the initial purchaser also entered into a registration rights agreement pursuant to which each of us and the guarantors agreed that we would, at our expense, for the benefit of the holders of the outstanding notes, subject to certain exceptions:

file a registration statement (the exchange offer registration statement) with the SEC with respect to an offer to exchange the outstanding notes for the new notes having terms substantially identical in all material respects to the outstanding notes (except that the new notes will not contain restrictive legends, terms with respect to transfer restrictions, penalty interest upon certain events or other rights under the registration rights agreement);

use our reasonable best efforts to cause the exchange offer registration statement to be declared effective under the Securities Act;

use our reasonable best efforts to consummate the offer to exchange the new notes for surrender of the outstanding notes within 180 days after the Guaranty Performance Date; and

keep the exchange offer open for not less than 20 business days (or longer if required by applicable law) after the date notice of the exchange offer is first mailed, sent or given to the holders of the outstanding notes.

For each outstanding note tendered to us pursuant to the exchange offer, we will issue to the holder of such outstanding note a new note having a principal amount equal to that of the surrendered outstanding note. Interest on each new note will accrue from the last interest payment date on which interest was paid on the outstanding note surrendered in exchange therefor, or, if no interest has been paid on such outstanding note, from the date of its original issue.

Under existing SEC interpretations, the new notes will be freely transferable by holders, other than our affiliates, after the exchange offer without further registration under the Securities Act if the holder of the new notes represents to us in the exchange offer that it is acquiring the new notes in the ordinary course of its business, that it has no arrangement or understanding with any person to participate in the distribution of the new notes and that it is not an affiliate of Seitel, or, if it is such an affiliate, it will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable (as such terms are interpreted by the SEC); provided, however, that broker-dealers receiving new

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notes in the exchange offer will have a prospectus delivery requirement with respect to resales of such new notes. The SEC has taken the position that a broker-dealer that elects to exchange the outstanding notes that were acquired by that broker-dealer for its own account as a result of market-making or other trading activities for new notes in the exchange offer, or participating broker-dealers, may fulfill its prospectus delivery requirements with respect to new notes (other than a resale of an unsold allotment from the original sale of the outstanding notes) with the prospectus contained in the exchange offer registration statement.

Under the registration rights agreement, we are required to allow participating broker-dealers to use the prospectus contained in the exchange offer registration statement in connection with the resale of such new notes for up to 180 days following the effective date of such exchange offer registration statement, unless extended because use of the prospectus has been suspended.

A holder of outstanding notes (other than certain specified holders) who wishes to exchange such outstanding notes for new notes in the exchange offer will be required to represent that any new notes to be received by it will be acquired in the ordinary course of its business and that at the time of the commencement of the exchange offer it has no arrangement or understanding with any person to participate in the distribution (within the meaning of the Securities Act) of the new notes and that it is not an affiliate of Seitel or the guarantors, as defined in Rule 405 of the Securities Act, or if it is an affiliate, that it will comply with the

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registration and prospectus delivery requirements of the Securities Act to the extent applicable. The holders will also be required to represent that if such holder is not a broker-dealer, it is not engaged in, and does not intend to engage in, a distribution of the new notes and if such holder is a broker-dealer that will receive new notes for its own account in exchange for outstanding notes that were acquired as a result of market-making or other trading activities, it will deliver a prospectus in connection with any resale of the new notes.

In the event that:

applicable law, public policy or interpretations of the staff of the SEC do not permit us to effect the exchange offer;

for any other reason we do not consummate the exchange offer on or before February 8, 2005;

a holder of the outstanding notes shall notify us prior to the 30th day following consummation of the exchange offer that it is prohibited by law or applicable interpretations of the staff of the SEC from participating in the exchange offer;

any holder of outstanding notes who participates in the exchange offer but does not receive new notes on the date of the exchange that may be sold without restrictions under state and federal securities laws (other than due solely to the status of that holder as an affiliate of Seitel or the guarantors); or

the initial purchaser so requests with respect to outstanding notes that have or that are reasonably likely to be determined to have that status of unsold allotments in the initial distribution,

then, we will, subject to certain exceptions:

file a shelf registration statement with the SEC covering resales of the outstanding notes or, in certain circumstances, the new notes;

use our best efforts to cause the shelf registration statement to be declared effective under the Securities Act on or prior to the 120th day after such filing obligation arises; and

keep the shelf registration statement effective until the earlier of August 12, 2006, and the date on which all outstanding notes registered thereunder are disposed of in accordance therewith (the shelf registration period).

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We will, in the event a shelf registration statement is filed, among other things, provide to each holder for whom such shelf registration statement was filed copies of the prospectus which is a part of the shelf registration statement, notify each such holder when the shelf registration statement has become effective and take certain other actions as are required to permit unrestricted resales of the outstanding notes or the new notes, as the case may be. A holder selling such outstanding notes or new notes pursuant to the shelf registration statement generally would be required to be named as a selling security holder in the related prospectus and to deliver a prospectus to purchasers, will be subject to certain of the civil liability provisions under the Securities Act in connection with such sales and will be bound by the provisions of the registration rights agreement that are applicable to such holder (including certain indemnification obligations).

Subject to certain exception, we will pay additional cash interest on the applicable outstanding notes if any of the following registration defaults occur:

if we fail to consummate the exchange offer on or before February 8, 2005;

if we are obligated to file a shelf registration statement and the shelf registration statement is not declared effective on or prior to the 120th day after the filing obligation arises; or

after a shelf registration statement is declared effective, such registration statement thereafter ceases to be effective or usable during the shelf registration period (subject to certain exceptions).

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Such additional interest will accrue from and including the date on which any such registration default shall occur to, but excluding the date on which all registration defaults have been cured. The rate of the additional interest will be 0.25% per annum for the first 90-day period immediately following the occurrence of a registration default, and such rate will increase by an additional 0.25% per annum with respect to each subsequent 90-day period until all registration defaults have been cured, up to a maximum additional interest rate of 1.0% per annum. We will pay such additional interest on regular interest payment dates. Such additional interest will be in addition to any other interest payable from time to time with respect to the outstanding notes and the new notes.

Expiration Date; Extensions

The expiration date of the exchange offer is [], 2005 at 5:00 p.m., New York City time. If we extend the exchange offer, the expiration date will be the latest date and time to which the exchange offer is extended. We will notify the exchange agent of any extension and will make a public announcement of the extension no later than 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date.

We expressly reserve the right, in our sole and absolute discretion:

to delay accepting any outstanding notes;

to extend the exchange offer;

to terminate the exchange offer if any of the conditions under Conditions of the Exchange Offer have not been satisfied; and

to waive any condition or otherwise amend the terms of the exchange offer in any manner.

If the exchange offer is amended in a manner we deem to constitute a material change, we will promptly disclose the amendment by means of a prospectus supplement that will be distributed to the holders of the outstanding notes. Any delay in acceptance, extension, termination or amendment will be followed promptly by notice of the event to the exchange agent. We will also make a public announcement of the event. Without limiting the manner in which we may choose to make any public announcement and subject to applicable law, we have no obligation to publish, advertise or otherwise communicate any public announcement other than by issuing a release to a national news service.

Terms Of The Exchange Offer

We are offering, upon the terms and subject to the conditions set forth in this prospectus and in the accompanying letter of transmittal, to exchange \$1,000 in principal amount of new notes for each \$1,000 in principal amount of the outstanding notes. We will accept for exchange any and all outstanding notes that are validly tendered on or before 5:00 p.m., New York City time, on the expiration date. Tenders of the outstanding notes may be withdrawn at any time before 5:00 p.m., New York City time, on the expiration date. The exchange offer is not conditioned upon any minimum principal amount of outstanding notes being tendered for exchange. However, the exchange offer is subject to the terms of the registration rights agreement and the satisfaction of the conditions described under Conditions of the Exchange Offer. Outstanding notes may be tendered only in multiples of \$1,000. Holders of outstanding notes may tender less than the aggregate principal amount represented by their outstanding notes if they appropriately indicate this fact on the letter of transmittal accompanying the tendered outstanding notes or indicate this fact under the procedures for book-entry transfer described below.

As of the date of this prospectus, \$193 million in aggregate principal amount of the outstanding notes were outstanding. Solely for reasons of administration, we have fixed the close of business on December , 2004 as the record date for purposes of determining the persons to whom this prospectus and the letter of transmittal will be mailed initially. There will be no fixed record date for determining the eligible holders of the outstanding notes who are entitled to participate in the exchange offer.

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We will be deemed to have accepted validly tendered outstanding notes when, as and if we give notice of our acceptance to the exchange agent. The exchange agent will act as agent for the tendering holders of outstanding notes and for purposes of receiving the new notes from us. If any tendered outstanding notes are not accepted for exchange because of an invalid tender or otherwise, certificates for the unaccepted outstanding notes will be returned, without expense, to the tendering holder promptly after the expiration date.

Holders of outstanding notes do not have appraisal or dissenters' rights under applicable law or the indenture as a result of the exchange offer. We intend to conduct the exchange offer in accordance with the applicable requirements of the Exchange Act and the rules and regulations under the Exchange Act, including Rule 14e-1.

Holders who tender their outstanding notes in the exchange offer will not be required to pay brokerage commissions or fees or, following the instructions in the letter of transmittal, transfer taxes with respect to the exchange of outstanding notes under the exchange offer. We will pay all charges and expenses in connection with the exchange offer. See Fees and Expenses for more information about the costs of the exchange offer.

We do not make any recommendation to holders of outstanding notes as to whether they should tender any of their outstanding notes under the exchange offer. In addition, no one has been authorized to make any recommendation. Holders of outstanding notes must make their own decision whether to participate in the exchange offer and, if the holder chooses to participate in the exchange offer, the aggregate principal amount of outstanding notes to tender, after reading carefully this prospectus and the letter of transmittal and consulting with their advisors, if any, based on their own financial position and requirements.

Conditions Of The Exchange Offer

You must tender your outstanding notes in accordance with the requirements of this prospectus and the letter of transmittal in order to participate in the exchange offer.

Notwithstanding any other provision of the exchange offer, or any extension of the exchange offer, we will not be required to accept for exchange any outstanding notes, and we may terminate or amend the exchange offer, if we are not permitted to effect the exchange offer under applicable law, public policy or any interpretation of applicable law by the staff of the SEC. We will also not be required to accept for exchange any outstanding notes or new notes, and we may terminate or amend the exchange offer, if any action or proceeding is instituted or threatened in any court or by any governmental agency which might materially impair our ability to proceed with the exchange offer or if any material adverse development shall have occurred in our actions or proceedings that existed on the issue date or if governmental approvals that are necessary for the consummation of the exchange offer are not obtained. If any of these events or conditions occur, we may, subject to applicable law, terminate the exchange offer and return all outstanding notes tendered for exchange or we may waive any condition or amend the terms of the exchange

offer.

We expect that the above conditions will be satisfied. The above conditions, other than those involving governmental approval, are for our sole benefit and may be waived by us at any time in our sole discretion. Our failure at any time to exercise any of the above rights will not be a waiver of those rights and each right will be deemed an ongoing right that may be asserted at any time, provided that all conditions to the exchange offer, other than any involving governmental approval, must be satisfied or waived before the expiration of the exchange offer.

Interest

Each new note will bear interest from the most recent date to which interest has been paid or duly provided for on the outstanding note surrendered in exchange for the new note or, if no interest has been paid or duly provided for on the outstanding note, from July 2, 2004. Holders of the outstanding notes whose outstanding

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notes are accepted for exchange will not receive accrued interest on their outstanding notes for any period from and after the last interest payment date to which interest has been paid or duly provided for on their outstanding notes prior to the original issue date of the new notes or, if no interest has been paid or duly provided for, will not receive any accrued interest on their outstanding notes, and will be deemed to have waived the right to receive any such interest.

Procedures For Tendering Outstanding Notes

The tender of a holder's outstanding notes and our acceptance of outstanding notes will constitute a binding agreement between the tendering holder and us upon the terms and conditions of this prospectus and the letter of transmittal. Unless a holder tenders outstanding notes according to the guaranteed delivery procedures or the book-entry procedures described below, the holder must transmit the outstanding notes, together with a properly completed and executed letter of transmittal and all other documents required by the letter of transmittal, to the exchange agent at its address before 5:00 p.m., New York City time, on the expiration date. The method of delivery of outstanding notes, letters of transmittal and all other required documents is at the election and risk of the tendering holder. If delivery is by mail, we recommend delivery by registered mail, properly insured, with return receipt requested. Instead of delivery by mail, we recommend that each holder of outstanding notes use an overnight or hand delivery service. In all cases, sufficient time should be allowed to assure timely delivery to the exchange agent.

Any beneficial owner of the outstanding notes whose outstanding notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender outstanding notes in the exchange offer should contact that registered holder promptly and instruct that registered holder to tender on its behalf. If the beneficial owner wishes to tender directly, it must, prior to completing and executing the letter of transmittal and tendering outstanding notes, make appropriate arrangements to register ownership of the outstanding notes in its name. Beneficial owners should be aware that the transfer of registered ownership may take considerable time.

Any financial institution that is a participant in DTC's Book-Entry Transfer Facility system may make book-entry delivery of the outstanding notes by causing DTC to transfer the outstanding notes into the exchange agent's account in accordance with DTC's procedures for the transfer. To be timely, book-entry delivery of outstanding notes requires receipt of a confirmation of a book-entry transfer before the expiration date. Although delivery of the outstanding notes may be effected through book-entry transfer into the exchange agent's account at DTC, unless an agent's message is received by the exchange agent in compliance with the Automated Tender Offer Program of DTC, as described below, the letter of transmittal, properly completed and executed, with any required signature guarantees and any other required documents or an agent's message, as described below, must in any case be delivered to and received by the exchange agent at its address on or before the expiration date, or the guaranteed delivery procedure set forth below must be complied with. Delivery of documents to DTC does not constitute delivery to the exchange agent.

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DTC has confirmed that the exchange offer is eligible for DTC's Automated Tender Offer Program. Accordingly, participants in DTC's Automated Tender Offer Program may, instead of physically completing and signing the applicable letter of transmittal and delivering it to the exchange agent, electronically transmit their acceptance of the exchange offer by causing DTC to transfer outstanding notes to the exchange agent in accordance with DTC's Automated Tender Offer Program procedures for transfer. DTC will then send an agent's message to the exchange agent.

The term "agent's message" means a message transmitted by DTC, received by the exchange agent and forming part of the book-entry confirmation, which states that DTC has received an express acknowledgment from a participant in DTC's Automated Tender Offer Program that is tendering outstanding notes that are the subject of the book-entry confirmation; that the participant has received and agrees to be bound by the terms of the applicable letter of transmittal or, in the case of an agent's message relating to guaranteed delivery, that the participant has received and agrees to be bound by the applicable notice of guaranteed delivery; and that we may enforce the agreement against that participant.

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Each signature on a letter of transmittal or a notice of withdrawal must be guaranteed unless the outstanding notes are tendered:

by a holder who has not completed the Special Issuance Instructions or the Special Delivery Instructions; or

for the account of an eligible institution, as described below.

If a signature on a letter of transmittal or a notice of withdrawal is required to be guaranteed, the signature must be guaranteed by a participant in a recognized medallion signature program. If the letter of transmittal is signed by a person other than the holder of the outstanding notes, the outstanding notes surrendered for exchange must be endorsed by the holder and a separate bond power must be transmitted, with the signature guaranteed by a medallion signature guarantor. If any letter of transmittal, endorsement, bond power, power of attorney or any other document required by the letter of transmittal is signed by a trustee, executor, administrator, guardian, attorney-in-fact, officer of a corporation or other person acting in a fiduciary or representative capacity, that person should sign in that capacity when signing. The person must submit to us evidence satisfactory, in our sole discretion, of his or her authority to so act unless we waive the requirement.

As used in this prospectus with respect to the outstanding notes, a holder is any person in whose name the outstanding notes are registered on the books of the registrar, or a participant in DTC whose name appears on a security position listing as the owner of the outstanding notes. An eligible institution is a firm that is a member of a registered national securities exchange, the National Association of Securities Dealers, Inc., a commercial bank or trust company having an office or correspondent in the United States or any other eligible guarantor institution as such term is defined in Rule 17Ad-15 under the Exchange Act.

We will determine in our sole discretion all questions as to the validity, form, eligibility (including time of receipt), acceptance and withdrawal of outstanding notes tendered for exchange. Our determination will be final and binding. We reserve the absolute right to reject outstanding notes not properly tendered and to reject any outstanding notes if acceptance might, in our judgment or our counsel's judgment, be unlawful. We also reserve the absolute right to waive any defects or irregularities or conditions of the exchange offer as to particular outstanding notes at any time, including the right to waive the ineligibility of any holder who seeks to tender outstanding notes in the exchange offer.

Our interpretation of the terms and conditions of the exchange offer, including the letter of transmittal and its instructions, will be final and binding on all parties. Unless waived, any defects or irregularities in connection with tenders of outstanding notes for exchange must be cured within the period of time as we determine. Neither we nor the exchange agent is under any duty to give notification of defects in the tenders nor will we or the exchange agent incur any liability for failure to give the notification. The exchange agent will use reasonable efforts to give notification of defects or irregularities with respect to tenders of outstanding notes for exchange but will not incur any liability for failure to give the notification. Tendere of outstanding notes will not be deemed to have been made until the

irregularities have been cured or waived.

By tendering, you represent to us that, among other things:

you will acquire the new notes in the ordinary course of your business;

you are not participating, do not intend to participate and have no arrangement or understanding with any person to participate in the distribution of the new notes;

you are not our affiliate, as defined in Rule 405 under the Securities Act, or, if you are such an affiliate, you will comply with the registration and prospectus delivery requirements of the Securities Act to the extent applicable;

you are not a broker-dealer that acquired your outstanding notes directly from us in order to resell them in reliance on Rule 144A of the Securities Act or any other available exemption under the Securities Act; and

if you are a broker-dealer that acquired your outstanding notes as a result of market-making or other trading activities, you will deliver a prospectus in connection with any resale of the new notes.

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In connection with a book-entry transfer, each participant will confirm that it makes the representations and warranties contained in the letter of transmittal.

Guaranteed Delivery Procedures

If you wish to tender your outstanding notes and:

your outstanding notes are not immediately available;

you are unable to timely deliver your outstanding notes or any other document that you are required to deliver to the exchange agent; or

you cannot complete the procedures for delivery by book-entry transfer on time,

you may tender your outstanding notes according to the guaranteed delivery procedures described in the letter of transmittal. Those procedures require that:

tender must be made by or through an eligible institution and a notice of guaranteed delivery must be signed by the holder;

on or before the expiration date, the exchange agent must receive from the holder and the eligible institution a properly completed and executed notice of guaranteed delivery (by facsimile, mail or hand delivery) or a properly transmitted agent's message containing the name and address of the holder, the certificate number or numbers of the tendered outstanding notes, the principal amount of tendered outstanding notes, a statement that the tender is being made, and a guarantee that within three business days after the expiration date, the certificates representing the outstanding notes in proper form for transfer or a book-entry confirmation and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent; and

properly completed and executed letter of transmittal (or an agent's message in lieu thereof) and the tendered outstanding notes in proper form for transfer or confirmation of a book-entry transfer of the outstanding notes into the exchange agent's account at DTC, and all other required documents must be received by the exchange agent within three business days after the expiration date of the exchange offer.

Any holder who wishes to tender outstanding notes under the guaranteed delivery procedures must ensure that the exchange agent receives the notice of guaranteed delivery and letter of transmittal relating to the outstanding notes before 5:00 p.m., New York City time, on the expiration date.

Acceptance Of Outstanding Notes For Exchange; Delivery Of New Notes

Upon satisfaction or waiver of all the conditions of the exchange offer, we will accept outstanding notes that are properly tendered in the exchange offer prior to 5:00 p.m., New York City time, on the expiration date. Upon cancellation of the outstanding notes, after the expiration date, the new notes will be promptly delivered. For purposes of the exchange offer, we will be deemed to have accepted validly tendered outstanding notes when, as and if we have given notice to the exchange agent.

Withdrawal Rights

Tenders of the outstanding notes may be withdrawn by delivery of a written or facsimile transmission notice to the exchange agent at its address set forth under The Exchange Agent; Assistance at any time before 5:00 p.m., New York City time, on the expiration date. Any such notice of withdrawal must:

specify the name of the person having deposited the outstanding notes to be withdrawn;

identity the outstanding notes to be withdrawn, including the certificate number or numbers and principal amount of the outstanding notes, or, in the case of outstanding notes transferred by book-entry transfer, the name and number of the account at DTC to be credited;

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be signed by the holder in the same manner as the original signature on the letter of transmittal by which outstanding notes were tendered, including any required signature guarantees, or be accompanied by a bond power in the name of the person withdrawing the tender, in satisfactory form as determined by us in our sole discretion, executed by the holder, with the signature guaranteed by a medallion signature guarantor, together with the other documents required upon transfer by the indenture; and

specify the name in which the outstanding notes are to be re-registered, if different from the person who deposited the outstanding notes.

All questions as to the validity, form and eligibility, including time of receipt, of the notices will be determined by us, in our sole discretion. Any outstanding notes withdrawn will be deemed not to have been validly tendered for exchange for purposes of the exchange offer and will be returned to the holder without cost promptly after withdrawal. Properly withdrawn outstanding notes may be retendered following the procedures described under *Procedures for Tendering Outstanding Notes* at any time on or before the expiration date.

The Exchange Agent; Assistance

LaSalle Bank National Association is the exchange agent. You should direct questions and requests for assistance, requests for additional copies of this prospectus or the letter of transmittal and requests for notice of guaranteed delivery to the exchange agent. If you are not tendering under DTC's Automated Tender Offer Program, you should send all tendered outstanding notes, executed letters of transmittal and other required documents to the exchange agent as follows:

| | |
|-----------------------------------|----------------------------------|
| LaSalle Bank National Association | <i>Facsimile:</i> (312) 904-2236 |
| Corporate Trust Services | |
| 135 S. LaSalle Street | <i>Telephone:</i> (312) 904-5619 |
| Suite 1960 | |
| Chicago, IL 60603 | |
| Attention: Victoria Douyan | |

Fees And Expenses

We will bear the expenses of soliciting outstanding notes for exchange. The principal solicitation is being made by mail by the exchange agent. Additional solicitation may be made by telephone, facsimile or in person by officers and regular employees of ours and our affiliates and by persons so engaged by the exchange agent.

We will pay the exchange agent reasonable and customary fees for its services and will reimburse the exchange agent for its reasonable out-of-pocket expenses in connection with its services and pay other registration expenses, including fees and expenses of the trustee under the indenture, filing fees, attorneys fees, accountants fees, blue sky fees and printing and distribution expenses.

We have not retained any dealer-manager in connection with the exchange offer and will not make any payments to brokers, dealers or others soliciting acceptance of the exchange offer.

We will pay all transfer taxes, if any, applicable to the exchange of outstanding notes under the exchange offer. If, however, a transfer tax is imposed for any reason other than the exchange of outstanding notes under the exchange offer, then the amount of those transfer taxes, whether imposed on the registered holder or any other persons, will be payable by the tendering holder. If satisfactory evidence of payment of those taxes or exemption is not submitted with the letter of transmittal, the amount of those transfer taxes will be billed directly to the tendering holder and the Exchange Agent will retain the corresponding face amount of New Notes pending receipt of such tax amounts.

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Accounting Treatment

The new notes will be recorded at the same carrying value as the outstanding notes, as reflected in our accounting records on the date of the exchange. Accordingly, we will recognize no gain or loss for accounting purposes. The expenses of the exchange offer will be amortized over the term of the new notes.

Consequences Of Failure To Exchange

Upon completion of the exchange offer, we will have fulfilled most of our obligations under the registration rights agreement. Holders who do not tender their outstanding notes, except for limited instances involving holders of outstanding notes who are not eligible to participate in the exchange offer or who do not receive freely transferable new notes under the exchange offer, will not have any further registration rights under the registration rights agreement or otherwise, and will not have rights to receive additional interest. Accordingly, any holder who does not exchange its outstanding notes for new notes will continue to hold the untendered outstanding notes and will be entitled to all the rights and subject to all the limitations applicable under the indenture, except to the extent that the rights or limitations, by their terms, terminate or cease to have further effectiveness as a result of the exchange offer.

Any outstanding notes that are not exchanged for new notes under the exchange offer will remain restricted securities within the meaning of the Securities Act. In general, the outstanding notes may be resold only:

to us or any of our subsidiaries;

inside the United States to a qualified institutional buyer in compliance with Rule 144A under the Securities Act;

inside the United States to an institutional accredited investor, as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act;

outside the United States in compliance with Rule 904 under the Securities Act;

in reliance on the exemption from registration provided by Rule 144 under the Securities Act, if available; or

under an effective registration statement under the Securities Act.

Resales Of The New Notes

We are making the exchange offer in reliance on the position of the staff of the SEC as set forth in interpretive letters addressed to third parties in other transactions. However, we have not sought our own interpretive letter. Although there has been no indication of any change in the staff's position, we cannot assure you that the staff of the SEC would make a similar determination with respect to the exchange offer as it has in its interpretive letters to third parties. Based on these interpretations by the staff, and except as provided below, we believe that new notes may be offered for resale, resold and otherwise transferred by a holder who participates in the exchange offer and is not a broker-dealer without further compliance with the registration and prospectus delivery provisions of the Securities Act. In order to receive new notes that are freely tradable, a holder must acquire the new notes in the ordinary course of its business and may not participate, or have any arrangement or understanding with any person to participate, in the distribution, within the meaning of the Securities Act, of the new notes. Holders wishing to participate in the exchange offer must make the representations described in "Procedures for Tendering Outstanding Notes" above.

Any holder of outstanding notes:

who is our affiliate, as defined in Rule 405 under the Securities Act;

who did not acquire the new notes in the ordinary course of its business;

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who is a broker-dealer that purchased outstanding notes from us to resell them under Rule 144A of the Securities Act or any other available exemption under the Securities Act; or

who intends to participate in the exchange offer for the purpose of distributing, within the meaning of the Securities Act, new notes,

will be subject to separate restrictions. Each holder in any of the above categories:

will not be able to rely on the interpretations of the staff of the SEC in the above-mentioned interpretive letters;

may not be permitted or entitled to tender outstanding notes in the exchange offer; and

must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any sale or other transfer of outstanding notes, unless the sale is made under an exemption from such requirements.

In addition, if you are a broker-dealer holding outstanding notes acquired for your own account, you must deliver a prospectus meeting the requirements of the Securities Act in connection with any resales of your new notes. Each broker-dealer that receives new notes for its own account pursuant to the exchange offer must acknowledge that it acquired the outstanding notes for its own account as a result of market-making activities or other trading activities and must agree that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of those new notes. See Plan of Distribution.

RATIO OF EARNINGS TO FIXED CHARGES

Our consolidated ratio of earnings to fixed charges for each of the periods indicated are as follows:

| | Year Ended December 31, | | | | | Nine Months Ended September 30, | |
|------------------------------------|-------------------------|------|------|---------|---------|------------------------------------|---------|
| | 1999 | 2000 | 2001 | 2002(1) | 2003(1) | 2003(1) | 2004(1) |
| Ratio of earnings to fixed charges | 1.7 | 1.7 | 1.8 | | | | |

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- (1) During the years ended December 31, 2002 and 2003 and the nine months ended September 30, 2003 and 2004, earnings were insufficient to cover fixed charges by \$157.5 million, \$36.9 million, \$11.4 million and \$88.9 million, respectively. On a pro forma basis for the year ended December 31, 2003 and the nine months ended September 30, 2004, earnings were insufficient to cover fixed charges by \$41.8 million and \$88.8 million, respectively.

The ratio of earnings to fixed charges has been computed by dividing earnings available for fixed charges (earnings from continuing operations before income taxes and cumulative effect of change in accounting principle plus fixed charges less capitalized interest) by fixed charges (interest expense, capitalized interest and the estimated interest component of rental expense).

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The Plan of Reorganization

Events Preceding Our Chapter 11 Cases

In 2002, we determined that it was appropriate to change our revenue recognition policies for transactions for seismic data licensing and for certain data creation contracts. As a result, we restated our results of operations for the nine months ended September 30, 2001 and for our fiscal year ended December 31, 2000. The restatement reduced our previously reported revenue by \$42.7 million and our net income by \$14.4 million for the nine months ended September 30, 2001, and reduced our previously reported revenue by \$25.5 million and our net income by \$22.9 million for our fiscal year ended December 31, 2000. See

Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

The restatement resulted in the commencement against us and certain of our current and former senior executive officers and directors of securities class actions and stockholder derivative actions. The restatement, coupled with poor financial results in the first quarter of 2002, resulted in our covenant default in respect of \$255 million principal amount of our old notes. The old notes were issued by us between 1995 to 2001 to various institutions (principally national insurance companies) and were guaranteed by 16 of our direct and indirect subsidiaries.

After such default, we and substantially all of our U.S. subsidiaries (collectively, the debtors) negotiated a series of standstill agreements with the initial holders of the old notes while the parties attempted to negotiate to a restructuring. While these negotiations were pending, we designed and implemented enhanced internal controls, procedures and processes. Our board of directors named a new, independent director in the second quarter of 2002. Subsequently, our then chief executive officer and chief financial officer were terminated for cause, and new senior executive management was appointed by our then-standing board.

In December 2002, after allegations arose regarding the actions of certain of our former officers, we became the subject of a formal investigation by the SEC's Division of Enforcement (the Enforcement Division). We also were notified by the Enforcement Division that it intended to recommend that the SEC initiate enforcement proceedings against us for alleged books and records and internal control violations. We cooperated fully with the SEC during the course of its investigation, and on May 16, 2003, we reached a consensual resolution of the SEC's civil complaint, resulting in its consent to a final judgment of permanent injunction being entered against us on June 16, 2003, in the United States District Court for the Southern District of Texas, Houston Division. The agreement for the entry of the SEC Injunction was without admission or denial of the allegations in the SEC complaint, which had alleged violations of the reporting, books and records, internal controls and proxy statement sections and regulations of and under the Exchange Act. In determining to enter into the agreement, the SEC took into consideration the fact that we promptly had undertaken remedial action and cooperated fully with the SEC staff.

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We and the initial holders of the old notes, through their steering committee, engaged in months of negotiations over the proposed terms of a financial restructuring of the old notes. In late May 2003, several of the initial holders sold their old notes at a substantial discount to Ranch Capital L.L.C. (Ranch) and Berkshire Hathaway Inc. (Berkshire). Following these transactions, the negotiations deteriorated and we determined as of May 30, 2003, not to seek a further extension of the standstill agreement previously entered into with the initial holders.

On June 6, 2003, certain of the remaining initial holders of the old notes filed involuntary chapter 11 petitions against us and 16 of our direct and indirect subsidiaries that guaranteed the old notes. After the involuntary cases were commenced, each of the petitioning creditors sold its old notes to Ranch and Berkshire. As a result of purchases of the old notes from the initial holders in May and June of 2003, Ranch and Berkshire owned all \$255 million outstanding principal amount of the old notes (representing more than 99% of such outstanding securities), as well as most of the unsecured claims in the involuntary chapter 11 cases.

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As successor to the petitioning creditors, Ranch, Berkshire and the debtors agreed that pursuit of a reorganization through the chapter 11 cases was preferable to continuing the involuntary cases. The debtors, Ranch and Berkshire filed a joint motion to dismiss the involuntary cases, which was granted by the bankruptcy court on July 25, 2003.

Commencement of the Chapter 11 Cases

On July 21, 2003 (the petition date), the debtors filed voluntary petitions for relief under chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court for the District of Delaware (Chapter 11 Case No. 03-12227 (PJW) (Jointly Administered)), and on July 22, 2003 filed their initial joint plan of reorganization. Following the petition date, the debtors continued to operate their businesses and manage their properties as debtors-in-possession under Sections 1107(a) and 1108 of the Bankruptcy Code, and we continued to timely file all periodic reports and other information prescribed by the Bankruptcy Code and the Exchange Act. A trustee was not appointed in the chapter 11 cases.

On the petition date, the debtors sought, and thereafter obtained, authority to take a broad range of actions, including to honor and perform their pre-petition customer data agreements and to promote a business as usual atmosphere with customers and employees. This relief was essential to minimize disruptions to the debtors' businesses and to assure their customers that the data license agreements for selection of seismic data would be honored pending confirmation of a plan.

On August 11, 2003, the United States trustee appointed the Official Equity Committee to represent and protect the economic and other interests of our common stockholders in connection with the negotiation and formulation of a chapter 11 plan of reorganization.

On October 6, 2003, the debtors filed their first amended joint plan of reorganization, which superseded their initial joint plan of reorganization. In October 2003, our stockholders voted to reject the first amended joint plan of reorganization. On October 27, 2003, the Official Equity Committee moved the bankruptcy court to terminate the debtors' statutory exclusivity period. Following a hearing, the bankruptcy court ordered the termination of the debtors' exclusivity period and, on November 6, 2003, the Official Equity Committee filed with the bankruptcy court its own proposed initial plan of reorganization (the Committee Plan). The debtors and the holders of the old notes objected to the Committee Plan on the basis, among others, that the Committee Plan was not feasible within the meaning of Section 1129 of the Bankruptcy Code.

The Plan

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

On January 17, 2004, following months of negotiations among all relevant parties-in-interest and plan financing sources, the debtors filed with the bankruptcy court the Plan, which subsequently was amended on February 6, 2004. The Official Equity Committee agreed to the Plan and furnished its written recommendation to all of our common stock holders to vote to accept the Plan. Similarly, Berkshire and Ranch, the holders of \$255 million aggregate outstanding principal amount of the old notes (and Seitel's largest creditors), agreed to vote for, support, and not take action inconsistent with, the Plan. In addition to Berkshire and Ranch, the Plan was accepted by the holders of more than 99.6% of the shares of Seitel's common stock which voted on the Plan. On March 18, 2004, the bankruptcy court entered an order confirming the Plan and it became effective on July 2, 2004.

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The Plan provided for a sequence of interdependent corporate and securities transactions, including the sale of the notes offered hereby. The Plan provided that as of July 2, 2004:

All 25,375,683 outstanding shares of our common stock were cancelled and, without any action on the part of the holders of such shares, such shares automatically were converted into the right to receive and be exchanged for:

25,375,683 shares of our reorganized common stock, representing all of our outstanding shares of reorganized common stock on the effective date of the Plan; and

Warrants to purchase 125,000,000 shares of our reorganized common stock (the Stockholder Warrants).

To the extent the Stockholder Warrants were not exercised in full, Mellon HBV agreed (for itself and on behalf of certain of its affiliated funds and managed accounts, collectively the Standby Purchasers) to purchase all shares of reorganized common stock not purchased upon the exercise of the Stockholder Warrants.

As compensation for Mellon HBV's obligation to act as Standby Purchasers, the Company agreed to issue to them warrants to purchase 15,037,568 shares of the Company's reorganized common stock (the Standby Purchaser Warrants).

Net proceeds of approximately \$182.9 million from the sale of the outstanding notes were placed in escrow, together with additional cash sufficient in the aggregate to effect the special mandatory redemption of the outstanding notes, if any, pending the release from escrow of such funds on the Guaranty Performance Date.

A revolving loan commitment of \$30 million, subject to borrowing base limitations, under our new revolving credit facility with WFF was made available to us for borrowing.

We were required to have cash and cash equivalents of not less than \$35 million available to pay allowed creditors' claims required under the Plan, to the extent necessary.

Treatment of Pre-Petition Claims

Pursuant to the Plan, in July and August 2004 all of our outstanding allowed pre-petition claims were fully paid, in cash, together with post-petition interest thereon totalling \$291.0 million. Claims reinstated under the Plan in the amount of \$1.2 million were not paid under the Plan. The face amount of claims asserted in the chapter 11 cases and currently subject to objection (i.e., disputed claims) total approximately \$0.7 million. These disputed claims, including claims filed without asserting a liquidated claim amount, will not be paid until an order of the bankruptcy court determines their allowance or disallowance, and if allowed,

sets the amount and classification thereof. We are currently in the process of litigating certain disputed claims and attempting to resolve such disputed claims for amounts less than the face amount filed with the bankruptcy court. Payments of allowed pre-petition claims under the Plan were funded utilizing the following:

net cash payments received by us upon exercise of the Stockholder Warrants and, the net proceeds from the sale of shares of our common stock to the Standby Purchasers;

the release from escrow of the net proceeds of \$182.9 million from the sale of the outstanding notes; and

available cash and cash equivalents on hand.

Please see Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

The Stockholder Warrant Public Offering

On the effective date of the Plan, holders of record of our common stock as of June 25, 2004 received Stockholder Warrants, each representing the right to purchase 4.926 shares of our reorganized common stock, at

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an exercise price of 60 cents per share. The Stockholder Warrants were exercisable for only 30 days and expired by their terms on August 2, 2004. We received \$71.5 million in cash, before deducting certain expenses of the Stockholder Warrant Public Offering payable by us of \$3.6 million.

The Standby Purchase Guaranty

To ensure that we received gross cash proceeds of \$75 million to the extent the Stockholder Warrants were not exercised in full, the Standby Purchasers purchased on the Guaranty Performance Date, at 60 cents per share, all shares of reorganized common stock not purchased upon the exercise of the Stockholder Warrants. We received \$3.5 million as a result.

As compensation for their obligation to act as Standby Purchasers, we issued to them on the Guaranty Performance Date the Standby Purchaser Warrants. The Standby Purchaser Warrants are exercisable until August 12, 2011, at an initial exercise price of 72 cents per share, subject to adjustment upon the occurrence of certain events.

We filed a registration statement on Form S-1 (No. 333-113446) with the SEC for the registration under the Securities Act of our issuance and distribution to record holders as of the Record Date of our common stock of 25,375,683 Stockholder Warrants to purchase 125,000,000 shares of our reorganized common stock. We have also included in the registration statement, to the extent the Stockholder Warrants were not exercised prior to their expiration, our sale to the Standby Purchasers on the Guaranty Performance Date of all shares of our reorganized common stock not sold upon such exercise. The registration statement was declared effective by the SEC on June 9, 2004. All of the securities of our company that the Standby Purchasers received under the terms of the Plan are subject to restrictions on transfer under the Securities Act. We have provided the Standby Purchasers with certain registration rights to enable them to transfer and sell their securities.

Table of Contents**Use of Proceeds**

We will not receive any proceeds from the exchange offer. In consideration for issuing the new notes, we will receive our outstanding notes in like original principal amount. All old notes received in the exchange offer will be cancelled. Because we are exchanging the new notes for the old notes, which have substantially identical terms, the issuance of the new notes will not result in any increase in our indebtedness. The exchange offer is intended to satisfy our obligations under the registration rights agreement.

Gross proceeds from the issuance and sale of the outstanding notes were \$188.5 million, net of the 2.325% discount. The net proceeds from the issuance of the outstanding notes were approximately \$181.0 million, after deducting the discounts and commissions to the initial purchasers and certain offering expenses. The entire net proceeds from the issuance of the outstanding notes was used to partially fund on the Guaranty Performance Date payments of allowed creditors' claims required under the Plan.

Capitalization

The following table sets forth our consolidated debt and capitalization at September 30, 2004. This information should be read in conjunction with Selected Historical Consolidated Financial Data and Management's Discussion and Analysis of Financial Conditions and Results of Operations, as well as our audited and unaudited consolidated financial statements and their accompanying notes, all of which are included elsewhere in this prospectus.

| | September 30, 2004 |
|------------------------------------|---------------------------|
| | (in thousands) |
| Cash and cash equivalents | \$ 17,924 |
| Debt, including lease obligations: | |
| New revolving credit facility (1) | \$ |
| Other long-term debt | 424 |
| Notes | 188,618 |
| Subtotal | 189,042 |
| Capital lease obligations | 5,570 |
| Total debt | 194,612 |
| Stockholders' deficit | (11,218) |
| Total capitalization | \$ 183,394 |

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(1) Revolving loan commitment of \$30 million, subject to borrowing base limitations (see Description of Certain Other Indebtedness The New Revolving Credit Facility).

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Table of Contents**Unaudited Pro Forma Consolidated Financial Data**

The following unaudited pro forma consolidated financial data was prepared to illustrate the estimated effects of the Plan, including the financings required by the Plan. The unaudited pro forma consolidated statements of income assume the Plan and related financings took place on January 1, 2003. The unaudited consolidated balance sheet at September 30, 2004 reflects the Plan, including the financings required by the Plan; therefore, no pro forma consolidated balance sheet is presented.

The unaudited pro forma consolidated financial data do not purport to be indicative of the financial position that would actually have been reported had such transactions in fact been consummated on such dates or of the financial position that may be reported by Seitel in the future. The unaudited pro forma adjustments are based upon available information and certain assumptions that we believe are reasonable. The unaudited pro forma consolidated financial data do not include the effects of the fresh start accounting provisions of AICPA Statement of Position 90-7, Financial Reporting by Entities in Reorganization under the Bankruptcy Code, because the criteria for fresh start reporting were not met. All of the information presented below should be read in conjunction with the information in the sections in this prospectus entitled Selected Historical Consolidated Financial Data including the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as our audited and unaudited consolidated financial statements and their accompanying notes, all of which are included elsewhere in this prospectus.

Unaudited Pro Forma Consolidated Statement of Loss

For the Nine Months Ended September 30, 2004

(In thousands, except per share amounts)

| | <u>Historical</u> | <u>Pro Forma Adjustments</u> | <u>Pro Forma</u> |
|--|-------------------|----------------------------------|------------------|
| Revenue | \$ 103,764 | \$ | \$ 103,764 |
| Costs and Expenses | | | |
| Depreciation and amortization | 139,193 | | 139,193 |
| Cost of sales | 261 | | 261 |
| Selling, general and administrative expenses | 23,287 | | 23,287 |
| | <u>162,741</u> | | <u>162,741</u> |
| Loss from operations | (58,977) | | (58,977) |
| Interest expense, net | (18,415) | 12,373(AA) | (18,310) |
| | | (12,173)(BB) | |
| | | (95)(CC) | |
| Foreign currency exchange gain | 953 | | 953 |

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| | | | |
|--|-------------------|-------------------|-------------------|
| Reorganization items | (12,415) | | (12,415) |
| | <u> </u> | <u> </u> | <u> </u> |
| Loss from continuing operations before income taxes | (88,854) | 105 | (88,749) |
| Income tax benefit | (2,272) | | (2,272) |
| | <u> </u> | <u> </u> | <u> </u> |
| Loss from continuing operations | \$ (86,582) | \$ 105 | \$ (86,477) |
| | <u> </u> | <u> </u> | <u> </u> |
| Basic and diluted loss from continuing operations per share | \$ (1.65) | | \$ (.58) |
| | <u> </u> | | <u> </u> |
| Weighted average number of common and common equivalent shares basic and diluted | 52,544 | 97,832(DD) | 150,376 |
| | <u> </u> | <u> </u> | <u> </u> |

Table of Contents**Unaudited Pro Forma Consolidated Statement of Loss**

For the Nine Months Ended September 30, 2003

(In thousands, except per share amounts)

| | <u>Historical</u> | <u>Pro Forma Adjustments</u> | <u>Pro Forma</u> |
|--|--|----------------------------------|--------------------|
| Revenue | \$ 101,296 | \$ | \$ 101,296 |
| Costs and Expenses | | | |
| Depreciation and amortization | 61,506 | | 61,506 |
| Cost of sales | 510 | | 510 |
| Selling, general and administrative expenses | 24,571 | | 24,571 |
| Impairment of seismic data library | 13,354 | | 13,354 |
| | <u>99,941</u> | | <u>99,941</u> |
| Income from operations | 1,355 | | 1,355 |
| Interest expense, net | (15,072) | 14,641 (AA) | (18,719) |
| | | (18,146)(BB) | |
| | | (142)(CC) | |
| Gain on extinguishment of debt | 681 | | 681 |
| Foreign currency exchange gain | 3,358 | | 3,358 |
| Reorganization items | (1,675) | | (1,675) |
| | <u>Loss from continuing operations before income taxes</u> | <u>(3,647)</u> | <u>(15,000)</u> |
| Provision for income taxes | 621 | | 621 |
| | <u>Loss from continuing operations</u> | <u>\$ (3,647)(EE)</u> | <u>\$ (15,621)</u> |
| | <u>\$ (11,974)</u> | | <u>\$ (15,621)</u> |
| Basic and diluted loss from continuing operations per share | <u>\$ (.47)</u> | | <u>\$ (.10)</u> |
| Weighted average number of common and common equivalent shares basic and diluted | <u>25,376</u> | <u>125,000 (DD)</u> | <u>150,376</u> |

Unaudited Pro Forma Consolidated Statement of Loss

For the Year Ended December 31, 2003

(In thousands, except per share amounts)

| Historical | Pro Forma Adjustments | Pro Forma |
|------------|--------------------------|-----------|
|------------|--------------------------|-----------|

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| | | | |
|--|-------------|----------------|-------------|
| Revenue | \$ 131,465 | \$ | \$ 131,465 |
| Costs and Expenses | | | |
| Depreciation and amortization | 82,638 | | 82,638 |
| Cost of sales | 815 | | 815 |
| Selling, general and administrative expenses | 33,814 | | 33,814 |
| Impairment of seismic data library | 29,959 | | 29,959 |
| | 147,226 | | 147,226 |
| Loss from operations | (15,761) | | (15,761) |
| Interest expense, net | (19,950) | 19,512(AA) | (24,822) |
| | | (24,195)(BB) | |
| | | (189)(CC) | |
| Gain on extinguishment of liabilities | 681 | | 681 |
| Foreign currency exchange gain | 4,136 | | 4,136 |
| Reorganization items | (5,984) | | (5,984) |
| Loss from continuing operations before income taxes | (36,878) | (4,872) | (41,750) |
| Provision for income taxes | 2,199 | | 2,199 |
| Loss from continuing operations | \$ (39,077) | \$ (4,872)(EE) | \$ (43,949) |
| Basic and diluted loss from continuing operations per share | \$ (1.54) | | \$ (0.29) |
| Weighted average number of common and common equivalent shares basic and diluted | 25,376 | 125,000(DD) | 150,376 |

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Notes to Unaudited Pro Forma Consolidated Financial Data

Basis of Presentation

The accompanying unaudited pro forma consolidated financial statements are based on adjustments to our historical consolidated financial statements to give effect to the Plan, including the financings required by the Plan. In our financial statements as of and for the nine months ended September 30, 2004 and 2003 and for the year ended December 31, 2003, we reported our former oil and gas operations as a discontinued operation under SFAS No. 144. Pursuant to the SEC's rules and regulations regarding the preparation of pro forma financial statements, the accompanying unaudited pro forma consolidated statements of loss do not include the income (loss) from discontinued operations related to our former oil and gas operations.

Certain information and notes normally included in financial statements prepared in accordance with U.S. GAAP have been omitted or condensed pursuant to the rules and regulations of the SEC. All of the information presented below should be read in conjunction with the information in the sections in this prospectus entitled "Selected Historical Consolidated Financial Data" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as our audited and unaudited consolidated financial statements and their accompanying notes, all of which are included elsewhere in this prospectus.

Pro Forma Adjustments

The following is a summary of pro forma adjustments:

Unaudited Pro Forma Consolidated Income Statement for the Nine Months Ended September 30, 2004

(AA) Reflects elimination of interest expense and amortization of deferred issuance costs associated with (a) \$255 million of our old senior unsecured notes (\$12.0 million), (b) \$5.4 million note payable to Harney Investment Trust (\$121,000), and (c) DIP Facility with WFF (\$218,000).

(BB) Reflects additional interest expense associated with \$193 million aggregate principal amount at maturity of the notes, at a 11³/₄% interest rate and additional amortization of deferred issuance costs of \$7.5 million over that reflected in the actual results as the debt was issued on July 2, 2004.

(CC) Reflects additional amortization of deferred issuance costs of \$568,000 associated with our new revolving credit facility, with a 3-year term over that reflected in the actual results as the credit facility was effective July 2, 2004.

(DD) Reflects the sale of 125,000,000 shares of reorganized common stock from the combination of (x) the exercise of the Stockholder Warrants at an exercise price of 60 cents per share and (y) to the extent the Stockholder Warrants were not exercised, in full, our sale to the Standby Purchasers on the Guaranty Performance Date, at 60 cents per share, of all shares of our reorganized common stock not sold upon such exercise. The sale occurred in August 2004; therefore the adjustment for the September 30, 2004 period represents the incremental shares not reflected in the actual results. The Standby Purchaser Warrants issued to the Standby Purchasers on the Guaranty Performance Date are not considered in the diluted share calculation as the effect of the issuance would be antidilutive.

Unaudited Pro Forma Consolidated Income Statement for the Nine Months Ended September 30, 2003

(AA) Reflects elimination of interest expense and amortization of deferred issuance costs associated with (a) \$255 million of our old senior unsecured notes (\$14.4 million), (b) \$5.4 million note payable to Harney Investment Trust (\$194,000), and (c) DIP Facility with WFF (\$84,000).

(BB) Reflects interest expense associated with \$193 million aggregate principal amount at maturity of the notes at a 11 ³/₄% interest rate and amortization of deferred issuance costs of \$7.5 million.

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(CC) Reflects amortization of deferred issuance costs of \$568,000 associated with our new revolving credit facility, with a 3-year term.

(DD) Reflects the sale of 125,000,000 shares of reorganized common stock from the combination of (x) the exercise of the Stockholder Warrants at an exercise price of 60 cents per share and (y) to the extent the Stockholder Warrants were not exercised, in full, our sale to the Standby Purchasers on the Guaranty Performance Date, at 60 cents per share, of all shares of our reorganized common stock not sold upon such exercise. The Standby Purchaser Warrants issued to the Standby Purchasers on the Guaranty Performance Date are not considered in the diluted share calculation as the effect of the issuance would be antilutitive.

(EE) Does not include adjustments related to the payment of financial advisor fees totaling \$4 million that were paid upon completion of the Plan.

Unaudited Pro Forma Consolidated Income Statement for the Year Ended December 31, 2003

(AA) Reflects elimination of interest expense and amortization of deferred issuance costs associated with (a) \$255 million of our old senior unsecured notes (\$19.1 million), (b) \$5.4 million note payable to Harney Investment Trust (\$251,000), and (c) DIP Facility with WFF (\$200,000).

(BB) Reflects interest expense associated with \$193 million aggregate principal amount at maturity of the notes at a 11³/₄% interest rate and amortization of deferred issuance costs of \$7.5 million.

(CC) Reflects amortization of deferred issuance costs of \$568,000 associated with our new revolving credit facility, with a 3-year term.

(DD) Reflects the sale of 125,000,000 shares of reorganized common stock from the combination (x) of the exercise of the Stockholder Warrants at an exercise price of 60 cents per share and (y) to the extent the Stockholder Warrants were not exercised, in full, our sale to the Standby Purchasers on the Guaranty Performance Date, at 60 cents per share, of all shares of our reorganized common stock not sold upon such exercise. The Standby Purchaser Warrants to be issued to the Standby Purchasers on the Guaranty Performance Date are not considered in the diluted share calculation as the effect of the issuance would be antilutitive.

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(EE) Does not include adjustments related to the payment of financial advisor fees totaling \$4 million that were paid upon completion of the Plan.

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Selected Historical Consolidated Financial Data

The following sets forth our selected historical consolidated financial data as of and for the years ended December 31, 1999, 2000, 2001, 2002 and 2003, and as of and for the nine months ended September 30, 2003 and 2004.

Our consolidated balance sheets after September 30, 2004 and our consolidated statements of operations for the periods after September 30, 2004 will not be comparable to our historical consolidated financial statements published before the effective date of the Plan and included elsewhere in this prospectus. Among other things, our consolidated statement of operations for future periods will include numerous adjustments required by the Plan, including changes in interest expense and substantially less professional expenses related to our reorganization proceedings.

The consolidated balance sheet data and the consolidated statement of operations data presented below as of December 31, 2000, 2001, 2002 and 2003, and for each of the years in the four-year period ended December 31, 2003, have been derived from our consolidated financial statements, which have been audited by Ernst & Young. The auditors report issued by Ernst & Young with respect to their audit of our financial statements for the years ended December 31, 2003 and 2002 included an explanatory paragraph relating to our ability to continue as a going concern. The consolidated balance sheet data and the consolidated statement of operations data presented below as of and for the year ended December 31, 1999 have been derived from our consolidated financial statements that were audited by Arthur Andersen LLP, independent public accountants. Those financial statements have since been restated to account for our oil and gas business as discontinued operations. As Arthur Andersen LLP has ceased operations, the adjustments necessary to apply discontinued operations treatment have not been audited. The consolidated balance sheet data and the consolidated statement of operations data presented below as of and for the nine-month periods ended September 30, 2003 and 2004, respectively, are unaudited. However, we believe that this information contains all adjustments, consisting only of normal recurring adjustments, which are necessary to present fairly our consolidated financial position and results of operations for those periods. The consolidated balance sheet data as of September 30, 2004 and the consolidated statement of operations data for the nine-month period ended September 30, 2004 presented below, are not necessarily indicative of the results that may be expected for the fiscal year. Certain reclassifications have been made to the amounts in the prior years' financial statements to conform to the current year's presentation.

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All of the information presented below should be read in conjunction with the information in the section in this prospectus titled Management's Discussion and Analysis of Financial Condition and Results of Operations, as well as our audited and unaudited consolidated financial statements and their accompanying notes, all of which are included elsewhere in this prospectus.

Selected Historical Consolidated Financial Data

| | Year Ended December 31, | | | | | Nine Months Ended September 30, | |
|--|-------------------------|------------|------------|------------|------------|------------------------------------|-------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 | 2004 |
| | | | | | | (unaudited) | (unaudited) |
| Statement of Operations Data: | | | | | | | |
| (In thousands) | | | | | | | |
| Revenue | \$ 109,671 | \$ 113,887 | \$ 115,238 | \$ 149,795 | \$ 131,465 | \$ 101,296 | \$ 103,764 |
| Expenses and Costs: | | | | | | | |
| Depreciation and amortization | 49,929 | 51,927 | 49,448 | 129,856 | 82,638 | 61,506 | 139,193 |
| Cost of sales | 295 | 738 | 1,196 | 928 | 815 | 510 | 261 |
| Selling, general and administrative | 26,109 | 34,853 | 34,490 | 71,857 | 33,814 | 24,571 | 23,287 |
| Impairment of seismic data library | | | | 82,964 | 29,959 | 13,354 | |
| | 76,333 | 87,518 | 85,134 | 285,605 | 147,226 | 99,941 | 162,741 |
| Income (loss) from operations | 33,338 | 26,369 | 30,104 | (135,810) | (15,761) | 1,355 | (58,977) |
| Interest expense and other, net | (11,504) | (12,389) | (13,461) | (20,856) | (19,950) | (15,072) | (18,415) |
| Loss on sale of marketable securities | | | | (332) | | | |
| Foreign currency exchange gains (losses) | (81) | (233) | (315) | 125 | 4,136 | 3,358 | 953 |
| Gain on extinguishment of liabilities | | | | | 681 | 681 | |
| Reorganization items | | | | | (5,984) | (1,675) | (12,415) |
| Equity in earnings (loss) | (91) | | | | | | |

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| | | | | | | | |
|--|----------|------------|-------------|--------------|-------------|-------------|-------------|
| of affiliate | | | | | | | |
| Impairment due to dividend distribution of affiliate stock | (7,794) | | | | | | |
| Income (loss) from continuing operations before income taxes and cumulative effect of changes in accounting principles | 13,868 | 13,747 | 16,328 | (156,873) | (36,878) | (11,353) | (88,854) |
| Provision (benefit) for income taxes | 6,211 | 5,639 | 6,748 | (18,304) | 2,199 | 621 | (2,272) |
| Income (loss) from continuing operations before cumulative effect of changes in accounting principles | 7,657 | 8,108 | 9,580 | (138,569) | (39,077) | (11,974) | (86,582) |
| Income (loss) from discontinued operations, net of tax | 1,723 | 3,602 | (24,573) | (62,709) | 1,139 | (179) | 133 |
| Cumulative effect of changes in accounting principles, net of tax | | (14,219) | | (11,162) | | | |
| Net income (loss) (1) | \$ 9,380 | \$ (2,509) | \$ (14,993) | \$ (212,440) | \$ (37,938) | \$ (12,153) | \$ (86,449) |
| Earnings (loss) per share: | | | | | | | |
| Basic: | | | | | | | |
| Income (loss) from continuing operations | \$.32 | \$.34 | \$.38 | \$ (5.48) | \$ (1.54) | \$ (.47) | \$ (1.65) |
| Income (loss) from discontinued operations | .07 | .15 | (.98) | (2.48) | .04 | (.01) | |
| Cumulative effect of accounting changes | | (.59) | | (.44) | | | |
| | \$.39 | \$ (.10) | \$ (.60) | \$ (8.40) | \$ (1.50) | \$ (.48) | \$ (1.65) |

Net income
(loss)



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| | Year Ended December 31, | | | | | Nine Months | |
|--|-------------------------|-----------------|-----------------|------------------|------------------|---------------------|------------------|
| | | | | | | Ended September 30, | |
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 | 2004 |
| | | | | | | (unaudited) | (unaudited) |
| Diluted: | | | | | | | |
| Income (loss) from continuing operations | \$.32 | \$.34 | \$.37 | \$ (5.48) | \$ (1.54) | \$ (.47) | \$ (1.65) |
| Income (loss) from discontinued operations | .07 | .15 | (.95) | (2.48) | .04 | (.01) | |
| Cumulative effect of accounting changes | | (.59) | | (.44) | | | |
| Net income (loss) | \$.39 | \$ (.10) | \$ (.58) | \$ (8.40) | \$ (1.50) | \$ (.48) | \$ (1.65) |
| Weighted average shares (in thousands): | | | | | | | |
| Basic | 23,863 | 23,909 | 24,986 | 25,300 | 25,376 | 25,376 | 52,544 |
| Diluted | 24,063 | 24,090 | 25,692 | 25,300 | 25,376 | 25,376 | 52,544 |
| Other Financial Data (in thousands): | | | | | | | |
| Cash operating income(2)(3) | \$ 76,745 | \$ 87,041 | \$ 64,157 | \$ 19,843 | \$ 85,400 | \$ 60,249 | \$ 61,525 |
| EBITDA(3) | 75,301 | 78,063 | 79,237 | 76,803 | 95,669 | 78,579 | 68,754 |
| Cash flows provided by operating activities of continuing operations | 60,564 | 69,534 | 30,767 | 21,716 | 80,314 | 61,798 | 21,694 |
| Cash flows used in investing activities of continuing operations(4) | (129,466) | (57,553) | (79,565) | (49,358) | (48,668) | (29,884) | (39,684) |
| Cash flows provided by (used in) financing activities of continuing operations | 76,530 | (12,207) | 61,255 | (2,630) | (5,646) | (4,786) | (8,890) |
| Financial Ratios: | | | | | | | |
| Cash Operating Income(2)/Interest Expense, net | 6.7 | 7.0 | 4.8 | 1.0 | 4.3 | 4.0 | 3.3 |
| EBITDA(3)/Interest Expense, net | 6.5 | 6.3 | 5.9 | 3.7 | 4.8 | 5.2 | 3.7 |
| | 2.9 | 2.3 | 3.8 | 12.6 | 2.6 | n/a | n/a |

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| | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|--------|
| Net Debt(5)/Cash Operating Income(2) | | | | | | | |
| Net Debt(5)/EBITDA(3) | 2.9 | 2.5 | 3.1 | 3.3 | 2.3 | n/a | n/a |
| Net Debt(5)/Total Net Book Capitalization | 47.5% | 43.6% | 50.0% | 87.1% | 98.4% | 88.7% | 106.8% |
| Ratio of Earnings to Fixed Charges(6) | 1.7 | 1.7 | 1.8 | | | | |

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In the second quarter of 2002, we changed our accounting policy for amortizing our created seismic data library from the income forecast method to the greater of the income forecast method or the straight-line method over the data's useful life and reported the adoption of the new method as a cumulative effect of a change in accounting principle retroactive to January 1, 2002. Pro forma net income (loss) for the years ended December 31, 1999, 2000 and 2001, assuming the new seismic data amortization policy had been applied retroactively in each period, was as follows (in thousands, except per share amounts):

| | Year Ended December 31, | | |
|---|--------------------------------|-------------|-------------|
| | 1999 | 2000 | 2001 |
| Income from continuing operations before cumulative effect of changes in accounting principles | \$ 4,119 | \$ 3,765 | \$ 5,178 |
| Income from continuing operations before cumulative effect of changes in accounting principles per share: | | | |
| Basic | \$.17 | \$.16 | \$.21 |
| Diluted | .17 | .16 | .20 |
| Net income (loss) | \$ 5,842 | \$ (6,852) | \$ (19,395) |
| Net income (loss) per share: | | | |
| Basic | \$.24 | \$ (.29) | \$ (.78) |
| Diluted | .24 | (.28) | (.75) |

| | As of December 31, | | | | | As of September 30, | |
|--|-------------------------------|-------------|-------------|-------------|-------------|----------------------------|-------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 | 2004 |
| | (unaudited)(unaudited) | | | | | | |

Balance**Sheet Data:**

(in thousands, except per share amounts)

| | | | | | | | |
|---|----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Cash and cash equivalents | \$ 5,188 | \$ 10,216 | \$ 25,223 | \$ 21,517 | \$ 44,362 | \$ 45,739 | \$ 17,924 |
| Seismic data library, net | 329,885 | 362,603 | 455,845 | 284,396 | 247,541 | 259,461 | 165,393 |
| Total assets | 555,919 | 599,131 | 661,469 | 398,136 | 367,089 | 371,345 | 259,060 |
| Total debt(7) | 225,223 | 206,598 | 268,350 | 272,061 | 267,434 | 268,210 | 194,612 |
| Stockholders equity (deficit) | 243,024 | 253,590 | 243,587 | 37,036 | 3,722 | 28,334 | (11,218) |
| Book value per common share outstanding | \$ 10.30 | \$ 10.28 | \$ 9.71 | \$ 1.46 | \$.15 | \$ 1.12 | \$ (0.07) |
| Common shares outstanding | 23,605 | 24,671 | 25,075 | 25,376 | 25,376 | 25,376 | 150,414 |

-
- (1) In the fourth quarter of 2002, we reevaluated our estimate of the useful life of our seismic data library and reduced the estimated useful life of offshore data from ten to five years and onshore data from ten to seven years. The effect from this change on reported results was a reduction in net income of \$58.8 million or \$2.32 per share for the year ended December 31, 2002. In the third quarter of 2004, we further evaluated our estimate of the useful life of our seismic data library and reduced the estimated useful life to four years from five years for offshore data and from seven years for onshore data. The effect on reported results was a reduction in net income of \$66.6 million for the nine months ended September 30, 2004.
- (2) Cash operating income is defined as cash revenue (derived primarily from seismic data acquisition revenue, cash library licensing revenue, and Solutions revenue) less cost of sales and SG&A. Cash operating income is a non-GAAP financial measure which should not be construed as an alternative to operating income (loss) (as determined in accordance with U.S. generally accepted accounting principles (GAAP)) as an indication of our operating performance, or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Included in cash operating income are a number of special items that are not necessarily indicative of our core operations or our future prospects, and impact comparability between years. Cash operating income for the year ended December 31, 2001 included \$1.3 million for charges related to former executives. Cash operating income for the year ended

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December 31, 2002 included \$28.5 million of costs and expenses related to our restructuring efforts, various litigation, severance costs, the acceleration of certain lease obligations, allowances for doubtful accounts and certain other accruals. Cash operating income for the year ended December 31, 2003 included \$5.5 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings and various litigation, net of reduction in litigation accruals. Cash operating income for the nine months ended September 30, 2003 included \$3.5 million of costs and expenses related to our restructuring efforts and various litigation, net of reduction in litigation accruals. Cash operating income for the nine months ended September 30, 2004 included \$1.5 million of costs and expenses related to various litigation and severance costs. We believe that cash operating income is a useful measure in evaluating our performance because of our revenue recognition policies. We believe that, in addition to operating income, cash flows from operating activities and EBITDA, cash operating income is a useful financial performance measurement reflecting our ability to incur and service debt and to fund capital expenditures.

- (3) EBITDA is defined as earnings from continuing operations before income taxes (benefit), interest expense, net, impairment of seismic data, and depreciation and amortization. EBITDA is a non-GAAP financial measure, which should not be construed as an alternative to operating income (loss) (as determined in accordance with GAAP) as an indicator of our operating performance or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Our method of calculating EBITDA may differ from methods used by other companies and, as a result, EBITDA measures disclosed herein might not be comparable to other similarly titled measures used by other companies. Included in earnings (loss) and EBITDA are a number of special items that are not necessarily indicative of our core operations or our future prospects, and impact comparability between years. EBITDA for the year ended December 31, 1999 included \$7.8 million related to impairment due to dividend distribution of affiliate stock. EBITDA for the year ended December 31, 2000 included a restructuring charge of \$4.4 million related to reduction of management incentive bonus compensation. EBITDA for the year ended December 31, 2001 included \$1.3 million for charges related to former executives. EBITDA for the year ended December 31, 2002 included \$28.5 million of costs and expenses related to our restructuring efforts, various litigation, severance costs, the acceleration of certain lease obligations, allowances for doubtful accounts and certain other accruals. EBITDA for the year ended December 31, 2003 included \$11.5 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings and various litigation, net of reduction in litigation accruals. EBITDA for the nine months ended September 30, 2003 included \$5.2 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings and various litigation, net of reduction in litigation accruals. EBITDA for the nine months ended September 30, 2004 included \$13.9 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings, various litigation and severance costs. We believe that, in addition to cash flows from operating activities and net earnings (loss), EBITDA is a useful financial performance measurement for assessing operating performance since it provides an additional basis to evaluate our ability to incur and service debt and to fund capital expenditures. To evaluate EBITDA, the components of EBITDA such as revenue and SG&A and the variability of such components over time also should be considered.

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The following table reconciles our cash operating income to EBITDA and EBITDA to income (loss) from continuing operations determined in accordance with GAAP (in thousands):

| | Year Ended December 31, | | | | | Nine Months Ended September 30, | |
|--|-------------------------|---------------|---------------|---------------|---------------|---------------------------------|---------------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 | 2004 |
| | | | | | | (unaudited) | (unaudited) |
| Cash operating income | \$ 76,745 | \$ 87,041 | \$ 64,157 | \$ 19,843 | \$ 85,400 | \$ 60,249 | \$ 61,525 |
| Add (subtract) other revenue components not included in cash operating income: | | | | | | | |
| Acquisition underwriting from non-monetary exchanges | | | | | 624 | | 1,870 |
| Non-monetary exchanges | 6,522 | 12,435 | 57,045 | 13,551 | 10,630 | 9,218 | 10,470 |
| Deferral of revenue | | (44,324) | (89,764) | (38,366) | (51,421) | (35,685) | (31,639) |
| Selections of data | | 23,144 | 48,114 | 81,982 | 51,603 | 42,433 | 37,990 |
| Less: | | | | | | | |
| Equity in earnings (loss) of affiliate | (91) | | | | | | |
| Impairment due to dividend distribution of affiliate stock | (7,794) | | | | | | |
| Loss on sale of marketable securities | | | | (332) | | | |
| Foreign currency exchange gains (losses) | (81) | (233) | (315) | 125 | 4,136 | 3,358 | 953 |
| Gain on extinguishment of liabilities | | | | | 681 | 681 | |
| Reorganization items | | | | | (5,984) | (1,675) | (12,415) |
| EBITDA | 75,301 | 78,063 | 79,237 | 76,803 | 95,669 | 78,579 | 68,754 |
| Less: | | | | | | | |
| | (11,504) | (12,389) | (13,461) | (20,856) | (19,950) | (15,072) | (18,415) |

| | | | | | | | |
|---|----------|----------|----------|--------------|-------------|-------------|-------------|
| Interest expense, net | | | | | | | |
| Taxes | (6,211) | (5,639) | (6,748) | 18,304 | (2,199) | (621) | 2,272 |
| Impairment of seismic data library | | | | (82,964) | (29,959) | (13,354) | |
| Depreciation and amortization | (49,929) | (51,927) | (49,448) | (129,856) | (82,638) | (61,506) | (139,193) |
| Income (loss) from continuing operations before cumulative effect of changes in accounting principles | \$ 7,657 | \$ 8,108 | \$ 9,580 | \$ (138,569) | \$ (39,077) | \$ (11,974) | \$ (86,582) |

(4) Cash flows used in investing activities for the year ended December 31, 1999 included significant additions to our 3D offshore data library and purchase of a large seismic data library located in Canada. Cash flows used in investing activities for the year ended December 31, 2001 included \$18.5 million related to the purchase of seismic data libraries located in the Gulf Coast Texas and Canada areas.

(5) Net debt reflects total debt less cash and cash equivalents.

(6) See Ratio of Earnings to Fixed Charges.

(7) Total debt includes capital lease obligations.

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Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read the following discussion in conjunction with the Selected Historical Consolidated Financial Data and Unaudited Pro Forma Consolidated Financial Data sections of this prospectus, as well as our audited and unaudited consolidated financial statements and their accompanying notes, all of which are included elsewhere in this prospectus.

Overview

We have ownership in an extensive library of onshore and offshore seismic data that we offer for license to oil and gas companies. We believe that our library of onshore seismic data is one of the largest available for licensing in the United States and Canada. We also have ownership in a library of offshore data covering parts of the U.S. Gulf of Mexico shelf and certain deep water areas in the western and central U.S. Gulf of Mexico. We generate revenue primarily by licensing data from our data library and from new data acquisition substantially underwritten or paid for by clients. Our primary areas of focus are onshore U.S. and Canada and, to a lesser extent, offshore U.S. Gulf of Mexico.

Oil and gas companies consider seismic data an essential tool for finding hydrocarbons. Oil and gas companies use seismic data in oil and gas exploration and development efforts to increase the probability of drilling success. By utilizing seismic data, oil and gas companies can significantly increase drilling success rates and reduce the occurrence of dry holes. Further, seismic data analysis can increase recoveries of reserves from existing, mature oil fields by optimizing the drilling location of development wells and by revealing additional, or step-out, locations that would not otherwise be apparent. By participating in pre-funded, nonexclusive surveys or purchasing licenses to existing data, oil and gas companies can obtain access to expensive surveys that they may not otherwise be able to afford.

The North American markets we serve continue to experience major changes. The major international oil companies are increasing their focus on exploration opportunities outside the U.S., with independent oil and gas companies responsible for the majority of current U.S. drilling activity. Production decline rates are accelerating worldwide and are the most pronounced in mature fields of North America. Commodity prices for oil and natural gas are at high levels and the demand for natural gas in the U.S. could exceed supply during the next two to three years unless new production is brought on line in the U.S. and Canada. Liquid natural gas imports, while growing, cannot make up the forecasted shortfall in the supply of natural gas in the U.S. in the near term.

We believe that we will be able to continue the improvement of our return on investment over the next year provided the overall demand for seismic data improves with the stronger commodity prices. We expect the demand for new seismic data is strengthening as our clients are seeking our services to create data in the U.S. and in Canada. The level of

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pre-funding for new data created with our clients has been strong throughout the current year. Although resale license activity was lower in the third quarter of 2004 as compared to recent quarters, we believe this sales level is abnormal and due in part to the current focus on exploitation of proven reserves and also the inherently unpredictable nature of the resale business. Licensing data off the shelf does not require the longer planning and lead times like new data creation and thus is more likely to fluctuate quarter to quarter.

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

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

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Reportable Condition

In May 2004, Ernst & Young, our former independent auditors, advised our audit committee and management of an item that Ernst & Young considered to be a reportable condition and material weakness in our internal controls under standards established by the American Institute of Certified Public Accountants. Ernst & Young reported that during the first quarter of 2004, AICPA Statement of Position No. 90-7, *Financial Reporting by Entities in Reorganization Under the Bankruptcy Code*, required an adjustment of \$1 million of deferred issue costs in respect of \$255 million principal amount of our old notes. Specifically, we concluded and Ernst & Young concurred that such deferred issue costs should have been accelerated and expensed at the time the old notes became a claim allowed by the bankruptcy court on March 30, 2004. Additionally, certain pre-petition claims totaling \$426,000 which we disputed and that were not probable of resulting in allowed claims should have been correspondingly reduced at March 31, 2004. On June 2, 2004, we amended our Form 10-Q for the quarter ended March 31, 2004 to reflect these adjustments. The requirement to adjust the financial statements for the quarter ended March 31, 2004 was viewed by Ernst & Young as requiring the issuance of a Report on Reportable Conditions and therefore classified with respect solely to that issue, as a material weakness in our internal controls.

During the second quarter of 2004, these matters were discussed and reviewed among management, our independent auditors and our audit committee. We assigned the highest priority to addressing these matters and believe that we have implemented appropriate procedures to ensure that any such weakness that existed in the past does not recur in the future. To strengthen our internal monitoring and oversight function, and to further enhance our internal accounting and reporting functions, we hired a new chief financial officer in May 2004 with extensive corporate finance and accounting experience and plan to continue to add additional staff in our internal accounting department. Our professional accounting staff participates in continuing professional education as required by their applicable licensing authority. Our audit committee and our principal financial and accounting officers have completed an extensive review of SOP 90-7, as well as relevant accounting literature and technical journals on the subject, with our independent auditors to ensure full awareness and understanding of the provisions and applications of SOP 90-7, and such officers have reviewed their reporting and certification obligations under the Exchange Act and the Sarbanes Oxley Act of 2002 and have consulted in that regard with our counsel. Beginning with the filing of the amended Form 10-Q for the quarter ended March 31, 2004, as a matter of practice in connection with and prior to the filing of all periodic reports, our principal financial officer and principal executive officer specifically review with the audit committee and with our outside auditors the application of all accounting policies applicable to us. Our corporate finance and accounting personnel also have determined that if any necessary revisions or changes to reported financial information arises in the future because of the application of future accounting principles, such matters promptly will be brought to the attention of our independent auditors and counsel to facilitate all required disclosure in a timely manner. Therefore, in light of the foregoing, we believe we have implemented appropriate procedures to address any such weakness in internal controls over financial reporting or otherwise that existed prior to July 1, 2004.

Principal Factors Affecting Our Business

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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 energy industry. In particular, demand for our seismic data services depends upon exploration, production, development and field management spending by oil and gas companies. Capital expenditures by oil and gas companies depend upon several factors, including actual and forecasted petroleum commodity prices and the companies' own short-term and strategic plans. These capital expenditures may also be affected by worldwide economic conditions. Demand for our seismic data is more likely to be influenced by natural gas prices rather than crude oil prices due to the geographic location of our seismic data. The recent level of extremely high commodity prices has resulted in many oil and gas companies focusing their efforts on development drilling to produce existing reserves rather than expending time and capital on exploration. We do not believe this situation represents a long-term trend given pent up demand for new prospects.

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

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

Natural Gas Reserve Replacement. Oil and gas reserves are currently being depleted at a rate estimated by industry analysts at 5% to 10% per year for the major oil and gas operators. As a result, there is an increasing need in the oil and gas industry to replace such reserves. The need for oil and gas companies to replace depleted reserves is expected to increase the demand for our seismic data.

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

**NON-GAAP KEY PERFORMANCE MEASURES CONSIDERED BY
MANAGEMENT AND RECONCILIATION TO GAAP**

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

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The following are the key performance measures considered by management.

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

| | Nine Months | | | | |
|-----------------------------------|---------------------|-------------------|-------------------------|-------------------|-------------------|
| | Ended September 30, | | Year Ended December 31, | | |
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| Cash resales | \$ 52,271 | \$ 57,560 | \$ 79,776 | \$ 66,231 | \$ 71,989 |
| Other revenue components: | | | | | |
| Acquisition revenue | 31,065 | 24,428 | 36,201 | 23,549 | 25,778 |
| Non-monetary exchanges | 10,470 | 9,218 | 10,630 | 13,551 | 57,045 |
| Deferral of revenue | (31,639) | (35,685) | (51,421) | (38,366) | (89,764) |
| Selections of data | 37,990 | 42,433 | 51,603 | 81,982 | 48,114 |
| Solutions and other | 3,607 | 3,342 | 4,676 | 2,848 | 2,076 |
| Total revenue, as reported | \$ 103,764 | \$ 101,296 | \$ 131,465 | \$ 149,795 | \$ 115,238 |

Cash Operating Income. We define cash operating income as cash revenue (derived primarily from seismic data acquisitions, cash licensing resales and Solutions) less cost of sales and selling, general and administrative expenses (SG&A). We believe that this measure is helpful in determining the level of cash flow we have available for debt service, funding of capital expenditures and payment of taxes. The following is a reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, operating income (loss) (in thousands):

| | Nine Months | | | | |
|--|---------------------|-----------|-------------------------|-----------|-----------|
| | Ended September 30, | | Year Ended December 31, | | |
| | 2004 | 2003 | 2003 | 2002 | 2001 |
| Cash operating income | \$ 61,525 | \$ 60,249 | \$ 85,400 | \$ 19,843 | \$ 64,157 |
| Add (subtract) other revenue components not included in cash operating income: | | | | | |
| Acquisition underwriting from non-monetary exchanges | 1,870 | | 624 | | |

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| | | | | | |
|--------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Non-monetary exchanges | 10,470 | 9,218 | 10,630 | 13,551 | 57,045 |
| Deferral of revenue | (31,639) | (35,685) | (51,421) | (38,366) | (89,764) |
| Selections of data | 37,990 | 42,433 | 51,603 | 81,982 | 48,114 |
| Less: | | | | | |
| Depreciation and amortization | (139,193) | (61,506) | (82,638) | (129,856) | (49,448) |
| Impairment of seismic data library | | (13,354) | (29,959) | (82,964) | |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |
| Operating income (loss), as reported | \$ (58,977) | \$ 1,355 | \$ (15,761) | \$ (135,810) | \$ 30,104 |
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

Growth of Our Seismic Data Library. We regularly add to our seismic data library through four different methods: recording new data; creating new value-added products from existing data within our library; buying ownership of existing data for cash; and obtaining ownership of existing data sets through non-monetary exchanges. For the year-to-date period to December 17, 2004, and for the years ended December 31, 2003, 2002 and 2001, we completed the addition of approximately 2,300 square miles, 1,800 square miles, 3,700 square miles and 6,900 square miles, respectively, of seismic data to our library. The large number of additions to our seismic data library in 2001 resulted from the high level of non-monetary exchanges we completed during that year. As of December 17, 2004, we had approximately 300 square miles of seismic data in progress.

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Income (Loss) from Continuing Operations Before Cumulative Effect of Change in Accounting Principle. Loss from continuing operations was \$86.6 million and \$12.0 million for the nine months ended September 30, 2004 and 2003, respectively. Income (loss) from continuing operations before cumulative effect of change in accounting principle was \$(39.1) million, \$(138.6) million and \$9.6 million for the years ended December 31, 2003, 2002 and 2001, respectively. Our results for each of the periods have been affected by a number of special items that are not necessarily indicative of our core operations or our future prospects, and impact comparability between years. The loss from continuing operations for the nine months ended September 30, 2004 includes \$72.9 million in charges composed of (i) \$59.1 million related to revisions to the estimated useful life of our seismic data library and (ii) \$13.8 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings, various litigation and severance costs. The loss from continuing operations for the nine months ended September 30, 2003, includes \$18.5 million in charges composed of (i) \$13.4 million related to impairments of our seismic data library and (ii) \$5.1 million of costs and expenses related to our restructuring efforts and various litigation. The loss from continuing operations in 2003 included \$41.4 million in charges composed of (i) \$30.0 million related to impairments of our seismic data library and (ii) \$11.4 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings and various litigation, net of reduction in litigation accruals. The loss from continuing operations before cumulative effect of change in accounting principle in 2002 included \$157.2 million in charges composed of (i) \$128.7 million related to impairments of our seismic data library and revisions to the estimated useful life of our seismic data library and (ii) \$28.5 million of costs and expenses related to our restructuring efforts, various litigation, severance costs, the acceleration of certain lease obligations, allowances for doubtful accounts and certain other accruals. The income from continuing operations for 2001 included \$1.3 million for charges related to former executives. Additionally, income (loss) from continuing operations includes foreign currency transaction gains (losses) totaling \$1.0 million and \$3.4 million for the nine months ended September 30, 2004 and 2003, respectively and \$4.1 million, \$0.1 million, and \$(0.3) million for the years ended December 31, 2003, 2002 and 2001, respectively.

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.

Revenue Recognition***Revenue from Data Acquisition***

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

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

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

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

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surveying,

drilling for the placement of energy sources,
recording the data in the field, and

processing the data.

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

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. Our 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. We maintain sole ownership of the newly acquired data, which is added to our library, and are free to license the data to other customers when the original customers' exclusivity period ends.

Revenue from Non-Exclusive Data Licenses

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

Our non-exclusive license contracts specify the following:

that all customers must sign a license agreement governing the use of data;

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

the actual data that is accessible to the customer; and

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

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

we have an arrangement with the client that is validated by a signed contract;

the sales price is fixed and determinable;

collection is reasonably assured;

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

the license term has begun.

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

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

Our revenue recognition policies provide that certain types of licensing agreements result in the revenue being deferred until such time that our customer selects the specific data for license. As a result, our revenue may fluctuate depending on the size and amount of contracts requiring deferral of revenue, as well as on the timing of the selection of data by our customers.

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Revenue from Non-Monetary Exchanges

In certain cases, we will take ownership of a customer's seismic data in exchange for a non-exclusive license to selected data from our library. Occasionally, in connection with specific data acquisition contracts, we receive both cash and ownership of seismic data from the customer as consideration for the underwriting of new data acquisition. These exchanges are referred to as non-monetary exchanges. A non-monetary exchange always complies with the following criteria:

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

the customer forfeits ownership of its data; and

we retain ownership in our data.

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

In non-monetary exchange transactions, we record a data library asset for the seismic data received at the time the contract is entered into and recognize revenue on the transaction in equal value in accordance with our policy on revenue from data licenses, that is, when the data is selected by the customer, or revenue from data acquisition, as applicable. These transactions are valued at the fair value of the data received or delivered, whichever is more readily determinable.

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

First, we determine the value of the license granted to the customer. The range of our cash transactions for licenses of similar data during the prior six months for licenses in the United States and for the prior twelve months for licenses in Canada are evaluated. In evaluating the range of cash transactions, we do not consider transactions that are disproportionately high or low.

Second, we consider the value of the data received from the customer. In determining the value of the data received, we consider the age, quality, current demand and future marketability of the data as well as the cost that would be required to create the data. In the United States, we apply a limitation on the value we assign per square mile on the data exchanged. In Canada, in the event of a difference greater than 2% between the value of the license granted and the value of

the data received, we assign the lower value to the exchange.

Third, we obtain concurrence from an independent third party on the portfolio of all non-monetary exchanges of \$500,000 or more in order to support our valuation of the data received. We obtain this concurrence on an annual basis, usually in connection with the preparation of our annual financial statements.

Revenue from Seitel Solutions, Ltd. and Seitel Solutions Canada Ltd. Subsidiaries

Revenue from our Solutions division is recognized as the services for reproduction and delivery of seismic data are provided to customers.

Seismic Data Library

Costs associated with creating, acquiring or purchasing the seismic data library are capitalized and such costs are 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.

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Costs of Seismic Data Library

For purchased seismic data, we capitalize the purchase price of the acquired data.

For data received through a non-monetary data exchange, we capitalize an amount equal to the fair value of the data we received or the fair value of the license granted to the customer, whichever is more readily determinable.

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, we capitalize certain internal costs related to processing the created data. Such costs include salaries and benefits of our processing personnel and certain other costs incurred for the benefit of the processing activity. We believe 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.

Data Library Amortization

Effective January 1, 2002 (see *Change in Accounting Principle*), we amortize our seismic data library using the greater of the amortization that would result from the application of the income forecast method or a straight-line basis over the useful life of the data. Due to the subjectivity inherent in the income forecast amortization method, the revised amortization policy ensures a minimum level of amortization will be recorded if sales of the specific data do not occur as expected and ensures that costs are fully amortized at the end of the data's useful life. Effective July 1, 2004, the estimated useful life of our seismic data is four years. With respect to each survey in the data library, the useful life policy is applied from the time such survey is available for licensing to customers on a non-exclusive basis, since some data in the library may not be licensed until an exclusivity period (usually six months) has lapsed.

We apply 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 us annually and reviewed quarterly. If, during any such review, we determine 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, we revise the amortization rate attributable to future revenue from each survey in such component. Effective July 1, 2004, the lowest amortization rate we apply using the income forecast method is 70%. In addition, in connection with the forecast reviews and updates, we evaluate the recoverability of our seismic data library, and if required under Statement of Financial Accounting Standard, or SFAS, No. 144, *Accounting for the Impairment and Disposal of Long-Lived Assets*, record an impairment charge with respect to such data. See *Seismic Data Library Impairment*.

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The actual rate of amortization depends on the specific seismic surveys licensed and selected by our customers during the year. The amortization rates vary by component and, effective October 1, 2004, range from a low of 70% to a high of 89% with a weighted average rate of 71% based on the net book value of each component compared with the net book value of the entire seismic data library as of September 30, 2004. The actual rate of amortization recorded in any period varies from the weighted average rate due to the application of straight-line amortization on a survey-by-survey basis, as well as the mix of revenue recognized by component.

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, we first record 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 segment of which the survey is a part and does not consider the existence of deferred revenue with respect to the library segment or to any survey. See Revision of Useful Life.

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Change in Accounting Principle

In the second quarter of 2002, we changed our accounting policy for amortizing our created seismic data library from the income forecast method to the greater of the income forecast method or the straight-line method over the useful life of the data and reported the adoption of the new method as a cumulative effect of a change in accounting principle retroactive to January 1, 2002. Accordingly, we recorded a pre-tax charge of \$17.2 million (after-tax charge of \$11.2 million) as of January 1, 2002.

Revision of Useful Life

In the fourth quarter of 2002, we reevaluated our estimate of the useful life of our seismic data library and revised the estimated useful life of our seismic data library to reduce the useful life of offshore data from ten to five years and onshore data from ten to seven years. We further evaluated our estimate of the useful life of our seismic data library again in 2004 and, effective July 1, 2004, revised the estimated useful life of all of our seismic data library to four years from five years for offshore data and from seven years for onshore data. In making these decisions, we considered a number of factors, including, among others, the useful lives used by others in the industry, additional amortization charges recorded, previous impairment charges recorded and seismic industry conditions. We believe our last revision is more in line with current general industry practice and is conservative. For existing surveys less than four years of age at July 1, 2004, the revision in useful life will be recognized prospectively over the remaining useful life of each seismic survey.

Seismic Data Library Impairment

As events or conditions require, we evaluate the recoverability of our seismic data library in accordance with SFAS No. 144. We evaluate our seismic data library for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We consider the level of sales performance compared to projected sales by component, as well as industry conditions, among others, to be key factors in determining when our seismic data should be evaluated for impairment. In evaluating sales performance of each component, we generally consider three consecutive quarters of actual performance below forecasted sales, among other things, to be an indicator of potential impairment.

Prior to the fourth quarter of 2002, we evaluated our seismic data library in the following components: Gulf of Mexico offshore data, Gulf Coast onshore data, Rocky Mountain region data (including U.S. areas outside the Gulf Coast), Canadian data, and international data outside of North America.

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In the fourth quarter of 2002, we reevaluated the level which constitutes the lowest level of independently identifiable cash flows. In our reevaluation, we considered the results of the comprehensive forecasting process that had been undertaken by management in the fourth quarter of 2002, recent sales trends and management's expectations relative to its ability to attribute revenues to lower survey aggregation levels. The results of management's analysis indicated that we could reasonably forecast the future sales at levels lower than previously practicable. Accordingly, in the fourth quarter of 2002, we refined our impairment evaluation methodology to evaluate our seismic data library in components based on our operations and geological and geographical trends, and as a result, established the following data library groupings for purposes of evaluating impairments: (1) Gulf of Mexico offshore comprising the following components: multi-component data, value-added products, ocean bottom cable data, shelf data, and deep water data; (2) North America onshore comprising the following components: Texas Gulf Coast, northern, eastern and western Texas, southern Louisiana/Mississippi, northern Louisiana, Rocky Mountains, North Dakota, other United States, Canada and value-added products; and (3) international data outside North America. We believe that these library components constitute the lowest levels of independently identifiable cash flows.

In accordance with SFAS No. 144, the impairment evaluation is based first on a comparison of the undiscounted future cash flows over each component's remaining estimated useful life with the carrying value of each library component. If the undiscounted cash flows are equal to or greater than the carrying value of such

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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, we estimate 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 our customer base and expected changes in technology. The cash flow estimates exclude expected future revenues attributable to non-monetary data exchanges and future data creation projects.

In 2003 and 2002, we recorded impairment charges totaling \$30.0 million and \$83.0 million, respectively. These charges related to several different components of our seismic data library. The largest impairments were recorded in respect of offshore data, including deep water, ocean bottom cable and multi-component data. Since early 2002, we have eliminated our reinvestment in new offshore data acquisition and focused our efforts exclusively on onshore projects and on value-added reprocessing of selected existing onshore and offshore areas.

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, we may record further impairment losses relative to our seismic data library, which could be material to any particular reporting period.

Use of Estimates and Assumptions

In preparing our 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. These estimates and assumptions must be made because certain information that is used in the preparation of our financial statements is dependent on future events, cannot be calculated with a high degree of precision from data available or is not otherwise capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and we must exercise significant judgment.

The most difficult, subjective and complex estimates and assumptions that deal with the greatest amount of uncertainty are related to our accounting for our seismic data library. Accounting for our seismic data library requires us to make significant estimates and assumptions relative to future sales and cash flows from such library. These cash flows impact future amortization rates, as well as impairment charges, and the cash flows are

highly subjective. We estimate future revenue primarily by analyzing the historical revenue trends generated by our existing seismic data library. Any changes in these estimates or underlying assumptions will impact our income from operations prospectively from the date changes are made. To the extent that such estimates, or the assumptions used to make those estimates, prove to be significantly different than actual results, the carrying value of the seismic data library may be subject to higher prospective amortization rates, additional straight-line amortization or impairment losses. In addition, based on future events, we may make changes in the estimated useful life of the asset. Changes in the underlying assumptions regarding future sales and cash flows from the library or revisions to estimated useful life may cause our prospective amortization expense to decrease or increase materially and may also result in significant impairment losses being recognized. If such changes or revisions take place in the future, the effect on our reported results could be significant to any particular reporting period.

During 2003, we recorded \$30.0 million in impairment charges related to certain components of our seismic data library. The key factors in determining the amount of impairment are the level of sales forecast for each seismic data component and the discount rate used. Future sales are primarily forecast based on the historical trend of resale performance and any changes to these estimates could have an impact on the amount of an impairment. Additionally, we use a risk adjusted rate of return to discount future cash flows to determine fair

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value. Changes to such discount rate can have an impact on the amount of an impairment. The following table shows the estimated impact on the impairments recorded in 2003 had the level of future sales or the discount rate been increased or decreased by the percentages shown, with all other factors remaining constant (in millions):

| | Increase (Decrease) |
|----------------------------------|---------------------|
| | in Amount of |
| | Impairment |
| Change in future revenue: | |
| Increase by 10% | \$ (17.8) |
| Decrease by 10% | 13.5 |
| Change in discount rate: | |
| Increase by 1% | 2.8 |
| Decrease by 1% | (2.9) |

In a portion of our seismic data library activities, we engage in certain non-monetary exchanges and record a data library asset for the seismic data acquired and recognize revenue on the transaction in accordance with our policy on revenue from data licenses. These transactions are valued at the fair value of the data received by us or licenses granted by us, whichever is more readily determinable. In addition, we obtain third-party concurrence on the portfolio of all non-monetary exchanges of \$500,000 or more in order to support our estimate of the fair value of the transactions. Our estimate of the value of these transactions is highly subjective and based, in large part, on data sales transactions between us and a limited number of customers over a limited time period, and appraisals of the value of such transactions based on a relatively small market of private transactions over a limited period of time.

Actual results could differ materially from the estimates and assumptions that we use in the preparation of our financial statements. To the extent management's estimates and assumptions change in the future, our future profitability may improve or decline significantly based on such changes.

Seasonality and Timing Factors

Our results of operations fluctuate from quarter to quarter due to a number of factors. Our results are influenced by oil and gas industry capital expenditure budgets and spending patterns. These budgets are not necessarily spent in equal or progressive increments during the year, with spending patterns affected by individual oil and gas company requirements as well as industry-wide conditions. In addition, under our revenue recognition policy, revenue recognition from data licensing contracts is dependent, among other things, upon when the customer selects the data. As a result, our seismic data revenue does not necessarily flow evenly or progressively during a year or from year to year. Although the majority of our data licensing transactions provide for fees to us of under \$500,000 per transaction, occasionally a single data licensing transaction from our library, including

those resulting from the merger and acquisition of our oil and gas company customers, may be substantially larger. Such large licensing transactions or an unusually large number of, or reduction in, data selections by customers can materially impact our results during a quarter, creating an impression of a revenue trend that may not be repeated in subsequent periods. In our data creation activities, weather-related or other events outside our control may impact or delay surveys during any given quarter.

Restatement of Financial Statements

In February 2002, we reevaluated the application of Staff Accounting Bulletin No. 101, or SAB 101, to our core business of seismic data licensing and our revenue recognition policies under certain types of contracts for the creation of new seismic surveys. This process resulted in a determination that it was appropriate to change our revenue recognition policies for transactions for seismic data licensing and for certain data creation activities. As a result of this decision, we restated our results for the nine months ended September 30, 2001, and for the year ended December 31, 2000. The restatement had the impact of reducing previously reported revenue by

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\$42.7 million and net income by \$14.4 million for the nine months ended September 30, 2001 and by \$25.5 million and \$22.9 million, respectively, for the year ended December 31, 2000. The restatement had no effect on the amount or timing of cash received by us during those periods.

Based upon SAB 101, effective January 1, 2000, we recognize revenue under seismic data licensing contracts when the customer has signed a contract, a licensing agreement is in place, specific data has been selected by and such data is available for delivery to the customer or the contract has expired without full selection having occurred and receipt of the license price is reasonably assured.

With respect to contracts for the creation of new data, in 2000 and 2001, we entered into certain acquisition contracts under which both we and the customer jointly participated in the acquisition process. Consequently, we did not assume the sole risk of service throughout the acquisition process. We recognized revenue under these contracts consistent with our revenue recognition policies for acquisition contracts generally. Following a review, we determined that revenue previously recognized for amounts funded by customers should be used to reduce our recorded cost of creating the seismic data. We continue to have sole ownership of the newly created data. See Note A of our consolidated financial statements and the accompanying notes for a complete description of our revenue recognition accounting policies.

Results of Operations

The accompanying financial information and related discussions of financial condition and results of operations are based on the assumption that we will continue as a going concern which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business.

Nine Months Ended September 30, 2004 and 2003

The following table summarizes the components of our revenue for the nine months ended September 30, 2004 and 2003 (in thousands):

| | Nine Months | |
|----------------------|----------------------------|-------------|
| | Ended September 30, | |
| | 2004 | 2003 |
| Acquisition revenue: | | |

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| | | |
|--|---|---|
| Cash underwriting | \$ 29,195 | \$ 24,428 |
| Underwriting from non-monetary exchanges | 1,870 | |
| Licensing revenue: | | |
| New resales for cash | 52,271 | 57,560 |
| Non-monetary exchanges | 10,470 | 9,218 |
| Deferral of revenue | (31,639) | (35,685) |
| Selections of data | 37,990 | 42,433 |
| Solutions and other | 3,607 | 3,342 |
| | <hr style="width: 50%; margin: 0 auto;"/> | <hr style="width: 50%; margin: 0 auto;"/> |
| Total revenue | \$ 103,764 | \$ 101,296 |
| | <hr style="width: 50%; margin: 0 auto;"/> | <hr style="width: 50%; margin: 0 auto;"/> |

The increase in total revenue for the nine months ended September 30, 2004 compared to the corresponding period of 2003 was primarily due to an increase in acquisition revenue. We planned a more active program to add new data to our library in 2004, the majority of which was concentrated in the first quarter. The majority of the increase was for programs located in Canada. Operational considerations render the winter months the optimal time to acquire new data in Canada. Partially offsetting this increase was an overall decrease in revenue recognized from licensing data from our library. This was primarily due to deferred client spending on new licenses while they focus on harvesting production from proven reserves.

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At September 30, 2004, we had a deferred revenue balance of \$51.8 million, of which \$12.6 million resulted from non-monetary exchanges. The deferred revenue will be recognized when selection of the data is made by the customer or upon expiration of the selection period, whichever occurs first.

Seismic data library amortization amounted to \$135.2 million for the first nine months of 2004 compared to \$56.9 million for the first nine months of 2003. The 2004 nine month period included \$59.1 million of amortization resulting from the revision in the estimated useful life of the data used in the straight-line calculation effective July 1, 2004. Certain seismic surveys within our data library were older than the revised estimate of useful life, resulting in this charge. Additionally, the amount of seismic data library amortization fluctuates based on the level and location of specific seismic surveys licensed (including licensing resulting from new data acquisition) and selected by our customers during any period as well as the amount of straight-line amortization required under our accounting policy. Seismic data amortization as of percentage of seismic licensing revenue is summarized as follows (in thousands):

| Components of Amortization | Nine Months | | Percentage of | |
|----------------------------|---------------------|------------------|---------------|------------|
| | Ended September 30, | | Revenue | |
| | 2004 | 2003 | 2004 | 2003 |
| Income forecast | \$ 47,257 | \$ 43,654 | 47% | 44% |
| Straight-line | 28,930 | 13,305 | 29% | 14% |
| Revision of useful life | 59,060 | | 59% | |
| Total | \$ 135,247 | \$ 56,959 | 135% | 58% |

The increase in the rate of straight-line amortization in 2004 is primarily due to the reduction in the useful life effective July 1, 2004.

During the third quarter of 2003, we recorded a \$13.4 million impairment charge with respect to certain of our seismic data library components. Based on industry conditions and the recent level of cash sales for certain of our library components, we revised our estimate of future cash flows for those components. As a result, we determined that the revised estimate of future cash flows would not be sufficient to recover the carrying value of such certain components, and accordingly, recorded an impairment based on the fair value of such library components by discounting their estimated future cash flows. Declining industry conditions and further decreases in cash resales could result in additional impairment charges in future periods.

SG&A expenses were \$23.3 million in the first nine months of 2004 compared to \$24.6 million in the first nine months of 2003. SG&A expenses include a number of special items that are not necessarily indicative of our core operations or our future prospects and impact

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comparability between years. These special items totaled \$1.5 million and \$3.5 million for the first nine months of 2004 and 2003, respectively, and consisted of the following (in thousands):

| | Nine Months | |
|--|----------------------------|-------------------|
| | Ended September 30, | |
| | 2004 | 2003 |
| | <u> </u> | <u> </u> |
| Legal fees and other costs associated with litigation with several parties | \$ 139 | \$ 1,203 |
| Legal fees and other costs associated with restructuring efforts incurred prior to Chapter 11 filing | | 4,206 |
| Litigation accruals | 445 | 73 |
| Acceleration of costs associated with the lease of a jet aircraft | | 802 |
| Reduction of litigation accrual due to settlement for less than amount previously estimated | | (2,798) |
| Severance costs related to former executive officers | 877 | |

Excluding these special items, SG&A expenses as a percentage of total revenue was a consistent percentage for the first nine months of 2004 compared to the same period in 2003.

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Interest expense, net, was \$18.4 million and \$15.1 million for the nine months ended September 30, 2004 and 2003, respectively. The increase between periods was primarily due to both the old and new senior notes being outstanding for the first half of the third quarter of 2004 as the payoff on the old senior notes did not occur until August 12, 2004, as well as the higher interest rate on the new senior notes which were issued on July 2, 2004.

During 2004 and 2003, we reported foreign currency transaction gains on U.S. denominated transactions of our Canadian subsidiaries. Such transactions resulted in gains of \$1.0 million and \$3.4 million for the nine months ended September 30, 2004 and 2003, respectively.

During the second quarter of 2003, the Company negotiated settlement of certain liabilities for less than the amount recorded in the financial statements resulting in a gain of \$681,000 reflected in the nine months of 2003.

We incurred expenses associated with reorganization totaling \$12.4 million and \$1.7 million during the nine months ended September 30, 2004 and 2003, respectively. Reorganization items are expense or income items that were incurred or realized because of the reorganization. These items include, but are not limited to, professional fees and similar types of expenses incurred directly related to the Chapter 11 Cases, loss accruals or gains or losses resulting from activities of the reorganization process, and interest earned on cash accumulated by Debtors because they were not paying their pre-petition liabilities. For the nine months ended September 30, 2004 and 2003, reorganization items were as follows (in thousands):

| | Nine Months | |
|---|----------------------------|-----------------|
| | Ended September 30, | |
| | 2004 | 2003 |
| | 2004 | 2003 |
| Professional fees | \$ 9,227 | \$ 1,594 |
| Interest Income | (98) | (12) |
| Accelerated amortization of deferred debt issue costs | 1,007 | |
| Reduction of pre-petition liabilities | (517) | |
| Other | 2,796 | 93 |
| Total | \$ 12,415 | \$ 1,675 |

Tax expense (benefit) was \$(2.3) million and \$621,000 for the nine months ended September 30, 2004 and 2003, respectively. The benefit for the nine months ended September 30, 2004 resulted from benefits in both the U.S. and Canada.

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During the third quarter of 2004, we completed and filed our U.S. Federal income tax return for the year ended December 31, 2003. As a result, the amount of the tax refund claimed on our return was \$11.3 million, representing a \$1.4 million increase over the estimated amount of refund previously recorded. Accordingly, an income tax benefit of \$1.4 million was recorded in the U.S. to account for the additional refund. The U.S. benefit resulting from our book losses for the first nine months of 2004 was offset by a valuation allowance due to the uncertainty about our ability to continue to recover assets and satisfy liabilities in the normal course of business.

In Canada, an income tax benefit was recorded of \$.9 million for the nine months ended September 30, 2004. This benefit resulted from losses on certain Canadian subsidiaries.

Table of Contents**Years Ended December 31, 2003, 2002 and 2001**

The following table summarizes the components of our revenue for the three years ended December 31, 2003 (in thousands):

| | <u>2003</u> | <u>2002</u> | <u>2001</u> |
|--|-------------------|-------------------|-------------------|
| Acquisition revenue: | | | |
| Cash underwriting | \$ 35,577 | \$ 23,549 | \$ 25,778 |
| Underwriting from non-monetary exchanges | 624 | | |
| Licensing revenue: | | | |
| New resales for cash | 79,776 | 66,231 | 71,989 |
| Non-monetary exchanges | 10,630 | 13,551 | 57,045 |
| Deferral of revenue | (51,421) | (38,366) | (89,764) |
| Selections of data | 51,603 | 81,982 | 48,114 |
| Solutions and other | 4,676 | 2,848 | 2,076 |
| | <u> </u> | <u> </u> | <u> </u> |
| Total revenue | <u>\$ 131,465</u> | <u>\$ 149,795</u> | <u>\$ 115,238</u> |

Revenues decreased by \$18.3 million or about 12% between 2002 and 2003 due principally to (1) reduced selections of data from contracts whose revenue was initially deferred, (2) lower revenues from non-monetary exchanges, and (3) higher deferrals relating to current cash sales and non-monetary exchanges. Partially offsetting these decreases were increased revenues from data acquisition due to a more active program to add new onshore data to the library, increased cash resales from our data library and increased Solutions revenue reflecting the capture of reproduction and delivery activity previously outsourced to third parties. The increase in cash resales is directly attributable to a significant decrease in first quarter 2002 cash licensing sales which were negatively impacted by lower than expected energy commodity prices, which in turn, led to an overall slowdown in spending on certain oil and gas activities, including seismic data.

The increase in revenue in 2002 as compared with 2001 is due primarily to (1) increased selections of data related to contracts on which revenue was initially deferred and (2) decreased deferrals in 2002 compared with the prior period. The net increase in reported revenues from year to year as a result of the change in selections and deferrals was \$85.3 million. This was partially offset by a \$43.5 million decrease in the amount of non-monetary exchanges completed in 2002 compared with the prior year. The increased selections in 2002 reflect the high rate of deferrals in the preceding year and the subsequent selection by clients in 2002 of the specific data to license. Additionally, we believe our clients accelerated selections during 2002 as a result of our financial condition in 2002. The decrease in deferrals corresponds to a reduction in non-monetary exchanges completed during 2002 compared with 2001. The reduction in non-monetary exchanges compared with 2001 is principally related to a reduction in both the number and size of transactions during 2002 compared with the prior year. In 2002, 13 exchanges were completed compared with 38 such transactions in the prior year. In 2002, the three largest exchanges accounted for \$9.1 million of revenue whereas in 2001 the three largest exchanges accounted for \$20.6 million. Cash transactions related to data acquisition and cash

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licensing sales declined by a total of \$8.0 million in 2002 compared with 2001. This decline was related to the first quarter of 2002, when cash licensing sales were \$4.2 million and were lower than in any quarterly period since 1993. Cash licensing rebounded in the second, third and fourth quarters of 2002 and averaged approximately \$20 million per quarter during that period.

At December 31, 2003, we had a deferred revenue balance of \$58,876,000, of which \$17,719,000 resulted from non-monetary exchanges through which we received ownership of seismic data in lieu of cash. The total deferred revenue at December 31, 2003 consists of \$29,704,000 deferred revenue on contracts entered into prior to 2003 and \$29,172,000 on contracts entered into during 2003. The deferred revenue will be recognized when selection of specific data is made by the customer or upon expiration of the data licensing contracts, whichever

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occurs first. Deferred revenue will be recognized no later than the following, based on the expiration of the selection period, although some revenue may be recognized earlier if selection occurs earlier (in thousands):

| | |
|------|-----------|
| 2004 | \$ 39,343 |
| 2005 | 15,240 |
| 2006 | 2,743 |
| 2007 | 120 |

The remaining approximately \$1,430,000 does not have contractual expiration dates and is expected to be spread throughout the above periods depending upon the customers' needs.

Data bank amortization amounted to \$76,594,000, \$123,984,000 and \$48,216,000 for 2003, 2002 and 2001, respectively. As a percentage of revenue from licensing seismic data, seismic data library amortization was 60%, 84% and 43% for 2003, 2002 and 2001, respectively. The decrease in the percentage amortization rate in 2003 was primarily due to less straight-line amortization in 2003 as compared to 2002. In 2003, straight-line amortization totaled \$19.8 million or 16% of licensing revenue and was lower than that recorded in 2002 primarily as a result of the straight-line amortization recorded on the revision in the useful life that occurred in 2002. The increase in the percentage amortization rate in 2002 compared with prior periods was primarily due to the adoption of the greater of income forecast or straight-line amortization policy effective January 1, 2002. The amount of straight-line amortization recorded in 2002 totaled \$63.0 million or 43% of licensing revenue, of which \$45.7 million was a result of the revision in the estimated useful life of the data used in the straight-line calculation effective October 1, 2002. The actual rate of amortization, as a percentage of seismic revenue, fluctuates and depends on the location of specific seismic surveys licensed and selected by our customers during any period. We assign a specific amortization rate to each separately identified component of our seismic data library based on our estimate of future sales from such component. The amortization rates vary by component and, effective January 1, 2004, range from a low of 47% to a high of 100% with a weighted average rate of 56% based on the net book value of each component compared with the net book value of the entire seismic data library as of such date. The rate of amortization with respect to each component is decreased or increased if our estimate of future cash sales from such component is materially increased or decreased.

Depreciation expense was \$6,044,000, \$5,872,000 and \$1,232,000 during 2003, 2002 and 2001, respectively. The increase between 2001 and 2002 was primarily due to the opening of the warehouse facilities in Houston and Calgary in early 2002.

During 2003, we recorded \$30.0 million in non-cash impairment charges with respect to certain of our seismic data library components. Based on industry conditions and the recent level of cash sales for certain of our library components, we revised our estimate of future cash flows for such components. As a result, we determined that the revised estimate of future cash flows would not be sufficient to recover the carrying value of such components, and accordingly, recorded impairments based on the fair value of such library components by discounting their estimated future cash flows. Declining industry conditions or decreases in cash resales could result in additional impairment charges in future periods.

During 2002, we recorded non-cash impairment charges totaling \$83.0 million. These impairment charges related to certain of our data in the offshore Gulf of Mexico, North America and international areas outside North America. Based on our most recent estimate of future cash flows from such areas, we determined that such future cash flows would not be sufficient to recover the carrying value of such data. As a result, we estimated the fair value of such components by discounting the estimated future net cash flows of the data. The resulting difference between the estimated fair value and the carrying value was recorded as impairment losses during the second and fourth quarters of 2002.

SG&A expenses were \$33,814,000 in 2003, \$71,857,000 in 2002 and \$34,490,000 in 2001. The lower SG&A expenses in 2003 compared with 2002 reflects a decrease in personnel and other costs resulting from cost

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reduction measures implemented in the last half of 2002, including reductions in work force, relocation of our headquarters, reduction of space in our Calgary operations, overhaul of our compensation structure and the imposition of strict controls on spending of all types. As a percentage of total revenue, SG&A expenses were 26% in 2003, 48% in 2002 and 30% in 2001.

The 2003 SG&A expenses include (1) \$6.4 million of legal and professional fees related to restructuring efforts incurred prior to the chapter 11 filing and legal fees associated with various parties, which include former executive officers, (2) \$1.1 million related to settlement of certain litigation, primarily the class action lawsuit, (3) \$1.0 million related to pre-petition claims management believes are probable of settlement in connection with the Plan and (4) \$0.7 million related to acceleration of the lease of a jet aircraft. Additionally, in 2003, we recorded a reduction of \$2.8 million in liabilities as a result of certain litigation being settled for amounts less than that previously estimated and recorded.

The increase of \$37.4 million in 2002 compared with 2001 is composed principally of the following: (1) \$9.9 million of legal and professional fees for ongoing financial restructuring efforts and litigation with various parties, which include former executive officers; (2) \$8.9 million related to allowances for collection of advances and notes receivable from former executive officers; (3) \$5.8 million related to litigation accruals with former executives; (4) \$1.3 million in bonus and severance compensation paid to one of our former executive officers; (5) \$1.5 million related to the acceleration of the lease of a jet aircraft; (6) \$1.4 million in allowances for doubtful accounts, more than half of which is related to notes receivable from former executive officers; (7) \$2.5 million for increased commissions related to the higher level of revenue; (8) \$1.7 million due to expensing certain internal costs of new data acquisition in 2002 whereas such costs were capitalized in 2001; (9) \$1.1 million of consulting fees, primarily associated with Solutions business; (10) \$0.8 million of costs incurred in connection with the restatement of our financial statements; and (11) \$0.8 million of increased premiums for casualty, property, health and other insurance coverage.

Interest expense was \$20,526,000 in 2003, \$21,248,000 in 2002 and \$14,245,000 in 2001. The increase in interest expense from 2001 to 2002 was primarily due to an increase in interest expense related to the senior unsecured notes issued in October and December 2001, a decrease in the amount of interest capitalized as a result of the sale of our oil and gas assets and an increase resulting from new capital leases entered into during 2002. Such increases were partially offset by a decrease in interest expense related to our revolving line of credit, as no balances were outstanding during 2002.

During the three years ended December 31, 2003, we reported foreign currency transaction gains (losses) primarily on U.S. denominated transactions of our Canadian subsidiaries totaling \$4.1 million, \$0.1 million and \$(0.3) million, respectively.

During the second quarter of 2003, we negotiated the settlement of certain liabilities for less than the amounts previously recorded in the financial statements, resulting in a gain of \$681,000 for 2003.

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During 2002, we sold certain marketable securities for cash proceeds of \$2,490,000. As a result, a loss on the sale of these marketable securities of \$332,000 is reflected in the consolidated statement of operations for the year ended December 31, 2002.

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During 2003, we incurred expenses associated with reorganization totaling \$5,984,000. Reorganization items are expense or income items that are incurred or realized by debtors because they are in reorganization. These items include, but are not limited to, professional fees and similar types of expenses incurred directly related to the chapter 11 cases, loss accruals or gains or losses resulting from activities of the reorganization process, and interest earned on cash accumulated by debtors because they are not paying their pre-petition liabilities. For the year ended December 31, 2003, reorganization items were as follows (in thousands):

| | |
|---|----------|
| Professional Fees | \$ 5,074 |
| Interest Income | (32) |
| Provision for rejected executory contract | 250 |
| Other | 692 |
| | _____ |
| Total | \$ 5,984 |
| | _____ |

In 2003, we recorded income tax expense totaling \$2,199,000, of which \$711,000 related to U.S. income tax expense and \$1,488,000 related to Canadian tax expense. As a result of our recording a loss for 2003, along with the chapter 11 filing and the fact that there exists substantial doubt about our ability to continue to recover assets and satisfy liabilities in the normal course of business, our income tax benefit is limited to the amount of tax that can be carried back to prior years. The remaining U.S. tax benefit was offset by a valuation allowance since such benefit is not assured of realization. We anticipate filing our U.S. tax return for 2003 and claiming a refund of approximately \$9.9 million as a result of the carryback. The Canadian tax expense relates to earnings on certain Canadian subsidiaries. Our effective income tax rate from continuing operations was 6.0%, 11.7% (benefit) and 41.3% for 2003, 2002 and 2001, respectively. Our effective tax rate for these years differed from the amounts that result from applying the U.S. Federal income tax rate of 35% due principally to the effect of foreign taxes, non-deductible expenses and, in 2003 and 2002, valuation allowances.

Discontinued Operations

In June 2002, our board of directors unanimously adopted a plan to dispose of our oil and gas operations by sale. Accordingly, our consolidated financial statements report the oil and gas operations as discontinued operations. In 2002, we sold substantially all of our oil and gas assets and recorded charges totaling \$58.9 million to reduce the carrying value of such assets to their estimated fair value. During 2003, we revised our estimate of the fair value of our remaining oil and gas properties and increased our estimate of fair value by \$985,000. In January 2004, we sold a portion of our remaining oil and gas assets for approximately \$1.3 million, of which \$1 million was paid in cash and the balance is due in four equal quarterly installments beginning April 30, 2004 pursuant to a promissory note. Our remaining oil and gas assets are not material and we continue to seek buyers.

Revenue from the discontinued operations was \$164,000 and \$255,000 for the nine months ended September 30, 2004 and 2003, respectively. Pre-tax income (loss) from the

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discontinued operations was \$133,000 and \$(179,000) for the nine months ended September 30, 2004 and 2003, respectively.

Revenue from the discontinued operations was \$328,000, \$7,768,000 and \$21,091,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Pre-tax income (loss) from discontinued operations was \$1,139,000, \$(62,709,000) and \$(37,805,000) for the years ended December 31, 2003, 2002 and 2001, respectively. The decrease in revenue between 2003 and 2002 was primarily due to lower production volumes as a result of the sale of the majority of the producing wells. The decrease in the pre-tax income (loss) from discontinued operations between 2003 and 2002 was primarily due to the loss on the sale of the assets recorded in the 2002 periods. The decrease in revenue between 2002 and 2001 was primarily due to lower production volumes as a result of the sale of the majority of the producing wells. The decrease in the pre-tax loss from discontinued operations between 2002 and 2001 was primarily due to impairments of oil and gas properties of \$58,947,000 recorded in 2002 compared to impairments of \$40,433,000 in 2001.

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Liquidity and Capital Resources

On July 21, 2003, we filed a voluntary petition under Chapter 11 of the U.S. Bankruptcy Code. On March 18, 2004, the bankruptcy court entered an order confirming the Plan and, on July 2, 2004, the Plan became effective. In August 2004, we received gross proceeds of \$75 million as a result of the exercise of the Stockholder Warrants and the sale of shares of our common stock to the Standby Purchasers. Additionally, we completed the private placement of \$193 million face value 11.75% new senior notes resulting in proceeds of \$188.5 million. In accordance with the Plan, all of our outstanding allowed pre-petition claims have been fully paid, in cash, together with post-petition interest, except with respect to any disputed claims and any claims that were reinstated under the Plan, utilizing these funds plus our available cash. Summarized below are the sources and uses of funds as of the Guaranty Performance Date (in millions).

| <u>Sources</u> | | <u>Uses</u> | |
|-----------------------|-------------------------------|----------------------------------|-------------------------------|
| Cash on hand | \$ 38.6 | Senior Notes | \$ 255.0 |
| Senior Notes proceeds | 188.5 | Interest on Senior Notes | 24.3 |
| Stock proceeds | 75.0 | Secured Claims | 6.2 |
| | | Unsecured Claims | 5.5 |
| | | Offering Expenses ⁽¹⁾ | 11.1 |
| | <hr/> | | <hr/> |
| Total Sources | \$ 302.1⁽²⁾ | Total Uses | \$ 302.1⁽²⁾ |
| | <hr/> | | <hr/> |

- (1) Related to the offering of reorganized common stock, Stockholder Warrants and sale of shares to the Standby Purchasers, and the private placement of the outstanding notes.
(2) Excludes administrative costs related to the Plan and other related fees and expenses incurred and paid throughout the reorganization process.

As of December 17, 2004, we had approximately \$35.7 million in consolidated cash, cash equivalents and short-term investments. This cash balance reflects receipt of funds in connection with our Plan, payment of all allowed pre-petition liabilities and related expenses and receipt of our U.S. Federal income tax refund of \$11.3 million. In addition, we have in place a revolving credit facility for up to \$30 million, subject to borrowing base limitations. At December 17, 2004, there was no outstanding balance under the facility and there was \$30 million of availability. Please see [Description of The New Revolving Credit Facility](#) for a discussion of the new facility. For a discussion of a number of factors that may impact our liquidity and the sufficiency of our capital resources, see [Overview](#).

On January 12, 2004, our wholly owned subsidiary, Olympic Seismic Ltd. ([Olympic](#)), entered into a revolving credit facility. The facility allows it to borrow up to \$5 million (Canadian), subject to an availability formula, by way of prime-based loans, bankers acceptances or letters of credit. The rate applicable to borrowings is the bank's prime rate plus 0.35% per annum and to bankers' acceptances is 1.50% per annum. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The facility is secured by the assets of Olympic, SEIC Trust Administration Ltd. (as sole trustee of, and for and on behalf of, SEIC Business Trust) and SEIC Holdings, Ltd., but is not guaranteed by us or any of our other U.S. subsidiaries. However, all intercompany debt owing by Olympic, SEIC

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Trust Administration Ltd., SEIC Business Trust or SEIC Holdings, Ltd. to us, SEIC Partners Limited Partnership or to any of our U.S. subsidiaries (approximately \$66,604,000 (Canadian) at September 30, 2004) has been subordinated to the repayment of the revolving credit facility. Available borrowings under the facility are equivalent to a maximum of \$5 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of SEIC Trust Administration, less prior-ranking claims, if any, relating to inventory or accounts. The facility is subject to repayment upon demand and is available from time to time at the bank's sole discretion. As of December 17, 2004, no amounts were outstanding on this revolving line of credit and \$3.3 million (Canadian) was available on the line of credit. Olympic is not a party to any of the debt issued by us other than the note payable to a former executive.

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Operating Activities. Cash flows provided by operating activities from continuing operations were \$21.7 million and \$61.8 million for the nine months ended September, 2004 and 2003, respectively, and \$80.3 million, \$21.7 million and \$30.8 million for the years ended December 31, 2003, 2002 and 2001, respectively. Operating cash flows decreased between the nine months ended September 30, 2004 and 2003 primarily as a result of (1) an increase in interest expense paid in the 2004 period of \$15.6 million due to the payment of interest on the old senior notes and other pre-petition liabilities, (2) payment of pre-petition liabilities (excluding principal on debt and interest) of \$5.9 million, and (3) an increase in the amount and payment of costs associated with our reorganization of \$12.6 million. Additionally, the 2003 nine-month period included receipt of a Federal income tax refund totaling \$17.4 million whereas the 2004 nine-month period did not include any such receipt. The significant increase from 2002 to 2003 was primarily due to the receipt of the tax refund of \$17.4 million, non-payment of interest expense on the debtors' debt due to the bankruptcy proceedings and increased cash license sales during 2003. The decrease from 2001 to 2002 was primarily due to an increase in amounts paid for interest expense and legal and professional fees partially offset by a decrease in federal income taxes paid. Absent any adverse factors outside our control such as a significant decrease in oil and gas prices or a decline in availability of capital for our customers, we believe that our liquidity and access to cash will be sufficient to fund our current operations over the next 12 months.

Investing Activities. Cash flows used by investing activities from continuing operations were \$39.7 million and \$29.9 million for the nine months ended September 30, 2004 and 2003, respectively, and \$48.7 million, \$49.4 million and \$79.6 million for the years ended December 31, 2003, 2002 and 2001, respectively. Cash expenditures for seismic data were \$38.8 million and \$33.3 million for the nine months ended September 30, 2004 and 2003, respectively, and \$52.1 million, \$41.0 million and \$71.9 million for the years ended December 31, 2003, 2002 and 2001, respectively.

We also have operating lease and facility rental obligations. Payments due for the remainder of the year ending December 31, 2004 are approximately \$0.2 million.

Financing Activities. Cash flows provided by (used in) financing activities were (\$8.9) million and (\$4.8) million for the nine months ended September 30, 2004 and 2003, respectively, and \$(5.6) million, \$(2.6) million and \$61.3 million for the years ended December 31, 2003, 2002 and 2001, respectively. During the nine months ended September 30, 2004, we completed our Plan of Reorganization resulting in the issuance of common stock for \$75 million, the issuance of new senior notes with net proceeds of \$182.9 million, the payment in full of old senior notes of \$255 million, the payment in full of a term loan for \$5.4 million and the payment of professional fees and costs related to such equity and debt transactions of \$5.5 million. During the year ended December 31, 2003, payments on term loans and capital leases equaled \$5.8 million and were offset by payments received on notes receivable from officers and employees of approximately \$1.1 million.

As of September 30, 2004, we had outstanding debt and lease obligations, with aggregate contractual cash obligations, including principal and interest, summarized as follows (in thousands):

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Payments due by period

| Contractual cash obligations | 2010 and | | | | |
|---|-------------------|---------------|------------------|------------------|-------------------|
| | Total | 2004 | 2005-2007 | 2008-2009 | thereafter |
| Debt obligations(1)(2) | \$ 353,257 | \$ 19 | \$ 69,138 | \$ 45,499 | \$ 238,601 |
| Capital lease obligations(2) | 8,686 | 564 | 3,441 | 587 | 4,094 |
| Operating lease obligations | 4,342 | 234 | 2,174 | 1,007 | 927 |
| Total contractual cash obligations | \$ 366,285 | \$ 817 | \$ 74,753 | \$ 47,093 | \$ 243,622 |

(1) Debt obligations include the face amount of the new senior notes totaling \$193 million.

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

On July 2, 2004, we consummated an institutional private placement of new senior unsecured notes totaling \$193 million aggregate principal amount due on July 15, 2011. The new senior notes were offered at a discount of 2.325% from their principal amount at maturity resulting in cash proceeds, before offering expenses, of

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approximately \$188.5 million, which net proceeds were used to partially fund payments of allowed creditors' claims required under the Plan. The new senior notes accrue interest from July 2, 2004 at the rate of 11.75% per year. Interest is payable in cash, semi-annually in arrears on January 15 and July 15 of each year, commencing on January 15, 2005. The new senior notes are unsecured and are guaranteed by all of our domestic subsidiaries on a senior basis. The new senior notes contain restrictive covenants which limit our and our subsidiaries' ability to, among other things, incur additional indebtedness and make capital expenditures in excess of specified amounts.

Our principal sources of funds for the next 12 months are expected to be operating revenues, cash and cash equivalents on hand, and funds available for borrowing under the revolving credit facility. Our principal uses of funds are expected to be the payment of operating expenses, debt-service requirements as a result of the implementation of the Plan, and capital expenditures as described below in *Capital Expenditures*. We expect that operating revenues, cash and cash equivalents on hand, and the funds available for borrowing under the revolving credit facility will be sufficient to enable us to satisfy our operating expenses, debt service requirements, and the cash requirements in connection with our investments in seismic data for the next 12-month period.

Please see *Business Refocused Operations* and *Business Our Current Strategies* for a discussion of the material measures we undertook to reorganize our business operations as part of our reorganization.

Deferred Taxes. We have not paid U.S. Federal income taxes in the last two years. As of September 30, 2004, in Canada we had a net deferred tax liability of approximately \$798,000. Additionally, in Canada, we had a deferred tax asset of \$5.1 million, all of which was fully offset by a valuation allowance. In the U.S., we had a deferred tax asset of \$91.7 million, all of which was fully offset by a valuation allowance. In October 2004, we received a refund of U.S. Federal income tax of approximately \$11.3 million related to the carryback of our taxable loss for the year ended December 31, 2003.

Section 382 of the Internal Revenue Code places a limit on certain tax attributes which were in existence prior to a greater than 50% change in ownership. The rules use a rolling three-year period for determination of such change. Currently, we do not anticipate that any remaining tax credit carryforwards or certain other of our tax attributes applicable to periods prior to the effective date of the Plan (collectively, *pre-change losses*) will be subject to limitation under Section 382 of the Internal Revenue Code as a result of the Plan. However, we will continue to analyze and monitor ownership changes to identify potential limitations pursuant to Section 382.

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

Table of Contents**Capital Expenditures**

During 2003 and the first nine months of 2004, capital expenditures for seismic data and other property and equipment amounted to \$61.2 million and \$53.0 million, respectively. Our capital expenditures for the remainder of 2004 are presently planned to be \$17.8 million. The 2003, 2004 year-to-date and estimated capital expenditures are comprised of the following (in thousands):

| | Year Ended December 31, 2003 | Nine Months Ended September 30, 2004 | Estimate for Remainder of 2004 | Estimate For Year 2004 |
|--|---------------------------------------|--|---|------------------------------|
| New data acquisition | \$ 43,579 | \$ 40,815 | \$ 9,946 | \$ 50,761 |
| Cash purchases of seismic data and other | 3,534 | 2,492 | 2,511 | 5,003 |
| Non-monetary exchanges | 13,033 | 8,836 | 4,915 | 13,751 |
| Other property and equipment | 1,090 | 889 | 433 | 1,322 |
| Total Capital Expenditures | 61,236 | 53,032 | 17,805 | 70,837 |
| Less: | | | | |
| Non-monetary exchanges | (13,033) | (8,836) | (4,915) | (13,751) |
| Other non-cash additions, primarily offsets with customers | (1,812) | (81) | | (81) |
| Changes in working capital | 6,559 | (4,390) | | (4,390) |
| Cash investment per statement of cash flows | \$ 52,950 | \$ 39,725 | \$ 12,890 | \$ 52,615 |

The 2004 capital expenditures discussed above are within the capital expenditure limitations imposed by our new senior notes.

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

| | Year Ended December 31, 2003 | Nine Months Ended September 30, 2004 | Estimate for Remainder of 2004 | Estimate For Year 2004 |
|--|---------------------------------------|--|---|------------------------------|
| | <u> </u> | <u> </u> | <u> </u> | <u> </u> |

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| | <u>2004</u> | | | |
|--|------------------|------------------|-----------------|------------------|
| Total Capital Expenditures | \$ 61,236 | \$ 53,032 | \$ 17,805 | \$ 70,837 |
| Less: | | | | |
| Non-cash additions | (14,845) | (8,917) | (4,915) | (13,832) |
| Cash underwriting | (35,577) | (29,195) | (7,245) | (36,440) |
| Capital expenditures funded from operating cash flow | <u>\$ 10,814</u> | <u>\$ 14,920</u> | <u>\$ 5,645</u> | <u>\$ 20,565</u> |

As of December 17, 2004, we had capital expenditure commitments for the remainder of 2004 and into 2005 related to data acquisition projects of approximately \$17.2 million of which approximately \$12.6 million of cash underwriting has been obtained.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) released its Interpretation No. 46 (Revised December 2003), Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51 (FIN 46). FIN 46 requires a company to consolidate a variable interest entity (VIE) if the company has a variable interest (or combination of variable interests) that will absorb a majority of the entity's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur, or both. These provisions apply immediately to variable interests in VIEs created after January 31, 2003, and to variable interest in special purpose entities for periods ending after December 15, 2003. The provisions apply to all other types of variable interests in VIEs for periods ending after March 15, 2004. We do not and expect to own any

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interest in a VIE or special purpose entities; therefore, FIN 46 does not have any effect on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation, along with the requirement of disclosure in both annual and interim financial statements about the method used and effect on reported results. Subsequently, in March 2004, the FASB issued a proposed SFAS Share-Based Payment, an amendment of SFAS Nos. 123 and 95. The proposed standard would require share-based payments to employees, including stock options, to be expensed. The final ruling is expected to be issued by June 2005. We continue to monitor the developments in this area as details of the implementation of the final ruling emerge.

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk, including adverse changes in commodity prices, interest rates and foreign currency exchange rates as discussed below. We have not had any significant changes in the market risk exposures since December 31, 2003.

Interest Rate Risk

We may enter into various financial instruments, such as interest rate swaps, to manage the impact of changes in interest rates. Currently, we have no 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. The following table presents principal or notional amounts (stated in thousands) and related average interest rates by year of maturity for our debt obligations and their indicated fair market value at December 31, 2003:

| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total | Fair Value |
|-----------------------|-----------|-----------|-----------|-----------|-----------|------------|------------|------------|
| Debt: | | | | | | | | |
| Variable Rate | \$ 5,417 | \$ | \$ | \$ | \$ | \$ | \$ 5,417 | \$ 5,417 |
| Average Interest Rate | 4.02% | | | | | | 4.02% | |
| Fixed Rate | \$ 42,531 | \$ 12,537 | \$ 32,538 | \$ 12,540 | \$ 62,544 | \$ 92,756 | \$ 255,446 | \$ 223,590 |
| | 7.17% | 7.29% | 7.14% | 7.29% | 7.21% | 7.38% | 7.26% | |

Average
Interest
Rate

The following table presents principal or notional amounts (stated in thousands) and related average interest rates by year of maturity for our debt obligations and their indicated fair market value at December 31, 2002:

| | 2004 | 2005 | 2006 | 2007 | 2008 | Thereafter | Total | Fair Value |
|--------------|-----------|-----------|-----------|-----------|-----------|------------|------------|---------------|
| Debt: | | | | | | | | |
| Variable | | | | | | | | |
| Rate | \$ 3,750 | \$ 4,497 | \$ | \$ | \$ | \$ | \$ 8,247 | \$ 8,247 |
| Average | | | | | | | | |
| Interest | | | | | | | | |
| Rate | 4.55% | 4.35% | | | | | 4.44% | |
| Fixed | | | | | | | | |
| Rate | \$ 10,375 | \$ 32,500 | \$ 12,500 | \$ 32,500 | \$ 12,500 | \$ 155,000 | \$ 255,375 | \$ 172,994 |
| Average | | | | | | | | |
| Interest | | | | | | | | |
| Rate | 7.23% | 7.13% | 7.28% | 7.13% | 7.28% | 7.31% | 7.25% | |

Under the Plan, most of our debt will be paid in 2004 and thus, the above tables are not indicative of our actual interest rate risk.

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.

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Business

The Company

We are a leading provider of seismic data and related geophysical services to the oil and gas industry in North America. Our products and services are used by oil and gas companies to assist in the exploration for and development and management of oil and gas reserves. We have ownership in an extensive library of proprietary onshore and offshore seismic data that we have accumulated since 1982 and that we offer for license to a wide range of oil and gas companies. Our customers utilize this data, in part, to assist them in the identification of new geographical areas where subsurface conditions are favorable for oil and gas exploration, to determine the size, depth and geophysical structure of previously identified oil and gas fields, and to optimize development and production of oil and gas reserves.

We believe that our library of onshore seismic data is one of the largest available for licensing in the United States and Canada. We also have ownership in a library of offshore data covering parts of the U.S. Gulf of Mexico shelf and certain deep water areas in the western and central U.S. Gulf of Mexico. We regularly add to the size of our seismic data library by conducting new seismic data creation programs funded (or underwritten) substantially by our customers in exchange for a license granting exclusive access to newly acquired data for a limited period of time. We also acquire entire seismic libraries from oil and gas companies which have discontinued their exploration and production focus in a particular geographical area and no longer require ownership of the library or which have determined to sell their library for financial purposes. These acquisitions are sometimes funded with cash, but typically are structured as non-monetary exchanges of seismic data, whereby we acquire ownership of existing data from customers in exchange for an assignment of a non-exclusive license to use data from our library. We also create new value-added products by applying advanced seismic data processing or other quantitative analytical techniques to selected portions of our library.

We are incorporated under the laws of the State of Delaware. Our principal executive offices are located at 10811 South Westview Circle Drive, Suite 100, Building C, Houston, Texas 77043, and our telephone number at that address is (713) 881-8900.

Industry Conditions

The overall demand for seismic data and related geophysical services is dependent upon spending by oil and gas companies for exploration, production, development and field management activities which, in turn, is driven largely by present and expected future prices for crude oil and natural gas. This is impacted by global events and economic, tax, and environmental considerations. Weak global economic conditions combined with an oversupply of oil and gas led to a weak commodity price environment in the latter half of 2001, which led to a decrease in capital spending by our customers on seismic data and

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geophysical services in late 2001 and the first half of 2002. Since then, however, the relative strengthening of economic conditions, the global political environment and colder weather in the United States have resulted in dramatic price increases. As of December 17, 2004, oil and gas prices were \$46.28 per barrel and \$7.30 per mcf, respectively, or 74% and 88% above their five-year average.

In addition to commodity prices, the U.S. and Canadian onshore rig counts have also increased significantly since 2002, reaching an average onshore rig count of 1,417 rigs for the nine months ended September 30, 2004, well above the five-year average onshore rig count of 1,097 rigs.

The attractive commodity price environment over the last few years has been a catalyst for the increase in exploration and production spending in both the U.S. and Canada. Since the end of 1999, U.S. exploration and production annual spending increased from \$22.0 billion to \$50.5 billion, and Canadian exploration and production annual spending increased from \$9.2 billion to \$14.2 billion, representing average annual increases of 23% and 11%, respectively. The recent level of high commodity prices has resulted in many oil and gas companies focusing their efforts on development drilling to produce existing reserves rather than expending time

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and capital on exploration. As a result, we believe some exploration spending in the industry has been postponed. We do not believe this recent situation represents a long-term trend. Industry analysts estimate oil and gas reserves are being depleted at a rate of 5% to 10% per year for the major oil and gas operators. As a result, there is an increasing need in the oil and gas industry to continue exploration activity and replace such reserves.

Another factor which we believe is an indication of the improved condition of the oil and gas industry is the equity performance of publicly traded exploration and production companies. Over the past five years, the S&P small-cap and mid-cap exploration and production indices have increased an average of 19% and 21% per year, respectively. This performance is a result of increased commodity prices as well as the companies' abilities to gain attractive returns on their increased capital spending. To maintain their success, these companies will have to continue to find new and exploit existing oil and gas reserves, which will require significant amounts of capital spending. Many of these companies are our clients and are representative of the types of clients we target for our products and services.

Attractive commodity pricing, strong rig counts, the need to replace oil and gas reserves, and the favorable performance of oil and gas companies is expected to continue. Barring unforeseen world events and economic conditions, we anticipate improved seismic industry market conditions.

| | Years Ended December 31, | | | | | Nine Months Ended September 30, | |
|--|--------------------------|----------|----------|----------|----------|------------------------------------|----------|
| | 1999 | 2000 | 2001 | 2002 | 2003 | 2003 | 2004 |
| (\$ in billions, unless stated otherwise) | | | | | | | |
| Average Oil Price (\$/bbl) | \$ 19.30 | \$ 30.37 | \$ 25.96 | \$ 26.17 | \$ 31.06 | \$ 31.03 | \$ 39.26 |
| Average Natural Gas (\$/mcf) | \$ 2.27 | \$ 4.30 | \$ 3.96 | \$ 3.37 | \$ 5.49 | \$ 5.62 | \$ 5.74 |
| Average Rig Count:(a) | | | | | | | |
| U.S. Onshore | 519 | 778 | 1,003 | 717 | 924 | 896 | 1075 |
| Canada Onshore | 240 | 340 | 336 | 257 | 368 | 355 | 342 |
| Total North American Onshore | 759 | 1,118 | 1,339 | 975 | 1,292 | 1,251 | 1,417 |
| Offshore Gulf of Mexico | 105 | 136 | 148 | 109 | 103 | 104 | 92 |
| Total North America, excluding Canada offshore | 864 | 1,254 | 1,487 | 1,083 | 1,395 | 1,355 | 1,509 |
| Exploration-Production Spending:(b) | | | | | | | |
| United States: | | | | | | | |
| Drilling-exploration | \$ 18.3 | \$ 24.3 | \$ 39.9 | \$ 33.9 | \$ 42.1 | na | na |
| Production | 3.5 | 4.6 | 7.6 | 6.4 | 8.0 | na | na |
| OCS lease bonus | 0.2 | 0.4 | 1.0 | 0.5 | 0.5 | na | na |
| U.S. Subtotal | \$ 22.0 | \$ 29.4 | \$ 48.5 | \$ 40.9 | \$ 50.5 | na | na |
| Canada: | | | | | | | |

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| | | | | | | | |
|---|---------|---------|---------|---------|---------|-------|-------|
| Drilling-exploration | \$ 5.8 | \$ 8.6 | \$ 9.7 | \$ 8.0 | \$ 9.9 | na | na |
| Production | 3.4 | 3.5 | 4.0 | 3.4 | 4.2 | na | na |
| Canada Subtotal | \$ 9.2 | \$ 12.0 | \$ 13.7 | \$ 11.4 | \$ 14.2 | na | na |
| Total North America | \$ 31.3 | \$ 41.5 | \$ 62.2 | \$ 52.3 | \$ 64.7 | na | na |
| Average S&P Small Capitalization E&P Index(c) | 133.4 | 191.0 | 231.5 | 229.9 | 268.1 | 257.3 | 391.6 |
| Average S&P Mid Capitalization E&P Index(d) | 75.6 | 102.4 | 133.6 | 145.8 | 161.1 | 154.9 | 212.5 |
| Average S&P Large Capitalization E&P Index(e) | 110.9 | 131.1 | 141.7 | 130.5 | 136.1 | 133.7 | 174.3 |

Source:

- (a) Baker Hughes Rig Count. Offshore Gulf of Mexico statistics include: AL, MS, TX, LA
 (b) *Oil & Gas Journal*

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- (c) Bloomberg. Includes: Cabot Oil and Gas, Cimarex Energy, Evergreen Resources, Nuevo Energy, Patina Oil and Gas, Prima Energy, Remington Oil, Southwestern Energy, Spinnaker Exploration, St. Mary's Land and Exploration, Stone Energy, Swift Energy, Tom Brown, Vintage Petroleum
- (d) Bloomberg. Includes: Forest Oil, Newfield Exploration, Noble Energy, Pioneer Natural Resources, Pogo Producing, XTO Energy
- (e) Bloomberg. Includes: Anadarko Petroleum, Apache, Burlington Resources, Devon Energy, EOG Resources, Kerr-McGee, Unocal

The oil and gas industry has over time increasingly relied on the use of 3D seismic data that has fueled the growth and demand for geophysical services. The greater precision and improved subsurface resolution obtainable from 3D seismic data, combined with advanced processing techniques, have assisted oil and gas companies in finding new fields and more accurately delineating existing fields. According to the Independent Petroleum Association of America, these improved technologies have been key factors in improving drilling success ratios and lowering finding and field extension costs. These improved technologies, coupled with advances in drilling and completion techniques, are significantly enhancing the ability of oil and gas companies to explore for, develop and manage oil and gas reserves cost-effectively.

Seismic Data

Oil and gas companies consider seismic data an essential tool in finding hydrocarbons. Oil and gas companies use seismic data in oil and gas exploration and development efforts to increase the probability of drilling success. 3D seismic data provides a graphic depiction of the earth's subsurface from two horizontal dimensions and one vertical dimension, rendering a more detailed picture than 2D data, which presents a cross-sectional view from one vertical and one horizontal dimension. The more comprehensive geophysical information provided by 3D surveys significantly enhances an interpreter's ability to evaluate the probability of the existence and location of oil and gas deposits. The use of 3D surveys has been demonstrated to increase drilling success rates and, correspondingly, lower exploration and development costs. However, the cost to create 3D seismic data is significantly more than the cost to create 2D seismic data. As a result, 2D data continues to be used by clients for preliminary, broad-scale exploration evaluation, as well as in determining the location and design of 3D surveys. 3D surveys can then be used for more site-specific analysis to maximize actual drilling potential and success.

Our offshore data library includes limited amounts of multi-component data. In a standard 3D seismic survey, only pressure waves are measured and recorded, whereas in a multi-component survey not only pressure waves but also shear waves are measured and recorded. Pressure waves are affected by the fluids in rock formation, whereas shear waves are not. By measuring and recording both pressure waves and shear waves, a multi-component survey can improve analysis of rock formations.

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We believe seismic data is a long lived asset. We amortize our seismic data over a four-year period. However, we believe that our seismic data will continue to generate licensing revenue after such time. Assuming the data is sampled and gathered adequately in the field recording phase, it is amenable to re-evaluation and re-presentation, multiple times, using new or alternate processing techniques or updated knowledge of the earth model.

Seismic Data Library

Our seismic data library includes both onshore and offshore 3D and 2D data and offshore multi-component data. We have ownership in over 33,000 square miles of 3D and approximately 1.1 million linear miles of 2D seismic data concentrated primarily in the major North American oil and gas producing regions. The majority of our seismic data library covers onshore regions within North America, with a geographic concentration on the onshore and transition zone of the U.S. Gulf Coast extending from Texas to Florida, western Canada, Mississippi, eastern Texas, the Rocky Mountain region and northern Louisiana. Most of our remaining seismic data library covers the offshore Gulf of Mexico and eastern Canada. Our seismic data concentration is primarily in the 3D market. The following table describes our 3D seismic data library as of November 18, 2004.

| <u>3D Data Library at November 18, 2004</u> | <u>Square Miles</u> | <u>Percentage of Subtotal</u> |
|---|---------------------|---------------------------------------|
| Gulf Coast Texas | 5,778 | 40.8% |
| Southern Louisiana/Mississippi | 5,669 | 40.1% |
| Rockies | 948 | 6.7% |
| Northern Louisiana | 399 | 2.8% |
| Other | 1,353 | 9.6% |
| Total U.S. Onshore | 14,147 | 100.0% |
| Canada | 8,945 | 100.0% |
| Conventional | 9,096 | 90.1% |
| Multi-Component | 996 | 9.9% |
| Total U.S. Offshore | 10,092 | 100.0% |
| Worldwide Total | 33,184 | 100.0% |

U.S. Onshore. The U.S. onshore 3D sector of our seismic data library is comprised principally of our Gulf Coast Texas and southern Louisiana/Mississippi components. We began accumulating this data in 1993 and 1994. Until recent years, the southern Louisiana/Mississippi component of our U.S. onshore seismic data library grew significantly faster than our Gulf Coast Texas component. More recently, our Gulf Coast Texas component has experienced significant growth and now represents approximately the same percentage of our total U.S. onshore seismic data library as our southern Louisiana/Mississippi component. These areas form the core of our U.S. onshore database and currently represent the areas of highest demand from our U.S. clients.

The Rocky Mountain region and northern Louisiana sectors, although currently small contributors, are believed to be areas of strong potential growth in the future. We own relatively small amounts of seismic data in other areas, such as Alabama, Michigan and North Dakota, and we do not intend to focus on these areas in the near future because we have determined that such areas do not have sufficient revenue producing potential.

Canada. The Canadian market is less mature than the U.S. Gulf Coast and includes areas still considered frontier, or underexplored. Accordingly, there is still significant demand for 2D data, with 3D data representing an increasing part of the market in recent years. In 2003, demand for our 3D seismic data was almost equivalent to the demand for our 2D seismic data, and we anticipate that demand for our 3D seismic data will surpass that for our 2D seismic data in 2004 and the future. The accumulation of 3D data in our seismic library began in 1998 and has grown at an average rate in excess of 1,000 square miles per year.

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Offshore U.S. Gulf of Mexico. We have accumulated 9,096 square miles of conventional U.S. Gulf of Mexico offshore 3D data since 1993, with the volume of data growing steadily through 2000. In 2001 and 2002, we also acquired 996 square miles of multi-component data under an alliance agreement with WesternGeco (formerly known as Schlumberger-Geco). The offshore Gulf of Mexico was a high growth area for us in the 1990 s; however, this market has become dominated by competitors who deploy their own marine vessels and field equipment to service their own data libraries. To compete in this market requires significant capital expenditures, which we do not believe is cost-effective for us and does not fit our business model. As a result, we discontinued making cash investments for new data in the offshore Gulf of Mexico, and do not believe the market will provide favorable growth opportunities for us in the future.

Data Library Creation

We regularly add to our library of seismic data by: recording new data; buying ownership of existing data for cash; acquiring ownership of existing data from customers in exchange for an assignment of a non-exclusive license to data from our library, or non-monetary exchange ; or creating new value-added products from data existing within our library.

Data Acquisitions. We create new seismic data designed in conjunction with our customers and specifically suited to the geology of the area using the most appropriate technology available. Typically one or more customers will underwrite a significant portion of the direct cost in exchange for a license or licenses to use the resulting data. Under such licenses, the customers usually have exclusive access to use the newly acquired data for a limited term, which is usually six months, at which time the data is added to our library for licensing to the industry on a non-exclusive basis. Data acquisition activity during 2003 occurred in the Texas Gulf Coast, southern Louisiana, Wyoming and western Canada. All field work on these projects is outsourced to subcontractors, as is the data processing for those projects in Canada and the Rocky Mountain region. A significant percentage of the data processing for Gulf Coast projects is processed by our wholly owned subsidiary Matrix Geophysical, Inc. We employ experienced geoscientists who design seismic programs and oversee field acquisition and data processing to ensure the quality and longevity of the data created.

Cash Purchases. We generally pursue acquisitions of data for cash less frequently than we do other methods of adding to our seismic data library. Typically when we purchase data for cash, such purchases will include entire libraries of data or significant subsets of libraries, rather than individual surveys, as is common in the other library creation methods. In these transactions, we usually purchase data from companies that lack sufficient economic and other resources to continue focusing on certain geographical areas or those that have made a strategic decision to divest their seismic data.

Non-Monetary Exchanges. We grant our customers a non-exclusive license to selected data from our library in exchange for ownership of seismic data from the customer. The data that we receive is distinct from the data that is licensed to the customer. These transactions, which have been an essential tool in the growth of our seismic data library, are typically for individual surveys or groups of surveys, rather than whole libraries.

Occasionally, we use non-monetary exchanges in conjunction with data acquisitions and cash purchases.

Value-Added Products. We create new products from existing seismic surveys in our library by extracting a variety of additional information from surveys that are not readily apparent in initial products. Opportunities to create such additional products may result from alternate or more complex processing algorithms applied to initial products, information with respect to the Earth model from secondary sources and alternative conclusions derived from initial products, or a combination thereof. Additional products may include Pre-Stack Time Migration volumes, Amplitude Versus Offset volumes, Complex Attribute volumes, Rock Property volumes and Pre-Stack Depth Migration volumes. Typically, one or more customers will underwrite a portion of the direct cost in exchange for a license or licenses to use the resulting data. Under such licenses, the customers usually have exclusive access to the newly acquired data for a limited term, which is usually three months or less, after which time the data is added to our library for licensing to the industry on a non-exclusive basis. Work on these projects may be performed by our wholly owned subsidiary Matrix Geophysical, Inc., outsourced to

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specialists in the arena or conducted under an alliance with a particular specialist. We employ experienced geoscientists who design these value-added products and oversee the processing to ensure the quality and longevity of the data created.

Licenses and Marketing

We actively market data from our library to customers under non-exclusive license agreements using an aggressive marketing strategy combined with strong geophysical expertise. Our licenses are generally non-assignable. Our licenses typically provide that in the event of a change of control of a customer-licensee, the surviving entity generally must pay a fee to maintain a license for any data it seeks to continue to use and for which such entity previously did not have a license. We employ an experienced sales force and operating philosophy to actively market our seismic library. Our team of dedicated marketing specialists seeks to maximize license sale opportunities and create innovative methods of contracting opportunities by monitoring petroleum industry exploration and development activities through close interaction with oil and gas companies on a daily basis.

Licenses generally are granted for cash payable within 30 days of invoice, although we sometimes permit a customer to make an initial payment upon inception of the license followed by periodic payments over time, usually not more than 12 to 18 months. Some licenses provide for additional payments to us if the licensee acquires additional mineral leases, drills wells or achieves oil or gas production in the areas covered by the licensed data.

Fundamental to our business model is the concept that once seismic data is created it is owned by us and added to our library for licensing to customers in the oil and gas industry on a non-exclusive basis. Since the data is a long lived asset, such data can be licensed repeatedly and over an extended period of time to different customers at the same time.

Seitel Solutions, Ltd. and Seitel Solutions Canada, Ltd.

To support our seismic data licensing business, we maintain warehouse and electronic storage facilities at our Houston, Texas headquarters and our Calgary, Alberta location. Through our Solutions division, we offer the ability to access and interact with the seismic data we own and market via a standard web browser and the Internet. Using proprietary technology, we store, manage, access and deliver data, tapes and graphic cross-sections to our licensees. In addition, Solutions offers use of its proprietary display and inventory software to certain customers, and the use of its proprietary quality control software to the seismic brokerage community principally in Calgary, Alberta, Canada. In the future, we may decide to offer data management services to clients generally.

Refocused Operations

Because our historical success was built around our seismic expertise and the quality of our library, we have refocused our operations on our core competency of seismic data licensing. In 2002, we sold substantially all of our assets which engaged in the exploration for and development, production and sale of natural gas and oil, and we are marketing what little amount remains of such assets for sale. By exiting the exploration and production sector, we believe we have refocused our operations and are well-positioned to achieve success in the future.

Our Current Strategies

During the past two years, we implemented a plan to refocus our activities, both functionally and geographically, on areas in which we have historically experienced meaningful success or in which we believe we can achieve significant growth in the future. As a result, we made some changes to our operating philosophy, including:

- discontinuation of our oil and gas exploration and production activities and disposal of substantially all of our oil and gas assets and properties;

- discontinuation of cash investments for recording new data in the offshore U.S. seismic market, which is dominated by competitors who deploy their own marine vessels and field equipment to service their own data libraries;

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discontinuation of additional capital investments in seismic data in geographical areas such as Alabama, Michigan and North Dakota because we do not believe these areas have sufficient revenue producing potential; and

reduction of the mission for our Solutions division to focus on internal requirements with a very limited participation in the external market in the near term.

To complement the fundamental changes made to our operating philosophy, management implemented cost reduction measures in the second half of 2002, including reductions in our work force, the consolidation of our Houston office location (resulting in the relocation of our headquarters), the reduction of office space used in our Calgary operations, an overhaul of our compensation structure, and the imposition of strict controls on all spending.

In addition to the significant operating changes we made, we are guided by operating philosophies that are fundamental to the success of our business and that we believe make us unique compared with our largest competitors:

We intend to continue to grow our seismic data library using a combination of recording new data, cash purchases, non-monetary exchanges and creating new value-added products from our existing data.

We do not own or maintain seismic data gathering or field equipment and crews. Instead, we outsource these services, which gives us the flexibility to respond appropriately to changing market conditions and renders our cash flows less susceptible to volatility. We believe, this also enables us to select vendors with the best price, equipment and skill sets for a particular environment, geographical location or geophysical objective, and provides us with access to state-of-the-art equipment and emerging technologies.

We leverage our strong geophysical, technical and field operating management with our third-party outsourcing to align our interests with those of our underwriting customers. We believe this has allowed us to become a leading provider in certain core areas where local expertise is important. We believe we have developed expertise in certain areas of southern Louisiana, Gulf Coast Texas, Alberta and northeast British Columbia, and that there are opportunities to continue expansion in these areas and to repeat these experiences in the U.S. Rocky Mountain region, northern Louisiana and certain selected areas of the market outside North America.

We will not participate in speculative seismic data shoots. Instead, we seek significant underwriting levels before undertaking new acquisition projects, which is crucial to our success. Our goal is to attain 70% underwriting levels for our new seismic acquisition projects.

We will only pursue new acquisition projects if we are reasonably confident that conditions exist for repeated licensing of the same data over an extended period. Inherent in our rationale for creating new 3D survey additions to our library, is the

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proximity to 3D surveys already in the library. We believe that there is greater value in contiguous data, or reasonably close concentrations of surveys in a single area.

We pursue an aggressive marketing strategy to licensing our seismic data library.

We intend to maintain an extremely disciplined approach to making operating and capital expenditures.

Our Competitive Strengths

We believe that we have the following competitive strengths:

Leading Market Position. Within our industry, we are considered to be one of the leading providers of seismic data in North America. We believe our library of onshore 3D seismic data is one of the largest available for licensing in the U.S. and Canada. We have ownership of over 33,000 square miles of 3D seismic data, the majority of which is concentrated primarily in the onshore Gulf coast of Texas, Louisiana and Mississippi, western Canada and the offshore Gulf of Mexico. In addition, we have ownership in 1.1 million linear miles of 2D seismic data, which we believe makes us one of the largest providers of 2D data in North America.

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Data Ownership Provides the Opportunity to Realize Long-Term Revenue Streams. We own our seismic data and are able to license the data an unlimited number of times, allowing for a lengthened life of our seismic data library. The ability to license the seismic data multiple times, as well as the commercial longevity of our seismic data, is a result of many factors, including multiple interpretations of the same data set, changes in ownership of mineral interests, new discoveries of hydrocarbons, advances in drilling and production technology, creation of oil and gas distribution infrastructures, and the advent of new seismic processing techniques. Most of our data is expected to generate revenues for 10 years or more. In some instances, samples of our older 2D data are still being licensed after 25 years. The current weighted average of our 3D onshore data library is 3.5 years. We believe there is minimal obsolescence risk regarding our seismic library.

Low Cost Business Model. In order to remain profitable in volatile business cycles, we believe it is essential to have a low cost operating structure. We strive to maintain an efficient base of assets and employees with which to conduct our operations. We do not own seismic acquisition equipment or employ seismic acquisition crews, but rather, engage third-party contractors with qualified equipment on an as required basis to shoot new data. We believe our decision to engage third-party contractors on an as required basis results in substantially less volatility in our cash flows by allowing us to respond more quickly to changes in the demand for our products and services and minimizing our ongoing capital requirements. We do not participate in speculative seismic shoots and impose strict capital investment thresholds with targeted underwriting levels.

Leading Provider in Dominant Areas. Onshore seismic data collection requires a high degree of technical expertise, extensive permitting and geographical knowledge. Over the past 20 years, our personnel have developed a strong reputation for having these necessary skills. We believe our vast experience, combined with our large and contiguous database, encourages customers looking to acquire data in our area of operations to select us as their provider. We also believe that our experience and relationships with the relevant permitting agencies give us an advantage over our competitors.

Diversified Customer Base. We market our seismic data to over 1,300 customers in the oil and gas industry, and we have license arrangements with in excess of 1,000 customers. In 2003, four of our top ten customers were rated investment grade by Standard & Poor's, none of our customers accounted for more than 10% of total revenues, and our top ten customers accounted for approximately 40% of total revenues. We have been providing seismic data to several of our largest customers for over 10 years.

Customers

We market our seismic data to a varied customer base. Our customers range from small, independent oil and gas companies and private prospect generating individuals to several of the largest companies in the oil and gas industry. During the three-year period ended December 31, 2003, no one customer accounted for more than 10% of our revenue. We do not believe that the loss of any single customer would have a material adverse impact on our seismic business, cash flows or results of operations.

Competition

The creation and licensing of seismic data is highly competitive. There are a number of geophysical companies that create, market and license seismic data and maintain their own seismic data libraries. Rather than outsourcing their seismic data activities, some oil and gas companies create their own seismic data libraries, which they license to users. Our largest competitors, most of whom are engaged in acquiring seismic data, as well as maintaining a data library, are Compagnie Generale de Geophysique, Petroleum Geo-Services, Seismic Exchange, Inc. (a private company based in New Orleans, Louisiana), TGS Nopec, Veritas DGC, Inc. and WesternGeco (a joint venture of Schlumberger and Baker Hughes). Many of our competitors have substantially larger revenues and resources than we do.

We believe that we have positioned ourselves to take advantage of the continued trend by exploration and production companies to outsource their seismic data needs. In addition, we believe we can compete favorably

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because of the breadth of our data library, the expertise of our marketing staff, the technical proficiency of our geoscientists and the employment of a business model that does not require capital investment in, or the ownership of, field equipment and crews.

Seasonality and Timing Factors

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

Employees

As of December 17, 2004, we and our subsidiaries had 144 full-time employees, including 4 executive officers, 19 marketing staff and 29 geotechnical staff. None of our employees are covered by a collective bargaining agreement, and we consider our relationships with our employees to be good.

Raw Materials and Proprietary Information

We are not dependent on any particular raw materials, patents, trademarks or copyrights for our business operations. Our seismic data library is proprietary confidential information, which is not generally available to the public and is subject to confidentiality agreements with our employees and customers. The seismic data within our library is a trade secret, which we protect through confidentiality agreements with our employees and licensees. We believe that our seismic data library is also protected by common law copyright.

Properties

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Our corporate headquarters are located at 10811 South Westview Circle Drive, Suite 100, Building C, Houston, Texas 77043, which also serves as administrative and financial offices and warehouse space and storage. We maintain domestic marketing offices located in Denver, Colorado and New Orleans, Louisiana. We also lease office and warehouse space in Calgary, Alberta, Canada in two separate locations where our Canadian operations are headquartered. We consider our business facilities adequate and suitable for our present and anticipated future needs, but may seek to expand our facilities from time to time. See

Our Current Strategies above for a discussion of our consolidation of certain of our office and warehouse facilities.

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The following table sets forth the locations of our offices and warehouses, the approximate square footage of space we maintain at such locations, our use of such space and whether it is owned or leased by us.

| <u>Location</u> | <u>Approximate Square Footage</u> | <u>Use</u> | <u>Owned/Leased</u> |
|-----------------------------|---------------------------------------|--|---------------------|
| Houston, Texas | 72,400 | Administrative; Financial; Marketing; Operations; Warehouse | Leased |
| Denver, Colorado | 1,529 | Marketing | Leased |
| New Orleans, Louisiana | 540 | Marketing | Leased |
| Calgary, Alberta, Canada | 11,400 | Administrative; Financial; Marketing; Operations | Leased |
| Calgary, Alberta, Canada | 42,000 | Warehouse | Leased |

Legal Proceedings

The Company and certain of its former and current officers and directors were named as defendants in eleven lawsuits brought as class actions alleging violations of the federal securities laws, all of which were consolidated by an Order entered August 7, 2002, under Cause No. 02-1566, styled *In re Seitel, Inc. Securities Litigation*, in the United States District Court for the Southern District of Texas. The Court appointed a lead plaintiff and lead counsel for plaintiffs, who subsequently filed a consolidated amended complaint, which added the Company's previous auditors, Ernst & Young LLP, as a defendant. The consolidated amended complaint alleged that during a proposed class period of May 5, 2000 through April 1, 2002, the defendants violated sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 by overstating revenues in violation of generally accepted accounting principles. The plaintiffs sought an unspecified amount of actual and exemplary damages, costs of court, pre- and post-judgment interest and attorneys' and experts' fees. The class representatives and the Debtors have entered into a memorandum of understanding, which contemplates allowance of a class claim to assert the rights of the class in the Chapter 11 Cases and an ultimate settlement for cash to be funded out of the Debtors' cash and directors' and officers' insurance policies. The memorandum of understanding was approved upon notice and a hearing by order of the Bankruptcy Court dated December 10, 2003. The Company funded its portion of the settlement amount (\$980,000) to an escrow account in 2003. The parties have finalized their settlement agreement, which contains terms substantially in accordance with the terms of the memorandum of understanding. On December 8, 2004, Seitel filed a motion with the Bankruptcy Court for approval of the parties' full settlement agreement, and a hearing is scheduled for December 29, 2004. To complete the settlement, approvals must be obtained from each of the Bankruptcy Court and District Court.

On July 18, 2002, the Company's former chief executive officer sued the Company in the 113th Judicial District Court of Harris County, No. 2002-35891. Mr. Frame alleged a breach of his employment contract and defamation. He also sought a declaratory judgment that certain funds he received from the Company were proper and do not have to be repaid. Mr. Frame filed claims totaling \$20.2 million in the Company's Chapter 11 Cases, which have been disallowed by order of the Bankruptcy Court. The Company intends to file a

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motion to dismiss Mr. Frame's complaint in the District Court. The Company filed a counter suit to recover approximately \$4,200,000 in corporate funds that the Company believes Mr. Frame inappropriately caused the Company to pay him or for his benefit plus over \$800,000 due on two notes that were accelerated pursuant to their respective terms. In addition, the Company also holds a judgment against Mr. Frame in the amount of at least \$590,000 relating to a loan made to Mr. Frame by Bank One N.A. (Bank One) and guaranteed by the Company, which it intends to enforce. The Company intends to subpoena Mr. Frame for a deposition to determine the nature and extent of his assets for purposes of debt collection.

The Company and its subsidiary, Seitel Data, Ltd., are parties to a class action lawsuit for geophysical trespass entitled *Juan O. Villarreal v. Grant Geophysical, Inc.*, et al., Cause No. DC-00-214, in the 229th District Court of Starr County, Texas that was initiated on April 1, 2002. The plaintiffs have sued a number of defendants, including Seitel and Seitel Data, Ltd. The plaintiffs allege that certain defendants conducted unauthorized 3-D seismic exploration of the mineral interests by obtaining seismic data on adjoining property,

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and sold the information obtained to other defendants. The plaintiffs sought an unspecified amount of damages. All defendants obtained summary judgments dismissing the plaintiffs claims, and the plaintiffs appealed to the San Antonio Court of Appeals under Cause No. 04-02-00674-CV. During the pendency of the Company's bankruptcy proceedings, the San Antonio Court of Appeals affirmed the trial court's decision as to the Company's co-defendants and stayed the appeal as to the Company. The Texas Supreme Court denied plaintiffs' Petition for Certiorari, refusing to hear the matter. The San Antonio Court of Appeals will not reinstate plaintiffs' appeal as to the Company's summary judgment against plaintiffs until the plaintiffs obtain a certified order lifting the bankruptcy stay. The plaintiff filed an unliquidated claim (amount unspecified) in the Chapter 11 Cases. The Company objected to this claim which remains pending.

The Company sued its former in-house counsel and law firm in *Seitel, Inc. v. Cynthia Moulton and Franklin Cardwell & Jones, P.C.*, Cause No. 2003-09151 in the 127th Judicial District Court of Harris County, Texas. The suit alleges negligence, breach of fiduciary duty and breach of contract surrounding the settlement of a personal lawsuit against the former chief executive officer and other aspects of representation. The Company seeks recovery for fees paid and related expenses. Initial pleadings were filed on February 21, 2003.

In addition to the lawsuits described above, the Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolutions of these matters should not be material to the Company's financial position or results of operation.

It is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At September 30, 2004, the Company did not have any amounts accrued related to the claims set forth above, as all amounts have been paid or the Company believes it is not probable that any amounts will be paid relative to the litigation and claims set forth above. However, if one or more of the parties were to prevail against the Company in one or more of the cases described above that have not been settled, the amounts of any judgments against the Company or settlements that the Company may enter into, could be material to the Company's financial statements for any particular reporting period.

Table of Contents**Management****Executive Officers and Directors**

Our executive officers and directors, and their ages and positions, as of December 17, 2004, are as follows:

| <u>Name</u> | <u>Age</u> | <u>Position(s) with Seitel</u> | <u>Director Class</u> |
|--------------------------|------------|--|-----------------------|
| Robert D. Monson | 49 | President and Chief Executive Officer, Director | Class III |
| Fred S. Zeidman | 58 | Chairman of the Board of Directors | Class I |
| Kevin P. Callaghan | 52 | Chief Operating Officer and Executive Vice President | N/A |
| Marcia H. Kendrick | 44 | Acting Chief Financial Officer, Senior Vice President, Chief Accounting Officer and Acting Secretary | N/A |
| Robert J. Simon | 49 | President Seitel Data, Ltd. | N/A |
| Robert Kelley (1)(3) | 59 | Director | Class II |
| J.D. Williams (1)(2) | 67 | Director | Class I |
| Charles H. Mouquin (2) | 68 | Director | Class II |
| C. Robert Black (1)(3) | 69 | Director | Class I |
| Ned S. Holmes (2)(3) | 60 | Director | Class II |
| Kevin S. Flannery (2)(3) | 59 | Director | Class III |
| Jay H. Golding (1) | 59 | Director | Class III |

(1) Audit committee member. Mr. Kelley serves as chairman.

(2) Corporate governance and nominating committee member. Mr. Williams serves as chairman.

(3) Compensation committee member. Mr. Black serves as chairman.

Robert D. Monson was named president and chief executive officer, and director on December 15, 2004. He previously served as chief financial officer from May 10, 2004 until December 15, 2004 and served as secretary from August 31, 2004 until December 15, 2004. Mr. Monson has 20 years of experience in the oil and gas industry, including over four years in the international seismic industry. He has served in various financial capacities with Schlumberger Limited, a New York Stock Exchange, Inc. listed company, since 1985. Most recently, Mr. Monson served as business segment chief financial officer for Schlumberger Well Services and the worldwide controller for Oilfield Technology Centers. Prior to this he served as worldwide director of human resources for financial personnel of Schlumberger Limited. From 1998 to 2000 he served as chief financial officer of Schlumberger Oilfield Services-UK. From 1985 to 1998 he served as either treasurer or controller to other Schlumberger entities, including assignments in the New York headquarters and various international locations.

Fred S. Zeidman, a director since 1997, was named chairman of our board of directors on June 3, 2002 and served as interim president and chief executive officer from October 5,

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2004 until December 15, 2004. He also served as interim chief executive officer from November 6, 2002 to December 6, 2002. Mr. Zeidman is a member of Seitel's Corporate Governance and Nominating Committee. Since July 9, 2004, he has been a Senior Director of Governmental Affairs of Greenberg Traurig, LLP, and lobbies on behalf of that firm's clients. Mr. Zeidman was a director of EquiFin, Inc. (EquiFin) (formerly known as InterSystems, Inc.) from July 1993 through October 2000. EquiFin provided structured capital to small and mid-size business enterprises. He served as president and chief executive officer of EquiFin from July 1993 until December 1999. He also served as president of Interpak Terminals, Inc., a wholly owned subsidiary of Helm Capital Group, Inc. (Helm), engaged in the packaging and distribution of thermoplastic resins, from July 1993 until its sale in July 1997. Mr. Zeidman also currently serves as a director of First Prosperity Bank and as Chairman of the United States Holocaust Memorial Council in Washington, D.C.

Kevin P. Callaghan has been chief operating officer and executive vice president of Seitel and president of Olympic Seismic Ltd. since June 2002. Prior to this date, Mr. Callaghan had been senior vice president of Seitel Data, Ltd. since January 1998. He was interim president of Olympic Seismic Ltd. from July 2001 until June 2002 and vice president of Olympic Seismic Ltd. from January 2001 until July 2001. Mr. Callaghan joined Seitel in

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August 1995 as vice president of Onshore Operations of Seitel Data, Ltd. He has also served as an outside director of Aeroscan International Inc., a privately held Canadian company engaged in digital imaging services, from June 2000 until December 2002.

Marcia H. Kendrick, CPA was named senior vice president in September 2001 and interim chief financial officer and secretary in December 2004. Ms. Kendrick has been chief accounting officer and assistant secretary since August 1993. She also served as our interim chief financial officer from June 2002 to May 2004. Prior to joining Seitel in 1993, she was employed by Arthur Andersen LLP, where her last position was director of finance and administration.

Robert J. Simon was named president of Seitel Data, Ltd. in June 2002. He joined Seitel in September 1984 as a marketing representative. In August 1985, he was promoted to regional sales manager. In 1987, Mr. Simon was promoted to vice president of marketing and in 1992 to senior vice president. In 1996, Mr. Simon was promoted to executive vice president, where he served until becoming president of Seitel Data, Ltd.

Robert Kelley became a director on July 2, 2004 and was appointed Lead Director on October 11, 2004. Mr. Kelley is currently president of Kellco Investments Inc., a private investment company located in Ardmore, Oklahoma. Mr. Kelley has more than 30 years experience in the oil and gas industry. He retired in April 2001 as chairman of the board of Noble Affiliates, Inc. (now Noble Energy, Inc.), an independent energy company with exploration and production operations throughout the United States, including the Gulf of Mexico, and international operations in Argentina, China, Ecuador, Equatorial Guinea, the Mediterranean Sea, the North Sea and Vietnam. Prior to October 2, 2000, he also served as president and chief executive officer of Noble Affiliates, Inc. and its three subsidiaries, Samedan Oil Corporation, Noble Gas Marketing, Inc. and Noble Trading, Inc. Mr. Kelley is also a director of OG&E Energy Corporation (NYSE), a public utility headquartered in Oklahoma City, Oklahoma; Lone Star Technologies, Inc., a leading manufacturer of oilfield tubular goods located in Dallas, Texas and Cabot Oil & Gas Corporation, an independent oil and gas company engaged in the exploration and development of oil and gas properties located in Houston, Texas. Mr. Kelley has a B.B.A. from the University of Oklahoma and is a certified public accountant.

J.D. Williams became a director on July 2, 2004. Mr. Williams is an attorney with the firm of Williams & Jensen, P.C., a premier Washington, D.C. law and lobbying firm. Mr. Williams has more than 40 years of experience representing clients, including many *Fortune 500* companies, major financial institutions, and energy companies, before Congress, congressional committees, and federal agencies. Mr. Williams has a B.B.A. (Accounting) from the University of Oklahoma, a J.D. from George Washington University, and an L.L.M. in Taxation from Georgetown University and has been the subject of numerous feature articles in, among other publications, *The Wall Street Journal*, *The New York Times*, *Forbes*, and *Fortune*. He is also a director of OG&E Energy Corp. (NYSE).

Charles H. Mouquin became a director on July 2, 2004. Mr. Mouquin currently acts as manager for the stock accounts of a few select clients. Mr. Mouquin has more than 40 years

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experience as a securities analyst. In 1962, he served as a security analyst for Parrish Securities. In 1971, he joined Central National Gottesman, and in 1976 was appointed senior vice president. From 1976 to 1987, he was senior vice president and director of research for Fiduciary Trust Company International. He has served as consultant to Hamerslag Kempner and Company as well as the Norman Shethar Company. Mr. Mouquin has a B. S. degree in Economics from the University of California at Berkley.

C. Robert Black became a director on July 2, 2004. Mr. Black is the current chairman of the board of Texas Tech University System Board of Regents. Mr. Black had over 40 years of service with Texaco Inc. He served Texaco in various executive positions culminating in his appointment in 1998 as senior vice president in the office of the chairman, where he had responsibilities for developing and managing Texaco's relationship with industry on a worldwide basis as well as building relationships in regions where Texaco is active. In addition he had oversight responsibility for Texaco's Technology Division along with Corporate Reserves Audit Group and served as corporate compliance officer. Mr. Black received a B. S. degree in petroleum engineering in 1958 from Texas Tech University. Texas Tech awarded him the Distinguished Alumni Award in 1980.

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Ned S. Holmes became a director on July 2, 2004. Mr. Holmes is currently the president and chief executive officer of Laing Properties Inc. Mr. Holmes currently serves as chairman of the board of Prosperity Bancshares Inc., which is traded on the NASDAQ. Mr. Holmes is chairman emeritus of the Port of Houston Authority, director and former chairman of the Greater Houston Partnership, and trustee of the publicly traded (NYSE) Archstone Trust. Mr. Holmes received his B.B.A from the University of Texas, and his J.D. from the University of Texas School of Law.

Kevin S. Flannery became a director on December 15, 2004. Since January 2003, Mr. Flannery has been Chairman of the Board and Chief Executive Officer of RoweCom, Inc., since April 2002, Chairman of the Board of Telespectrum Worldwide Inc. and since 1992, President and Chief Executive Officer of Whelan Financial Corporation. Mr. Flannery also currently serves as a director of Sarcom Inc., Raytech Corporation, Geneva Steel Company, Sheffield Steel Corporation and Centis Inc. He also serves as a member of the New York Stock Exchange Allocation Committee and as chairman of the Shareholders Committee of Tesoro Petroleum, Inc.

Jay H. Golding became a director on December 15, 2004. Mr. Golding currently serves as President of Port Chester Industries, a privately held merchant banking entity. He is also an advisory director of Choice Energy, L.P., an advisory director of Texas Capital Bank and a director of Commercial Chemicals, Inc. Mr. Golding also serves on the board of the Houston Jewish Community Foundation and is a director of the Investment Committee of Congregation Beth Israel.

Communications with Stockholders

We do not have a formal process by which our stockholders may send communications to our board of directors. We do not believe that it is appropriate to have such a process because our stockholders will have the opportunity to communicate with members of the board of directors at the annual meeting of stockholders.

Director Compensation

At the organizational meeting of the board of directors following the effective date of the Plan, the board approved and adopted compensation to be paid to non-employee directors, which will include an annual fee of \$30,000, annual restricted stock awards valued at \$20,000, \$1,500 for each board meeting attended in person and \$500 for each board meeting attended by conference telephone, including committee meetings attended. In addition, the chairman of the board shall be paid \$250,000 per year, the Lead Director shall be paid \$1,500 per day when performing services on behalf of the Company, and annual fees shall be paid to each committee chairman as follows: audit committee, \$15,000; compensation committee, \$10,000; corporate governance and nominating committee \$7,500. Directors who are also employees will receive no fees for their service as directors. All directors will be entitled to reimbursement for their reasonable out-of-pocket

expenditures.

Pursuant to the Plan confirmation order, on the effective date of the Plan, we granted Mr. Zeidman ten-year options to purchase 100,000 shares of our common stock at an exercise price of \$1.30, upon terms and conditions substantially similar to Mr. Zeidman's options heretofore granted, which prior options terminated on the effective date of the Plan. Such new options have been granted outside of the Seitel, Inc. 2004 Stock Option Plan and shall become exercisable on July 2, 2005.

On January 30, 2004, the bankruptcy court approved a bonus to Mr. Zeidman totaling \$80,000, which was paid in February 2004.

Director Liability and Indemnification of Directors and Executive Officers

The Delaware General Corporation Law provides that a corporation may limit the liability of each director to the corporation or its stockholders for monetary damages except for liability for any breach of the director's duty of loyalty to the corporation or its stockholders, for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, in respect of certain unlawful dividend payments or stock redemptions or repurchases and for any transaction from which the director derives an improper personal benefit.

Our amended and restated certificate of incorporation provides for the elimination and limitation of the personal liability of our directors for monetary damages to the fullest extent permitted by the Delaware General Corporation Law. In addition, our amended and restated certificate of incorporation provides that if the Delaware General Corporation Law is amended to authorize the further elimination or limitation of the liability of

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directors, then the liability of our directors will be eliminated or limited to the fullest extent permitted by the amended law. The effect of this provision is to eliminate the rights of Seitel and its stockholders to recover monetary damages against a director for breach of the fiduciary duty of care as a director, including breaches resulting from negligent or grossly negligent behavior, except in a situation described above where director liability may not be limited under Delaware law. The provision does not limit or eliminate the rights of Seitel or any stockholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of a director's duty of care. This provision is consistent with Section 102(b)(7) of the Delaware General Corporation Law, which is designed, among other things, to encourage qualified individuals to serve as directors of Delaware corporations. We believe this provision will assist us in securing and maintaining the services of qualified individuals who are not employees of Seitel.

Our amended and restated bylaws provide that we will, to the full extent permitted by the Delaware General Corporation Law, indemnify and may advance expenses to our directors and officers. We may also maintain directors and officers liability insurance, which covers directors and officers against certain claims or liabilities arising out of the performance of their duties. We may also enter into indemnification agreements with our officers and directors from time to time in the future.

Executive Compensation

The following table sets forth certain summary information concerning the compensation awarded to, earned by or paid to the chief executive officer in 2003, and each of the four most highly compensated executive officers of Seitel other than the chief executive officer serving (collectively, the Named Executive Officers) for the years indicated.

Summary Compensation Table

| Name and Principal Position | Year | Annual Compensation | | | | Other Compensation (\$) |
|---|------|---------------------|---------------|--|---|-------------------------------|
| | | Salary (\$) | Bonus (\$) | Other Annual Compensation (2) | Long-Term Compensation Awards Stock Options/SARs (#) | |
| Larry E. Lenig, Jr. (1) Former Chief Executive Officer and President | 2003 | \$ 300,000 | \$ 290,000 | | | \$ 3,500(3) |
| | 2002 | \$ 51,559 | | | | \$ 375 |
| Kevin P. Callaghan | 2003 | \$ 82,200 | | \$ 1,099,139 | | \$ 3,500(3) |
| | 2002 | \$ 75,000 | | \$ 951,289 | | \$ 12,678 |

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Chief Operating
Officer and
Executive Vice
President

| | | | | | | |
|-----------------|------|------------|--|--------------|--|-------------|
| Robert J. Simon | 2003 | \$ 158,400 | | \$ 1,189,848 | | \$ 3,000(3) |
|-----------------|------|------------|--|--------------|--|-------------|

President Seitel
Data, Ltd.

| | | | | | |
|------|------------|--|--------------|--|------------|
| 2002 | \$ 112,500 | | \$ 1,327,288 | | \$ 131,581 |
|------|------------|--|--------------|--|------------|

| | | | | | | |
|-----------------------------|------|------------|--|--|--|-------------|
| Leonard M. Goldstein (4) | 2003 | \$ 300,000 | | | | \$ 3,500(3) |
|-----------------------------|------|------------|--|--|--|-------------|

Former General
Counsel and
Corporate
Secretary

| | | | | | | |
|-----------------------|------|------------|-----------|--|--|-------------|
| Marcia H. Kendrick | 2003 | \$ 242,200 | \$ 25,000 | | | \$ 3,000(3) |
|-----------------------|------|------------|-----------|--|--|-------------|

Chief
Accounting
Officer, Senior
Vice

| | | | | | |
|------|------------|--|----------|--|-----------|
| 2002 | \$ 235,000 | | \$ 8,389 | | \$ 69,663 |
|------|------------|--|----------|--|-----------|

| | | | | | | |
|--|------|------------|------------|----------|--|-----------|
| President and Assistant Corporate Secretary | 2001 | \$ 211,667 | \$ 250,000 | \$ 8,115 | | \$ 53,903 |
|--|------|------------|------------|----------|--|-----------|

(1) Mr. Lenig left the employ of Seitel on February 17, 2004, as anticipated, after completion of the structuring and negotiation of the Plan.

(2) Includes commissions based on sales for Messrs. Callaghan and Simon and commission based on property sales for Ms. Kendrick.

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- (3) Includes amounts contributed by Seitel to its 401(k) Savings Plan (the 401(k) Plan) on behalf of such Named Executive Officers as discretionary and matching contributions.
- (4) Mr. Goldstein voluntarily resigned from the Company effective August 31, 2004.

Stock Option Grants in Fiscal 2003

No options to purchase common stock were granted during the year ended December 31, 2003, to any of the Named Executive Officers. Under the Plan, all options outstanding as of the effective date have been cancelled in their entirety.

2004 Stock Option Plan

Under the Plan, each of our existing equity compensation plans and all other options, warrants and rights outstanding were terminated. In connection with our reorganization, our board of directors adopted the Seitel, Inc. 2004 Stock Option Plan (the Stock Option Plan) and on December 15, 2004, our stockholders approved and adopted it. Under the Stock Option Plan, 7,500,000 shares of our common stock (approximately 5% of our outstanding common stock), are reserved and available for stock-based awards.

The Stock Option Plan is intended to attract, retain, and reward high-quality executives, employees, directors and other persons who provide services to Seitel and/or its subsidiaries, enabling such persons to acquire or increase a proprietary interest in Seitel to strengthen the mutuality of interests between such persons and stockholders of Seitel, and providing such persons with annual and long-term performance incentives to expend their maximum efforts in the creation of shareholder value. The Stock Option Plan is also intended to qualify certain compensation awarded thereunder for tax deductibility under Section 162(m) of the Internal Revenue Code to the extent deemed appropriate by our compensation committee. It is contemplated that each executive officer (generally the chairman of the board, vice-chairman, chief executive officer, chief operating officer, president and vice presidents of Seitel), other officers, employees and other persons who perform services of special importance to Seitel, including directors of Seitel, will be eligible to participate under the Stock Option Plan.

Employment, Change-in-Control and Severance Agreements

Effective January 1, 2004, we entered into a retention and change of control agreement with Larry E. Lenig, Jr., Seitel's former chief executive officer and president, relating to his services in those capacities. The agreement was approved by the bankruptcy court by order dated January 30, 2004. Mr. Lenig was paid a \$200,000 bonus at that time. Mr. Lenig left the employ of Seitel on February 17, 2004, as anticipated, following completion of the structuring and negotiation of the Plan, and he was paid \$477,500 in accordance with the terms of his retention agreement.

Effective February 17, 2004, we entered into an employment agreement with Randall D. Stilley, the Company's former president and chief executive officer. The agreement was approved by the bankruptcy court. Mr. Stilley's agreement provides the following compensation and employee benefits: (1) a base salary of \$350,000 per annum, (2) participation in the Stock Option Plan, (3) for calendar year 2004, Mr. Stilley is entitled to receive an annual cash incentive award of up to 60% of his base salary, (4) other employee benefits generally available to our employees, and (5) certain severance benefits upon his resignation for good reason or termination not-for-cause. Mr. Stilley voluntarily resigned his positions of president, chief executive officer and director on October 5, 2004. That same day, the board of directors appointed Fred S. Ziedman to assume Mr. Stilley's duties as president and chief executive officer on an interim basis. Mr. Stilley is not entitled to any severance benefits under the agreement as a result of his resignation.

Effective August 31, 2004, we entered into a severance agreement and release with Leonard M. Goldstein. On that date, Mr. Goldstein voluntarily resigned as our general counsel and corporate secretary for personal reasons. Under the terms of the agreement, we paid Mr. Goldstein a lump sum of \$75,000, and have or will pay

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\$25,000 each month for six consecutive months. In addition, Mr. Goldstein will continue to participate in our health insurance through February 28, 2005, and we will pay, on his behalf, any subsequent COBRA payments through October 31, 2005, provided Mr. Goldstein has not secured full-time employment.

Effective December 15, 2004, we entered into an employment agreement with Robert D. Monson, as our president and chief executive officer for an initial term of two years with an automatic extension of one year, unless either party gives thirty days prior written notice of an election not to extend the term. The agreement provides that Mr. Monson shall be paid an annual base salary of \$400,000, and an annual cash target bonus equal to 90% of the base salary that is subject to the target goals and terms and conditions established by the board of directors or the compensation committee of the board.

Mr. Monson is eligible to participate in and receive, on a calendar year basis, awards of stock options or other equity-based compensation under the Stock Option Plan. Under his agreement, if Mr. Monson meets the target goals and terms and conditions to receive a cash target bonus equal to 90% of his base salary, the amount of his annual stock options or other equity-based awards (to be issued under the Stock Option Plan) shall be an amount equal to 90% of his base salary plus 90% of the cash target bonus. Notwithstanding this provision, for calendar year 2004 Mr. Monson's equity-based award has been set at an amount equal to \$684,000.

As contemplated in his agreement, on December 15, 2004, Mr. Monson was granted 1,000,000 shares of our common stock as restricted stock (the Restricted Stock Grant) under the Stock Option Plan. One-third of the Restricted Stock Grant will be vested on December 15, 2005, 66.6% will be vested on December 15, 2006, and 100% will be vested on December 15, 2007. A portion of the Restricted Stock Grant shall represent Mr. Monson's \$684,000 2004 equity-based award. The remaining portion of the Restricted Stock Grant shall be a prepayment of his 2005 equity-based compensation award and will reduce his total 2005 award.

Upon Mr. Monson's termination, we shall pay any unpaid base salary and other amounts owed to him under any of our plans or programs, in accordance with such plans or programs. His agreement provides for additional termination benefits under certain circumstances as summarized below.

Upon termination by Seitel without cause, or resignation by Mr. Monson for good reason prior to a change in control, he shall be entitled to a payment of two times his annual base salary plus his cash target bonus to be paid pro rata over a twenty-four month period. The Restricted Stock Grant shall be 100% vested on the date of his termination, and he shall continue participation for a period of twelve months in our medical and dental benefit plan.

If Mr. Monson is terminated on account of disability, he shall be entitled to continuation of pay of his base salary and cash target bonus in accordance with our normal payroll practices through the earlier of the end of the term of employment

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under his agreement or one year from the date of his termination. These payments shall be reduced by any disability insurance payments payable to Mr. Monson from any policy, plan or program that we sponsor.

If we elect not to extend the term of Mr. Monson's agreement, we shall continue to pay his annual base salary plus the cash target bonus over a period of twelve months, and he shall continue participation in our medical plan for a period of twelve months.

In the event Mr. Monson's employment is terminated without cause, voluntarily or involuntarily, after a change in control, he shall be entitled to an amount equal to three times his base salary plus the cash target bonus to be paid in a lump sum as soon as administratively feasible after such date of termination. Also, upon such termination, the Restricted Stock Grant shall be 100% vested and he shall be entitled to continued participation in our medical and dental plan for a period of twelve months.

Mr. Monson is also entitled to an additional payment in the event he is deemed to have received an excess parachute payment as defined in Section 280G of the Internal Revenue Code of 1986, as amended (the Code), which is subject to excise taxes imposed under Code Section 4999. The additional payment shall be a cash amount equal to the sum of all excise taxes payable by him, plus all additional excise taxes and federal and state income taxes to the extent such taxes are imposed in respect to the additional payment.

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Compensation Committee Interlocks and Insider Participation

Prior to the effective date of the Plan, our compensation committee was composed of John E. Stieglitz, chairman, Walter M. Craig, Jr. and William Lerner. Beginning July 2, 2004, our compensation committee has been composed of C. Robert Black, chairman, Ned S. Holmes and Robert Kelley. On December 15, 2004, Kevin S. Flannery joined the compensation committee. No member of the compensation committee was, during 2003, an officer or employee of Seitel or any of its subsidiaries, or was formerly an officer of Seitel or any of its subsidiaries, or had any relationship requiring disclosure pursuant to applicable rules and regulations of the SEC. During 2003, no executive officer of Seitel served as (i) a member of the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served on Seitel's compensation committee, (ii) a director of another entity, one of whose executive officers served on Seitel's compensation committee, or (iii) a member of the compensation committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served as a director of Seitel.

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Certain Relationships and Related Transactions

The following is a summary of our transactions from January 1, 2001, through the date of this prospectus among Seitel and its directors, executive officers, beneficial owners of more than 5% of any class of its current or former voting securities, and certain entities with which the foregoing persons are affiliated or associated.

Loans to Employees

All of the following loans were made prior to the adoption of the Sarbanes-Oxley Act of 2002.

On October 2, 1998, Seitel granted five-year loans at an interest rate of 4% to many of its employees for the purchase of an aggregate of 794,300 shares of common stock at the then market price of \$10.3125 per share and options to purchase a like number of shares of common stock at an exercise price of \$11.75 per share. Payment of 60% of the loan amount plus accrued interest was made in equal monthly, quarterly or annual payments, as applicable, and a balloon payment of the remaining 40% was due on October 2, 2003. Loans were made to Mr. Simon, the president of Seitel Data, Ltd., amounting to \$515,625, to Mr. Callaghan, our chief operating officer, amounting to \$192,031 and to Ms. Kendrick, our senior vice president, chief accounting officer and assistant secretary, amounting to \$257,813. The largest aggregate amounts of principal and interest outstanding on such loans since January 1, 2003 were approximately \$262,000 for Mr. Simon, \$52,000 for Mr. Callaghan and \$131,000 for Ms. Kendrick. As of October 2003, the aggregate amounts of principal and interest outstanding on such loans to Messrs. Simon and Callaghan and Ms. Kendrick had been paid in full.

In October 2001, Seitel guaranteed an institutional loan totaling \$600,000 to Kevin Fiur, its former chief operating officer and general counsel, who later was named chief executive officer and who resigned in November 2002. On November 23, 2004, Seitel's guarantee of this loan was cancelled.

During 2001, Mr. Frame and Ms. Debra Valice, two former executive officers of Seitel, received advances against bonus and commission payments that were contingent upon achieving pre-tax profits goals during 2001. The pre-tax profits goals were not met in 2001. Seitel initially determined that advances previously paid but not earned or awarded would be repaid pursuant to promissory notes; however, the repayment of the note from Mr. Frame and certain other matters are the subject of pending litigation proceedings between Seitel and Mr. Frame. The repayment of the note from Ms. Valice and certain other matters were the subject of litigation proceedings between Ms. Valice and Seitel which proceedings have been settled, resulting in the forgiveness of such debt by Seitel. The SEC has informed Seitel that it has issued a formal order of investigation relating to the events surrounding the advances and other matters concerning Mr. Frame. The U.S. Attorney's Office for the Southern District of Texas was also investigating these events. For additional

information concerning the pending matter involving Seitel and Mr. Frame, please see Business Legal Proceedings.

Seitel instituted an action against Mr. Pearlman, Seitel's former chairman of the board, seeking a declaratory judgment with respect to his employment agreement. Mr. Pearlman asserted various counterclaims. On May 9, 2003, this litigation was settled under an agreement that provided Mr. Pearlman \$485,000 for certain out-of-pocket costs and expenses, payment to him of \$1 million and issuance of a note to him in the amount of \$735,000 payable in equal installments over a period of 10 years. Under the Plan, we reaffirmed the Pearlman note. Except as amended by the Plan, with respect to certain indemnity obligations, we will perform its obligations under the settlement.

Transactions with the Significant Stockholder

Please see The Plan of Reorganization The Standby Purchase Guaranty for information concerning the transactions consummated with Mellon HBV in connection with the Plan.

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The table below sets forth certain information with respect to the beneficial ownership of the Company's common stock by (1) each person known by the Company to own beneficially more than five percent (5%) of the outstanding shares of common stock; (2) each executive officer of the Company; (3) each director of the Company; and (4) all current directors and executive officers as a group. Unless otherwise noted, the beneficial ownership information is as of December 17, 2004.

| Name and Address of Owner (1) | Shares Beneficially Owned | Percent of Ownership |
|--|------------------------------|-------------------------|
| Mellon HBV Alternative Strategies LLC 200 Park Avenue, Suite 3300 New York, NY 10166 | 36,518,051(2) | 21.9% |
| VA Partners, L.L.C. 435 Pacific Avenue, Fourth Floor San Francisco, CA 94133 | 20,330,063(3) | 13.3% |
| Third Point Management Company, L.L.C. 360 Madison Avenue, 24 th Floor New York, NY 10017 | 8,100,049(4) | 5.3% |
| Robert J. Simon | 99,917 | * |
| Marcia H. Kendrick | 37,360 | * |
| Kevin P. Callaghan | 24,788 | * |
| Robert D. Monson | 1,000,000 | * |
| Fred S. Zeidman | 9,200(5) | * |
| C. Robert Black | 7,692 | * |
| Ned S. Holmes | 7,692 | * |
| Robert Kelley | 7,692 | * |
| Charles H. Mouquin | 216,584 | * |
| J.D. Williams | 7,692 | * |
| Kevin S. Flannery | 10,000 | * |
| Jay H. Golding | 20,000 | * |
| All executive officers and directors as a group (12 persons) | 1,448,617 | * |

* Less than one percent

(1) Except as otherwise noted, the address for all persons is 10811 S. Westview Circle, Building C, Suite 100, Houston, Texas 77043, and each named holder has, to the best of the Company's knowledge, sole voting and investment power with respect to the shares indicated.

(2) Information with respect to the beneficial ownership of Mellon HBV Alternative Strategies LLC is derived in part from a Schedule 13D/A, dated November 4, 2004, and in part from a Form 4, dated November 23, 2004, both filed by Mellon Financial Corp. Mellon HBV is an indirect subsidiary of Mellon Financial Corp. Includes warrants to

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purchase 15,037,568 shares of common stock. The shares, including the warrants, are held as follows: (1) 16,090,718 shares, or 9.7%, held of record by Mellon HBV Master Multi-Strategy Fund L.P.; (2) 9,929,786 shares, or 6%, held of record by Mellon HBV Master Rediscovered Opportunities Fund LP; (3) 1,493,946 shares, or less than 1%, held of record by Distressed Recovery Master Fund Ltd.; (4) 2,238,236 shares, or 1.3%, held of record by Lyxor/Mellon HBV Rediscovered Opportunities Fund Ltd.; (5) 642,869 shares, or less than 1%, held of record by Mellon HBV Capital Partners LP; (6) 1,224,599 shares, or less than 1%, held of record by HFR DS Performance Master Trust; (7) 1,154,023 shares, or less than 1%, held of record by Axis-RDO Ltd.; (8) 2,624,806 shares, or 1.6%, held of record by Mellon HBV Master Leveraged Multi-Strategy Fund LP; and (9) 1,119,068 shares, or less than 1%, held of record by Mellon HBV Master U.S. Event Driven LP (collectively, the Mellon Funds).

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Mellon HBV, which is an indirect wholly owned subsidiary of Mellon Financial Corporation, has entered into investment advisory, manager and/or sub-manager agreements that grant Mellon HBV complete control over the management of all securities investment, re-investment and trading activities of each of the Mellon Funds. Accordingly, Mellon HBV has sole voting and dispositive power with respect to all shares of common stock held of record by the Mellon Funds.

- (3) Information with respect to the beneficial ownership of VA Partners, L.L.C. is derived in part from a Schedule 13 D/A, dated December 14, 2004. Includes: (1) 286,268 shares of common stock held by ValueAct Capital Partners Co-Investors, L.P., representing less than 1% of the shares outstanding; and (2) 20,043,795 shares of common stock held by ValueAct Master Fund, L.P., representing 13.4% of the shares outstanding.

Shares reported as beneficially owned by ValueAct Capital Partners Co-Investors, L.P. or ValueAct Capital Master Fund, L.P. are also reported as beneficially owned by VA Partners, L.L.C. (VA Partners) either as investment manager, or as general partner, of both of the investment limited partnerships. Such shares are also reported as beneficially owned by Jeffrey W. Ubben, George F. Hamel, Jr. and Peter H. Kamin, as the managing members of VA Partners. As such, VA Partners, Jeffrey W. Ubben, George F. Hamel, Jr. and Peter H. Kamin may be deemed the beneficial owners of an aggregate of 20,330,063 shares of common stock, representing 13.5% of the shares outstanding.

- (4) Information with respect to the beneficial ownership of Third Point Management Company, L.L.C. (Third Point) is derived from a Schedule 13D, dated October 13, 2004, filed jointly by Third Point and Daniel S. Loeb, the managing member of Third Point. Third Point is the investment manager or advisor to a variety of hedge funds and managed accounts (the Funds). The Funds directly own the 8,100,000 shares of common stock reported as beneficially owned by Third Point. Third Point and Mr. Loeb share voting and dispositive power over such shares. Additionally, Mr. Loeb has sole voting and dispositive power over 49 shares of common stock that he holds directly.
- (5) Does not include 100,000 shares of common stock underlying ten-year options granted to Mr. Zeidman in connection with the Plan of Reorganization, which options shall become exercisable on July 2, 2005.

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Description of The New Revolving Credit Facility

The following is a summary of the material terms and provisions of the new revolving credit facility. The following does not purport to be a complete description of the new revolving credit facility and is subject to the detailed provisions of, and qualified in its entirety by reference to, the new revolving credit facility.

On April 16, 2004, we entered into a loan agreement with WFF, pursuant to which WFF made available to us a new \$30 million senior secured revolving credit facility on the effective date of the Plan. The maximum amount available to us from time to time under the new revolving credit facility is the lesser of (1) \$30 million or (2) the Borrowing Base, in either case less any reserves established by WFF and undrawn amounts under issued and outstanding letters of credit, if any, issued for our account under the new revolving credit facility from time to time, the amount of which will not exceed the lesser of \$10 million or the Borrowing Base.

The Borrowing Base under the new revolving credit facility is an amount equal to the lowest of:

\$30 million,

0.75 times our Cash Operating Income (defined as cash revenue, derived primarily from seismic data acquisition revenue, cash library licensing revenue and Solutions revenue, less cost of sales and SG&A, before depreciation and amortization expense for the trailing 12-month period), or

the sum of (1) 85% of eligible Short Term Accounts (defined as accounts that are not Long Term Accounts and within 90 days of invoice date), (2) 50% of eligible Long Term Accounts (defined as accounts with contracts for periods of performance from one month to 18 months, where the account debtor makes payments over the term of the contract), and (3) \$20 million.

Borrowings under our new revolving credit facility not used to fund payments of allowed creditors' claims under the Plan (provided that such borrowings cannot be used to pay Class 3 unsecured claims) will be used by us from time to time solely to fund our working capital needs and other general corporate purposes. Any and all outstanding borrowings under the new revolving credit facility will be due in full on the maturity date, which will be July 2, 2007, and will accrue interest at our option at an applicable margin above either:

the Prime Rate, which is the rate of interest publicly announced from time to time by Wells Fargo Bank, N.A. at its principal office in San Francisco, California, as its reference rate, base rate or prime rate, whether or not such announced rate is the best rate available from such financial institution, or

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LIBOR, which is the rate per annum, determined by WFF in accordance with its customary procedures, at which dollar deposits are offered to major banks in the London interbank market, adjusted by the reserve percentage prescribed by governmental authorities as determined by WFF.

If the average principal amount of outstanding borrowings is less than \$10 million in any month, the applicable margin will be 0% for Prime Rate-based loans and 2.75% for LIBOR-based loans; otherwise, the applicable margin will be 0.50% for Prime Rate-based loans and 3.25% for LIBOR-based loans.

During the existence of any event of default under the new revolving credit facility, amounts outstanding under the new revolving credit facility will bear interest at an annual rate equal to three percentage points above the rate of interest otherwise in effect. A default under the notes and the indentures under which the notes are issued will be an event of default under the new revolving credit facility.

The new revolving credit facility is secured by a first priority, perfected security interest in all of our existing and future U.S. tangible and intangible assets, including accounts receivable, general intangibles, negotiable collateral, inventory, equipment, books and records, commercial tort claims, real property, deposit accounts and any proceeds thereof, and a pledge of all of the issued and outstanding capital stock of our U.S. subsidiaries (the Collateral). Each of our U.S. subsidiaries that is not a borrower under the new revolving credit facility has delivered an unlimited, unconditional guarantee of our obligations under the new revolving credit facility.

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The new revolving credit facility contains financial and other covenants including, but not limited to:

minimum Cash Operating Income of \$60 million (subject to adjustment by mutual agreement) for every four consecutive fiscal quarters, and maximum capital expenditures (exclusive of non-monetary exchanges of seismic data) of \$64 million for fiscal 2004, and \$60 million for subsequent fiscal years, plus, in each year, if an excess cash flow offer is required to be made under the indenture in such year (see

Description of New Notes Excess Cash Flow Repurchase Offer), the amount of excess cash flow generated in the previous year that is not required to be used to make such offer, plus the amount by which the excess cash flow offered in the excess cash flow offer for such fiscal year exceeds the amount accepted in such offer,

restrictions on the payment of dividends, and

limitations on the incurrence of indebtedness, the terms of affiliate and related party transactions, the creation of liens, the making of particular types of investments or other restricted payments, and requirements with respect to capitalization events, asset sales, mergers and consolidations.

We will have the option, at any time upon 30 days prior written notice to WFF, to terminate the new revolving credit facility by paying to WFF, in cash, all outstanding amounts under the new revolving credit facility on the date of termination, including either (1) providing cash Collateral in an amount equal to 105% of the undrawn amount of any outstanding letters of credit, or (2) causing any outstanding original letters of credit to be returned by WFF.

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Description of New Notes

As used below in this Description of New Notes section, the Issuer means Seitel, Inc., a Delaware corporation, and its successors, but not any of its subsidiaries. The Issuer will issue the new notes (for purposes of this Description of New Notes, the New Notes), and we issued the outstanding notes, under an Indenture, dated as of July 2, 2004 (the Indenture), among the Issuer, the Guarantors and LaSalle Bank National Association, as trustee (the Trustee). The terms of the New Notes include those set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act.

The following is a summary of the material terms and provisions of the New Notes. The following summary does not purport to be a complete description of the New Notes and is subject to the detailed provisions of, and qualified in its entirety by reference to, the Indenture. You can find definitions of certain terms used in this description under the heading Certain Definitions.

Principal, Maturity and Interest

The New Notes will mature on July 15, 2011. The New Notes will bear interest at the rate shown on the cover page of this prospectus, payable on January 15 and July 15 of each year, commencing on January 15, 2005, to Holders of record at the close of business on January 1 and July 1, as the case may be, immediately preceding the relevant interest payment date. Interest on the New Notes will be computed on the basis of a 360-day year of twelve 30-day months.

The New Notes will be issued in registered form, without coupons, and in denominations of \$1,000 and integral multiples of \$1,000.

An aggregate principal amount of the New Notes equal to \$193 million is being offered for exchange. The Issuer may issue additional notes having identical terms and conditions to the New Notes, except for issue date, issue price and first interest payment date, in an unlimited aggregate principal amount, subject to compliance with the covenant described under Certain Covenants Limitations on Additional Indebtedness. Any additional notes will be part of the same issue as the New Notes and will be treated as one class with the New Notes, including for purposes of voting and offers to purchase. For purposes of this Description of New Notes, except for the covenant described under Certain Covenants Limitations on Additional Indebtedness, references to the New Notes include additional notes, if any.

Methods of Receiving Payments on the New Notes

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If a Holder has provided wire transfer instructions to the Issuer at least 10 Business Days prior to the applicable payment date, the Issuer will make all payments to such Holder by wire transfer of immediately available funds to the account specified in those instructions. Otherwise, payments on the New Notes will be made at the office or agency of the paying agent (the Paying Agent) and registrar (the Registrar) for the New Notes within the City and State of New York unless the Issuer elects to make interest payments by check mailed to the Holders at their addresses set forth in the register of Holders.

Ranking

The New Notes will be general unsecured obligations of the Issuer. The New Notes will rank senior in right of payment to all future obligations of the Issuer that, by their terms, are expressly subordinated in right of payment to the outstanding notes and *pari passu* in right of payment with all existing and future unsecured obligations of the Issuer that are not so subordinated. Each Note Guarantee (as defined below) will be a general unsecured obligation of the Guarantor thereof and will rank senior in right of payment to all future obligations of such Guarantor that, by their terms, are expressly subordinated in right of payment to such Note Guarantee and *pari passu* in right of payment with all existing and future unsecured obligations of such Guarantor that are not so subordinated.

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The New Notes and each Note Guarantee will be effectively subordinated to secured Indebtedness of the Issuer and the applicable Guarantor to the extent of the value of the assets securing such Indebtedness. The Credit Facilities will be secured by substantially all of the assets of the Issuer and its Subsidiaries.

The New Notes will also be structurally subordinated to all existing and future obligations, including Indebtedness, of any Unrestricted Subsidiaries and Foreign Subsidiaries. Claims of creditors of these Subsidiaries, including trade creditors, will generally have priority as to the assets of these Subsidiaries over the claims of the Issuer and the holders of the Issuer's Indebtedness, including the New Notes.

As of September 30, 2004, we and the guarantors had approximately \$191.8 million of total Indebtedness, including \$2.8 million of secured Indebtedness. In addition, as of such date and giving effect to such transactions, we and the guarantors would have had \$30 million of additional secured borrowing availability under the Credit Facilities. Although the Indenture contains limitations on the amount of additional secured Indebtedness that the Issuer and the Restricted Subsidiaries may incur, under certain circumstances, the amount of this Indebtedness could be substantial. See Certain Covenants Limitations on Additional Indebtedness and Certain Covenants Limitations on Liens.

Note Guarantees

The Issuer's obligations under the New Notes and the Indenture will be jointly and severally guaranteed (the Note Guarantees) by each Restricted Subsidiary (other than any Foreign Subsidiary) (a Restricted Subsidiary in such capacity, a Guarantor).

Not all of our Subsidiaries will guarantee the New Notes. Unrestricted Subsidiaries and Foreign Subsidiaries will not be Guarantors. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, these non-guarantor Subsidiaries will be required to pay the holders of their debts and their trade creditors before they will be able to distribute any of their assets to us. The non-guarantor Subsidiaries generated 27% of our Consolidated Cash Operating Income for the nine-month period ended September 30, 2004 and owned 27% of our combined assets as of September 30, 2004. As of September 30, 2004, our non-guarantor subsidiaries had \$2.8 million of indebtedness.

As of the date of the Indenture, all of our Subsidiaries (including Foreign Subsidiaries) were Restricted Subsidiaries. However, under the circumstances described below under the subheading Certain Covenants Limitations on Designation of Unrestricted Subsidiaries, the Issuer will be permitted to designate any of its Subsidiaries as Unrestricted Subsidiaries. The effect of designating a Subsidiary as an Unrestricted Subsidiary will be that:

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an Unrestricted Subsidiary will not be subject to many of the restrictive covenants in the Indenture;

a Subsidiary that previously had been a Guarantor but which is subsequently designated an Unrestricted Subsidiary will be released from its Note Guarantee and its obligations under the Indenture and the Registration Rights Agreement; and

the assets, income, cash flows and other financial results of an Unrestricted Subsidiary will not be consolidated with those of the Issuer for purposes of calculating compliance with any of the restrictive covenants contained in the Indenture.

The obligations of each Guarantor under its Note Guarantee will be limited to the maximum amount as will, after giving effect to all other contingent and fixed liabilities of such Guarantor (including, without limitation, any guarantees under the Credit Facilities) and after giving effect to any collections from or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under its Note Guarantee or pursuant to its contribution obligations under the Indenture, result in the obligations of such Guarantor under its Note Guarantee not constituting a fraudulent conveyance or fraudulent transfer under U.S. federal or state law.

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Each Guarantor that makes a payment for distribution under its Note Guarantee is entitled to a contribution from each other Guarantor in a *pro rata* amount based on the percentage that the adjusted net assets of such Guarantor bears to the aggregate adjusted net assets of all Guarantors.

A Guarantor shall be released from its obligations under its Note Guarantee and its obligations under the Indenture and the Registration Rights Agreement:

(1) in the event of a sale or other disposition of all or substantially all of the assets of such Guarantor, by way of merger, consolidation or otherwise, or a sale or other disposition of all of the Equity Interests of such Guarantor then held by the Issuer and the Restricted Subsidiaries; or

(2) if such Guarantor is designated as an Unrestricted Subsidiary or otherwise ceases to be a Restricted Subsidiary, in each case in accordance with the provisions of the Indenture, upon effectiveness of such designation or when it first ceases to be a Restricted Subsidiary, respectively.

Redemption with Proceeds from Equity Offerings

At any time on or prior to July 15, 2007, the Issuer may redeem at its option on any one or more occasions up to 35% of the aggregate principal amount of the New Notes issued under the Indenture with the net cash proceeds of one or more Qualified Equity Offerings at a redemption price equal to 111.75% of the principal amount of the New Notes to be redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption; *provided* that (1) at least 65% of the aggregate principal amount of New Notes issued under the Indenture remains outstanding immediately after the occurrence of such redemption and (2) the redemption occurs within 90 days of the date of the closing of any such Qualified Equity Offering.

Selection and Notice of Redemption

Selection of the New Notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which the New Notes are listed or, if the New Notes are not then listed on a national security exchange, on a *pro rata* basis, by lot or by such method as the Trustee shall deem fair and appropriate; *provided, however*, that no notes of a principal amount of \$1,000 or less shall be redeemed in part. Selection of the New Notes or portions thereof for redemption shall be made by the Trustee only on a *pro rata* basis or on as nearly a *pro rata* basis as is practicable (subject to the procedures of The Depository Trust Company (DTC)), unless that method is otherwise prohibited.

Notice of redemption will be mailed by first-class mail at least 30 but not more than 60 days before the date of redemption to each Holder of New Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a satisfaction and discharge of the Indenture. If any note is to be redeemed in part only, the notice of redemption that relates to that note will state the portion of the principal amount of the note to be redeemed. A new note in a principal amount equal to the unredeemed portion of the original note will be issued in the name of the Holder of New Notes upon cancellation of the original note. On and after the date of redemption, interest will cease to accrue on New Notes or portions thereof called for redemption so long as the Issuer has deposited with the Paying Agent for the New Notes funds in satisfaction of the redemption price (including accrued and unpaid interest on the New Notes to be redeemed) pursuant to the Indenture.

Change of Control

Upon the occurrence of any Change of Control, each Holder will have the right to require that the Issuer offer to purchase that Holder's New Notes for a cash price (the Change of Control Purchase Price) equal to 101% of the principal amount of the New Notes to be purchased, plus accrued and unpaid interest thereon, if any, to the date of purchase.

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Within 30 days following any Change of Control, the Issuer will mail, or caused to be mailed, to the Holders a notice:

- (1) describing the transaction or transactions that constitute the Change of Control;

- (2) offering to purchase, pursuant to the procedures required by the Indenture and described in the notice (a Change of Control Offer), on a date specified in the notice (which shall be a Business Day not earlier than 30 days nor later than 60 days from the date the notice is mailed) and for the Change of Control Purchase Price, all New Notes properly tendered by such Holder pursuant to such Change of Control Offer; and

- (3) describing the procedures that Holders must follow to accept the Change of Control Offer.

The Change of Control Offer is required to remain open for at least 20 Business Days or for such longer period as is required by law.

The Issuer will publicly announce the results of the Change of Control Offer on or as soon as practicable after the date of purchase specified in the notice.

If a Change of Control Offer is made, there can be no assurance that the Issuer will have sufficient assets to satisfy the repayment of outstanding Indebtedness under the Credit Facilities and to pay for all or any of the New Notes that might be delivered by Holders seeking to accept the Change of Control Offer. Upon the occurrence of a Change of Control, we could seek to refinance the Indebtedness under the Credit Facilities or obtain a waiver from the lenders thereunder. We cannot assure you that in the event of a Change of Control the Issuer will be able to obtain the consents necessary to consummate a Change of Control Offer from the lenders under agreements governing outstanding Indebtedness which may prohibit the offer or refinance our Indebtedness on commercially reasonable or other terms acceptable to us, if at all.

The provisions described above that require us to make a Change of Control Offer following a Change of Control will be applicable regardless of whether any other provisions of the Indenture are applicable to the transaction giving rise to the Change of Control. Except as described above with respect to a Change of Control, the Indenture does not contain provisions that permit the Holders of the New Notes to require that the Issuer purchase or redeem the New Notes in the event of a takeover, recapitalization or similar transaction.

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The Issuer's obligation to make a Change of Control Offer will be satisfied if a third party makes the Change of Control Offer in the manner and at the times and otherwise in compliance with the requirements applicable to a Change of Control Offer made by the Issuer and purchases all New Notes properly tendered and not withdrawn under the Change of Control Offer.

With respect to any disposition of assets, the phrase "all or substantially all" as used in the Indenture (including as set forth under the definition of "Change of Control" and "Certain Covenants Limitations on Mergers, Consolidations, Etc." below) varies according to the facts and circumstances of the subject transaction, has no clearly established meaning under New York law (which governs the Indenture) and is subject to judicial interpretation.

Accordingly, in certain circumstances there may be a degree of uncertainty in ascertaining whether a particular transaction would involve a disposition of "all or substantially all" of the assets of the Issuer, and therefore it may be unclear as to whether a Change of Control has occurred and whether the Holders have the right to require the Issuer to purchase New Notes.

The Issuer will comply with applicable tender offer rules, including the requirements of Rule 14e-1 under the Exchange Act and any other applicable laws and regulations in connection with the purchase of New Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the "Change of Control" provisions of the Indenture, the Issuer shall comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the "Change of Control" provisions of the Indenture by virtue of this compliance.

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The Indenture provides that if the Issuer has Excess Cash Flow for any fiscal year, then no later than the date that the Issuer is required to file its Form 10-K under the Exchange Act in respect of such fiscal year (assuming, for this purpose, that the Issuer shall be at all times subject to Section 13(a) or 15(d) of the Exchange Act), the Issuer shall make an offer (the Excess Cash Flow Offer) to purchase New Notes with an amount equal to 50% of the Excess Cash Flow for such fiscal year (such percentage, the Excess Cash Flow Amount) at a purchase price in cash equal to 100% of the principal amount of the New Notes, plus accrued and unpaid interest thereon to the date fixed for the purchase of the New Notes pursuant to such Excess Cash Flow Offer (the Excess Cash Flow Purchase Price), in accordance with the terms of the Indenture. If the Excess Cash Flow Purchase Price for the New Notes validly tendered and not withdrawn by Holders thereof in an Excess Cash Flow Offer exceeds the Excess Cash Flow Amount for such Excess Cash Flow Offer, the New Notes will be purchased in such Excess Cash Flow Offer on a pro rata basis. If the Excess Cash Flow Amount for an Excess Cash Flow Offer exceeds the aggregate Excess Cash Flow Purchase Price of New Notes that are validly tendered and not withdrawn by Holders thereof in such Excess Cash Flow Offer (any such excess from any Excess Cash Flow Offer shall be referred to as an Offer Excess Amount), the Issuer may use any Offer Excess Amount for any purpose not prohibited by the Indenture. The Issuer will not be required to make an Excess Cash Flow Offer if the Excess Cash Flow for any year is less than \$5 million; *provided* that any such lesser amount of Excess Cash Flow (if positive) will be added to the Excess Cash Flow for each subsequent fiscal year until an Excess Cash Flow Offer is made. The Issuer will not be required to make an Excess Cash Flow Offer if there is an event of default under any Credit Facility either before or immediately after giving effect to the Excess Cash Flow Offer.

On any date that an Excess Cash Flow Offer is required to be made, the Issuer will mail notice to each Holder offering to purchase New Notes on the date specified in such notice, which date shall be a Business Day no earlier than 30 days and no later than 60 days from the date such notice is mailed, pursuant to the procedures described in the Indenture. Such notice shall, among other things, state that an Excess Cash Flow Offer is being made and state the determined Excess Cash Flow Purchase Price and the Excess Cash Flow Payment Date.

The Issuer will comply with applicable tender offer rules, including the requirements of Rule 14e-1 under the Exchange Act and any other applicable laws and regulations in connection with the purchase of New Notes pursuant to an Excess Cash Flow Offer. To the extent that the provisions of any securities laws or regulations conflict with the Excess Cash Flow Repurchase Offer provisions of the Indenture, the Issuer shall comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the Excess Cash Flow Repurchase Offer provisions of the Indenture by virtue of this compliance.

Certain Covenants

The Indenture contains, among others, the following covenants:

Limitations on Additional Indebtedness

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur any Indebtedness; *provided* that the Issuer or any Guarantor may incur Subordinated Indebtedness and any Restricted Subsidiary may incur Acquired Indebtedness, in each case, if, after giving effect thereto, the Consolidated Interest Coverage Ratio would be at least 2.0 to 1.0 (the Coverage Ratio Exception).

Notwithstanding the above, each of the following shall be permitted (the Permitted Indebtedness):

(1) Indebtedness of the Issuer and any Restricted Subsidiary under the Credit Facilities in an aggregate amount at any time outstanding not to exceed the greater of (a) \$35.0 million and (b) the sum of (i) 60% of the net book value of accounts receivable of the Issuer and the Restricted Subsidiaries at such time and (ii) \$20.0 million;

(2) the New Notes issued on the Issue Date and the Note Guarantees in respect thereof to be issued pursuant to the Registration Rights Agreement;

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(3) Indebtedness of the Issuer and the Restricted Subsidiaries to the extent outstanding on the Issue Date (other than Indebtedness referred to in clauses (1) and (2) above, and after giving effect to the intended use of proceeds of the New Notes);

(4) Indebtedness under Hedging Obligations for *bona fide* hedging purposes of the Company or any Restricted Subsidiary not for the purpose of speculation; *provided* that if such Hedging Obligations are of the type described in clause (1) of the definition thereof, (a) such Hedging Obligations relate to payment obligations on Indebtedness otherwise permitted to be incurred by this covenant, and (b) the notional principal amount of such Hedging Obligations at the time incurred does not exceed the principal amount of the Indebtedness to which such Hedging Obligations relate;

(5) Indebtedness of the Issuer owed to a Restricted Subsidiary and Indebtedness of any Restricted Subsidiary owed to the Issuer or any other Restricted Subsidiary; *provided, however,* that upon any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or such Indebtedness being owed to any Person other than the Issuer or a Restricted Subsidiary, the Issuer or such Restricted Subsidiary, as applicable, shall be deemed to have incurred Indebtedness not permitted by this clause (5);

(6) Indebtedness in respect of bid, performance or surety bonds issued for the account of the Issuer or any Restricted Subsidiary in the ordinary course of business, including guarantees or obligations of the Issuer or any Restricted Subsidiary with respect to letters of credit supporting such bid, performance or surety obligations (in each case other than for an obligation for money borrowed);

(7) Purchase Money Indebtedness incurred by the Issuer or any Restricted Subsidiary, and Refinancing Indebtedness thereof, in an aggregate amount not to exceed at any time outstanding \$7.5 million;

(8) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; *provided, however,* that such Indebtedness is extinguished within five Business Days of incurrence;

(9) Indebtedness arising in connection with endorsement of instruments for deposit in the ordinary course of business;

(10) Refinancing Indebtedness with respect to Indebtedness incurred pursuant to the Coverage Ratio Exception or clause (2) or (3) above;

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(11) indemnification, adjustment of purchase price, earn-out or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business or assets of the Issuer or any Restricted Subsidiary or Equity Interests of a Restricted Subsidiary, other than guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or Equity Interests for the purpose of financing or in contemplation of any such acquisition; *provided* that (a) any amount of such obligations included on the face of the balance sheet of the Issuer or any Restricted Subsidiary shall not be permitted under this clause (11) and (b) in the case of a disposition, the maximum aggregate liability in respect of all such obligations outstanding under this clause (11) shall at no time exceed the gross proceeds actually received by the Issuer and the Restricted Subsidiaries in connection with such disposition; and

(12) Indebtedness of the Issuer or any Restricted Subsidiary in an aggregate amount not to exceed \$10 million at any time outstanding.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (12) above or is entitled to be incurred pursuant to the Coverage Ratio Exception, the Issuer shall, in its sole discretion, classify such item of Indebtedness and may divide and classify such Indebtedness in more than one of the types of Indebtedness described, except that Indebtedness incurred under the Credit Facilities on the Issue Date shall be deemed to have been incurred under clause (1) above, and may later reclassify any item of Indebtedness described in clauses (1) through (12) above (*provided* that at the time of reclassification it meets the criteria in such category or categories). In addition, for purposes of determining any particular amount of

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Indebtedness under this covenant, guarantees, Liens or letter of credit obligations supporting Indebtedness otherwise included in the determination of such particular amount shall not be included so long as incurred by a Person that could have incurred such Indebtedness.

Limitations on Capital Expenditures

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, make Capital Expenditures in any fiscal year in excess of the sum, without duplication, of

(1) \$65 million, *plus*

(2) if an Excess Cash Flow Offer shall be made in such fiscal year, the amount of Excess Cash Flow from any previous fiscal year that does not comprise the Excess Cash Flow Amount for the Excess Cash Flow Offer for such fiscal year and has not been otherwise applied, *plus*

(3) any Offer Excess Amount for such fiscal year that has not been otherwise applied, together with any Offer Excess Amount for any previous fiscal year that has not been otherwise applied.

Limitations on Layering Indebtedness

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur any Indebtedness that is or purports to be by its terms (or by the terms of any agreement governing such Indebtedness) subordinated to any other Indebtedness of the Issuer or of such Restricted Subsidiary, as the case may be, unless such Indebtedness is also by its terms (or by the terms of any agreement governing such Indebtedness) made expressly subordinate to the New Notes or the Note Guarantee of such Restricted Subsidiary, to the same extent and in the same manner as such Indebtedness is subordinated to such other Indebtedness of the Issuer or such Restricted Subsidiary, as the case may be.

For purposes of the foregoing, no Indebtedness will be deemed to be subordinated in right of payment to any other Indebtedness of the Issuer or any Restricted Subsidiary solely by virtue of being unsecured or secured by a junior priority lien or by virtue of the fact that the holders of such Indebtedness have entered into intercreditor agreements or other arrangements giving one or more of such holders priority over the other holders in the collateral held by them.

Limitations on Restricted Payments

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, make any Restricted Payment if at the time of such Restricted Payment:

(1) a Default shall have occurred and be continuing or shall occur as a consequence thereof;

(2) the Issuer cannot incur \$1.00 of additional Indebtedness pursuant to the Coverage Ratio Exception; or

(3) the amount of such Restricted Payment, when added to the aggregate amount of all other Restricted Payments made after the Issue Date (other than Restricted Payments made pursuant to clause (2), (3), (4), (5) or (6) of the next paragraph), exceeds the sum (the Restricted Payments Basket) of (without duplication):

(a) 50% of Consolidated Net Income for the period (taken as one accounting period) commencing on the first day of the fiscal quarter in which the Issue Date occurs to and including the last day of the first full fiscal quarter ended immediately prior to the date of such calculation for which consolidated financial statements are available (or, if such Consolidated Net Income shall be a deficit, minus 100% of such aggregate deficit), *plus*

(b) 100% of the aggregate net cash proceeds received by the Issuer either (x) as contributions to the common equity of the Issuer after the Issue Date or (y) from the issuance and sale of Qualified

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Equity Interests after the Issue Date, other than (A) any such proceeds which are used to redeem New Notes in accordance with Redemption with Proceeds from Equity Offerings, (B) any such proceeds or assets received from a Subsidiary of the Issuer and (C) any such proceeds which have been received from the exercise of the Stockholder Warrants or the purchase of shares of our common stock by the Standby Purchasers on the Guaranty Performance Date, *plus*

(c) the aggregate amount by which Indebtedness (other than any Subordinated Indebtedness) incurred by the Issuer or any Restricted Subsidiary subsequent to the Issue Date is reduced on the Issuer's balance sheet upon the conversion or exchange (other than by a Subsidiary of the Issuer) into Qualified Equity Interests (less the amount of any cash, or the fair value of assets, distributed by the Issuer or any Restricted Subsidiary upon such conversion or exchange), *plus*

(d) in the case of the disposition or repayment of or return on any Investment that was treated as a Restricted Payment made after the Issue Date, an amount (to the extent not included in the computation of Consolidated Net Income) equal to the lesser of (i) 100% of the aggregate amount received by the Issuer or any Restricted Subsidiary in cash or other property (valued at the Fair Market Value thereof) as the return of capital with respect to such Investment and (ii) the amount of such Investment that was treated as a Restricted Payment, in either case, less the cost of the disposition of such Investment and net of taxes, *plus*

(e) upon a Redesignation of an Unrestricted Subsidiary as a Restricted Subsidiary, the lesser of (i) the Fair Market Value of the Issuer's proportionate interest in such Subsidiary immediately following such Redesignation, and (ii) the aggregate amount of the Issuer's Investments in such Subsidiary to the extent such Investments reduced the Restricted Payments Basket and were not previously repaid or otherwise reduced.

The foregoing provisions will not prohibit:

(1) the payment by the Issuer or any Restricted Subsidiary of any dividend within 60 days after the date of declaration thereof, if on the date of declaration the payment would have complied with the provisions of the Indenture;

(2) the redemption of any Equity Interests of the Issuer or any Restricted Subsidiary in exchange for, or out of the proceeds of the substantially concurrent issuance and sale of, Qualified Equity Interests;

(3) the redemption of Subordinated Indebtedness of the Issuer or any Restricted Subsidiary (a) in exchange for, or out of the proceeds of the substantially concurrent issuance and sale of, Qualified Equity Interests or (b) in exchange for, or out of the proceeds of the

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substantially concurrent incurrence of, Refinancing Indebtedness permitted to be incurred under the Certain Covenants Limitations on Additional Indebtedness covenant and the other terms of the Indenture;

(4) the redemption of Equity Interests of the Issuer held by officers, directors or employees or former officers, directors or employees (or their transferees, estates or beneficiaries under their estates), upon their death, disability, retirement, severance or termination of employment or service; *provided* that the aggregate cash consideration paid for all such redemptions shall not exceed \$1.0 million during any calendar year (with unused amounts in any calendar year being usable, without duplication, in the calendar year following such calendar year (but not in any other calendar year));

(5) repurchases of Equity Interests deemed to occur upon the exercise of stock options or warrants if the Equity Interests represent a portion of the exercise price thereof; or

(6) other Restricted Payments in an aggregate amount not to exceed \$5.0 million;

provided that (a) in the case of any Restricted Payment pursuant to clause (3) or (6) above, no Default shall have occurred and be continuing or occur as a consequence thereof and (b) no issuance and sale of Qualified Equity Interests pursuant to clause (2) or (3) above shall increase the Restricted Payments Basket.

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Limitations on Dividend and Other Restrictions Affecting Restricted Subsidiaries

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

(a) pay dividends or make any other distributions on or in respect of its Equity Interests;

(b) make loans or advances or pay any Indebtedness or other obligation owed to the Issuer or any other Restricted Subsidiary; or

(c) transfer any of its assets to the Issuer or any other Restricted Subsidiary;

except for:

(1) encumbrances or restrictions existing under or by reason of applicable law;

(2) encumbrances or restrictions existing under the Indenture, the New Notes and the Note Guarantees;

(3) non-assignment provisions of any contract or any lease entered into in the ordinary course of business;

(4) encumbrances or restrictions existing under agreements existing on the date of the Indenture (including, without limitation, the Credit Facilities) as in effect on that date;

(5) restrictions relating to any Lien permitted under the Indenture imposed by the holder of such Lien;

(6) restrictions imposed under any agre