



Edgar Filing: SEITEL INC - Form 10-Q

company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

Yes  No

As of August 8, 2016, there were 100 shares of the Company’s common stock outstanding, par value \$.001 per share.

---

Table of Contents

## TABLE OF CONTENTS

	Page
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets (Unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations (Unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Loss (Unaudited)</u>	<u>5</u>
<u>Condensed Consolidated Statement of Stockholder's Equity (Unaudited)</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>	<u>7</u>
<u>Notes to Condensed Consolidated Interim Financial Statements (Unaudited)</u>	<u>8</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>28</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>35</u>
Item 4. <u>Controls and Procedures</u>	<u>35</u>
PART II. <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>36</u>
Item 1A. <u>Risk Factors</u>	<u>36</u>
Item 6. <u>Exhibits</u>	<u>36</u>
<u>SIGNATURES</u>	<u>36</u>

Table of Contents

## PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS  
 SEITEL, INC. AND SUBSIDIARIES  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (In thousands, except share and per share amounts)

	(Unaudited) June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 44,473	\$ 52,675
Receivables		
Trade, net of allowance for doubtful accounts of \$241 and \$267, respectively	21,694	14,830
Notes and other	4,939	1,318
Due from Seitel Holdings, Inc.	1,172	1,156
Seismic data library, net of accumulated amortization of \$1,153,805 and \$1,098,398, respectively	136,798	161,363
Property and equipment, net of accumulated depreciation and amortization of \$16,033 and \$15,147, respectively	2,198	2,603
Prepaid expenses, deferred charges and other	2,167	2,183
Intangible assets, net of accumulated amortization of \$46,258 and \$43,232, respectively	3,507	5,528
Goodwill	184,403	179,792
Deferred income taxes	59	39
<b>TOTAL ASSETS</b>	<b>\$ 401,410</b>	<b>\$ 421,487</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	\$ 21,614	\$ 23,650
Income taxes payable	175	—
Senior Notes	246,262	245,696
Obligations under capital leases	1,664	1,661
Deferred revenue	24,503	25,903
Deferred income taxes	1,563	2,361
<b>TOTAL LIABILITIES</b>	<b>295,781</b>	<b>299,271</b>
<b>COMMITMENTS AND CONTINGENCIES (Note H)</b>		
<b>STOCKHOLDER'S EQUITY</b>		
Common stock, par value \$.001 per share; 100 shares authorized, issued and outstanding	—	—
Additional paid-in capital	400,581	400,505
Retained deficit	(281,865 )	(258,766 )
Accumulated other comprehensive loss	(13,087 )	(19,523 )
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>105,629</b>	<b>122,216</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$ 401,410</b>	<b>\$ 421,487</b>

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

Table of Contents

## SEITEL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2016	2015	2016	2015
REVENUE	\$24,340	\$30,722	\$36,290	\$55,048
EXPENSES:				
Depreciation and amortization	24,805	20,407	39,906	43,487
Cost of sales	11	27	33	127
Selling, general and administrative	4,668	5,543	10,627	11,857
	29,484	25,977	50,566	55,471
INCOME (LOSS) FROM OPERATIONS	(5,144 )	4,745	(14,276 )	(423 )
Interest expense, net	(6,334 )	(6,332 )	(12,690 )	(12,639 )
Foreign currency exchange gains (losses)	(10 )	38	163	(1,421 )
Other income	4	5	10	5
Loss before income taxes	(11,484 )	(1,544 )	(26,793 )	(14,478 )
Provision (benefit) for income taxes	(2,249 )	732	(3,694 )	(4,556 )
NET LOSS	\$(9,235 )	\$(2,276 )	\$(23,099 )	\$(9,922 )

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

Table of Contents

## SEITEL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net loss	\$(9,235)	\$(2,276)	\$(23,099)	\$(9,922 )
Foreign currency translation adjustments	(308 )	1,926	6,436	(9,462 )
Comprehensive loss	\$(9,543)	\$(350 )	\$(16,663)	\$(19,384)

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

Table of Contents

## SEITEL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (Unaudited)

(In thousands, except share amounts)

	Common Stock Shares	Amount	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Loss
Balance, December 31, 2015	100	\$	—\$ 400,505	\$(258,766)	\$ (19,523 )
Amortization of stock-based compensation costs	—	—	76	—	—
Net loss	—	—	—	(23,099 )	—
Foreign currency translation adjustments	—	—	—	—	6,436
Balance, June 30, 2016	100	\$	—\$ 400,581	\$(281,865)	\$ (13,087 )

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

Table of Contents

## SEITEL, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Six Months Ended	
	June 30,	
	2016	2015
Cash flows from operating activities:		
Reconciliation of net loss to net cash provided by operating activities:		
Net loss	\$(23,099)	\$(9,922 )
Depreciation and amortization	39,906	43,487
Deferred income tax benefit	(3,703 )	(4,822 )
Foreign currency exchange losses (gains)	(163 )	1,421
Amortization of deferred financing costs	628	585
Amortization of stock-based compensation	76	197
Decrease in allowance for doubtful accounts	(21 )	—
Gain on sale of property and equipment	(7 )	—
Non-cash revenue	(1,364 )	(5,877 )
Decrease (increase) in receivables	(10,413 )	25,735
Increase in other assets	(10 )	(750 )
Decrease in deferred revenue	(1,160 )	(2,301 )
Increase (decrease) in accounts payable and other liabilities	4,084	(1,723 )
Net cash provided by operating activities	4,754	46,030
Cash flows from investing activities:		
Cash invested in seismic data	(12,869 )	(37,237 )
Cash paid to acquire property and equipment	(145 )	(150 )
Cash from sale of property and equipment	18	—
Advances to Seitel Holdings, Inc.	(16 )	(8 )
Net cash used in investing activities	(13,012 )	(37,395 )
Cash flows from financing activities:		
Principal payments on capital lease obligations	(100 )	(118 )
Net cash used in financing activities	(100 )	(118 )
Effect of exchange rate changes	156	(1,000 )
Net increase (decrease) in cash and cash equivalents	(8,202 )	7,517
Cash and cash equivalents at beginning of period	52,675	59,175
Cash and cash equivalents at end of period	\$44,473	\$66,692
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$12,102	\$12,087
Income taxes, net of refunds received	\$(187 )	\$190
Supplemental schedule of non-cash investing and financing activities:		
Additions to seismic data library	\$1,022	\$7,922

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



Table of Contents

SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

June 30, 2016

NOTE A-BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Seitel, Inc. and its subsidiaries (collectively, the “Company”) have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. In preparing the Company’s financial statements, a number of estimates and assumptions are made by management that affect the accounting for and recognition of assets, liabilities, revenues and expenses. Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for any other quarter of 2016 or for the year ending December 31, 2016. The condensed consolidated balance sheet of the Company as of December 31, 2015 has been derived from the audited balance sheet of the Company as of that date. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

Effective January 1, 2016, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2015-03, “Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.” The new standard changed the presentation of debt issuance costs from an asset to a direct deduction from the related liability. The Company applied the provisions of the new standard retrospectively, which resulted in a decrease of \$4.3 million in prepaid expenses, deferred charges and other assets and Senior Notes liability amounts in the consolidated balance sheet as of December 31, 2015. Other than the reclassification of the December 31, 2015 amount, the adoption of this standard did not have an impact on the Company’s consolidated Statements of Operations or Statements of Cash Flows.

NOTE B-REVENUE RECOGNITION

Revenue from Data Acquisition

The Company generates revenue when it creates a new seismic survey that is initially licensed by one or more of its customers to use the resulting data. The payments for the initial licenses are sometimes referred to as acquisition 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. Contracts which are signed up to the time the Company makes a firm commitment to create the new seismic survey are considered acquisition underwriting. Any subsequent licensing of the data while the survey is in progress or once it is completed is considered a resale license (see “Revenue from Non-Exclusive Data Licenses”).

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

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

- permitting for land access, mineral rights, and regulatory approval;
- surveying;
- drilling for the placement of energy sources;
- recording the data in the field; and

processing the data.

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

8

---

## Table of Contents

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

### Revenue from Non-Exclusive Data Licenses

The Company recognizes a substantial portion of its revenue from licensing of data once it is available for delivery. This revenue is sometimes referred to as resale licensing revenue, late sales or shelf sales.

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

**Specific license contract**—The customer licenses and selects specific data from the data library, including data currently in progress, at the time the contract is entered into and holds this license for a long-term period.

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

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

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

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

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

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

the actual data that is accessible to the customer; and

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

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

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

the sales price is fixed and determinable;

collection is reasonably assured;

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

the data is currently available for delivery; and

the license term has begun.

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

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

Revenue from Non-Monetary Exchanges

In certain cases, the Company will take ownership of a customer's seismic data or revenue interest (collectively referred to as "data") in exchange for a non-exclusive license to selected seismic data from the Company's library and, in some cases, services provided by Seitel Solutions ("Solutions"). In connection with specific data acquisition contracts, the Company may choose to receive both cash and ownership of seismic data from the customer as consideration for the underwriting of new data

Table of Contents

acquisition. In addition, the Company may receive advanced data processing services on selected existing data in exchange for a non-exclusive license to selected data from the Company's library. These exchanges are referred to as non-monetary exchanges. A non-monetary exchange for data always complies with the following criteria:

- the data license delivered is always distinct from the data received;
- the customer forfeits ownership of its data; and
- the Company retains ownership in its data.

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

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Seismic data library additions	\$800	\$7,793	\$1,022	\$7,922
Revenue recognized on specific data licenses or selections of data	1,340	5,696	1,340	5,713
Revenue recognized related to acquisition contracts	23	2	24	164

#### Revenue from Solutions

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

#### NOTE C-SEISMIC DATA LIBRARY

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

#### Costs of Seismic Data Library

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

For data received through a non-monetary exchange, the Company capitalizes an amount equal to the fair value of the data received by the Company or the fair value of the license granted or services provided to the customer, whichever is more readily determinable. See Note B – "Revenue Recognition – Revenue from Non-Monetary Exchanges" for

discussion of the process used to determine fair value.

For newly created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data and reprocessing existing data. Such costs include salaries and benefits of the Company's processing personnel and certain other costs incurred for the benefit of the processing activity. The Company

10

---

Table of Contents

believes that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for internal data processing were \$0.8 million and \$0.9 million for the three months ended June 30, 2016 and 2015, respectively, and \$1.5 million and \$1.7 million for the six months ended June 30, 2016 and 2015, respectively.

**Data Library Amortization**

The Company amortizes each survey in its seismic data library using the greater of the amortization that would result from the application of the income forecast method to each survey's revenue, subject to a minimum amortization rate, or a straight-line basis over four years, commencing at the time such survey is completed and available for licensing to customers on a non-exclusive basis.

The Company applies the income forecast method by forecasting the ultimate revenue expected to be derived from a particular data library component over the estimated useful life of each survey comprising part of such component. This forecast is made by the Company annually and reviewed quarterly. If, during any such review, the Company determines that the ultimate revenue for a library component is expected to be significantly different than the most recent estimate of total revenue for such library component, the Company revises the amortization rate attributable to future revenue from each survey in such component. The Company applies a minimum amortization rate of 70%. In addition, in connection with the forecast reviews and updates, the Company evaluates the recoverability of its seismic data library investment, and if required, records an impairment charge with respect to such investment. See discussion on "Seismic Data Library Impairment" below.

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

The actual aggregate rate of amortization depends on the specific seismic surveys licensed and selected by the Company's customers during the period and the amount of straight-line amortization recorded. The income forecast amortization rates can vary by component and, as of July 1, 2016, is 70% for all components. For those seismic surveys which have been fully amortized, no amortization expense is required on revenue recorded.

**Seismic Data Library Impairment**

The Company evaluates its seismic data library investment by grouping individual surveys into components based on its operations and geological and geographical trends, resulting in the following data library segments for purposes of evaluating impairments: (I) North America 3D onshore comprised of the following components: (a) Texas Gulf Coast, (b) Eastern Texas, (c) West Texas, (d) Panhandle Plays in North Texas/Oklahoma, (e) Southern Louisiana/Mississippi, (f) Northern Louisiana, (g) Rocky Mountains, (h) Utica/Marcellus in Pennsylvania, Ohio and West Virginia, (i) other United States, (j) Montney in British Columbia and Alberta, (k) Horn River in British Columbia, (l) Cardium in Alberta and (m) other Canada; (II) United States 2D; (III) Canada 2D; (IV) Mexico; (V) Gulf of Mexico offshore; and (VI) international data outside North America. The Company believes that these library components constitute the lowest levels of independently identifiable cash flows.

The Company evaluates its seismic data library investment for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company considers the level of sales performance in each component compared to projected sales, as well as industry conditions, among others, to be key factors in determining when its seismic data investment should be evaluated for impairment. In evaluating sales performance of each component, the Company generally considers five consecutive quarters of actual performance below forecasted sales to be an indicator of potential impairment.

The impairment evaluation is based first on a comparison of the undiscounted future cash flows over each component's remaining estimated useful life with the carrying value of each library component. If the undiscounted cash flows are

equal to or greater than the carrying value of such component, no impairment is recorded. If undiscounted cash flows are less than the carrying value of any component, the forecast of future cash flows related to such component is discounted to fair value and compared with such component's carrying amount. The difference between the library component's carrying amount and the discounted future value of the expected revenue stream is recorded as an impairment charge.

For purposes of evaluating potential impairment losses, the Company estimates the future cash flows attributable to a library component by evaluating, among other factors, historical and recent revenue trends, oil and gas prospectivity in particular regions, general economic conditions affecting its customer base and expected changes in technology and other factors that the



Table of Contents

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

The estimation of future cash flows and fair value is highly subjective and inherently imprecise. Estimates can change materially from period to period based on many factors, including those described in the preceding paragraph.

Accordingly, if conditions change in the future, the Company may record impairment losses relative to its seismic data library investment, which could be material to any particular reporting period.

The Company did not have any impairment charges during the six months ended June 30, 2016 or 2015.

## NOTE D-INCOME TAXES

The following is the income tax provision (benefit) recorded for the three and six months ended June 30, 2016 (in thousands):

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Current operations	\$(4,219)	\$(8,943)
Change in unrecognized tax benefits as a result of settlements with taxing authorities and revisions of positions taken during prior periods	(2,065 )	(2,001 )
Change in valuation allowance	4,035	7,250
Income tax benefit	\$(2,249)	\$(3,694)

For the three and six months ended June 30, 2016, the Company provided a full valuation allowance against the federal tax benefit generated from its U.S. operations as it was more likely than not that such benefit would not be realized. For the same periods, the Company recognized the tax benefits generated from its Canadian operations. During the second quarter of 2016, the Company settled its outstanding appeal with Canada Revenue Agency related to certain royalty payments made to the Company's U.S. entities for years 2003 to 2007. In addition, based on this settlement, the Company remeasured its remaining uncertain tax positions. These items together resulted in a tax benefit of \$2.1 million recorded in the three months ended June 30, 2016. The benefit recorded in the six months ended June 30, 2016 was \$2.0 million due to additional interest expense on uncertain tax positions.

The Company believes that it is reasonably possible that a decrease of up to \$1.4 million in unrecognized tax benefits may be necessary within the coming year due to expected settlements with taxing authorities and a lapse in statute of limitations. If the positions are settled as anticipated, the impact to the tax provision would be approximately \$0.5 million, which would affect the effective tax rate.

## NOTE E-DEBT

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

	June 30, 2016	December 31, 2015
9½% Senior Notes	\$250,000	\$ 250,000
Credit Facility	—	—
	250,000	250,000
Less: unamortized debt issuance costs	(3,738 )	(4,304 )
	\$246,262	\$ 245,696

9½% Senior Unsecured Notes: On March 20, 2013, the Company issued, in a private placement, \$250.0 million aggregate principal amount of 9½% senior notes (the "9½% Senior Notes"). As required by their terms, the 9½% Senior Notes were exchanged for senior notes of like amounts and terms in a publicly registered exchange offer in August 2013. The 9½% Senior Notes mature on April 15, 2019. Interest is payable in cash, semi-annually on April 15 and October 15 of each year. The 9½% Senior Notes are unsecured and are jointly and severally guaranteed by substantially all of the Company's significant domestic subsidiaries on a senior basis. The 9½% Senior Notes contain restrictive covenants which limit the Company's ability to, among other things, incur additional indebtedness, incur liens, pay dividends and make other restricted payments, engage in transactions with affiliates, and complete mergers,

acquisitions and sales of assets.

From time to time on or before April 15, 2016, the Company was entitled to redeem up to 35% of the aggregate principal

12

---

Table of Contents

amount of the 9½% Senior Notes with the net proceeds of equity offerings at a redemption price equal to 109.50% of the principal amount, plus accrued and unpaid interest. The Company did not exercise this redemption option before it expired. Upon a change of control (as defined in the indenture), each holder of the 9½% Senior Notes will have the right to require the Company to offer to purchase all of such holder's notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest.

Credit Facility: On May 25, 2011, the Company entered into a credit agreement (the "Credit Facility") with Wells Fargo Capital Finance, LLC and Wells Fargo Capital Finance Corporation Canada. The Credit Facility provided a \$30.0 million revolving credit facility with a Canadian sublimit of \$5.0 million (Canadian), subject to borrowing base limitations based on the Company's seismic data assets and eligible accounts receivable, each as defined in the Credit Facility, calculated on a monthly basis. The Credit Facility expired on its own terms in May 2016 and the Company decided not to extend or renew the Credit Facility. No amounts were outstanding at the maturity date.

**NOTE F-FAIR VALUE MEASUREMENTS**

Authoritative guidance on fair value measurements provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

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

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
At June 30, 2016:				
Cash equivalents	\$44,277	\$44,277	\$	—\$
At December 31, 2015:				
Cash equivalents	\$52,421	\$52,421	\$	—\$

The Company had no transfers of assets between any of the above levels during the six months ended June 30, 2016 or 2015.

Cash equivalents include treasury bills and money market funds that invest in United States government obligations and a Canadian dollar investment account, all with original maturities of three months or less. The original costs of these assets approximate fair value due to their short-term maturities.

**Other Financial Instruments:**

At June 30, 2016, the carrying value of the Company's debt was \$246.3 million, net of \$3.7 million of unamortized debt issuance costs. At December 31, 2015, the carrying value was \$245.7 million, net of \$4.3 million of unamortized debt issuance costs. The estimated fair value of the debt was approximately \$172.5 million at June 30, 2016 and \$152.5 million at December 31, 2015. The fair value of the Company's 9½% Senior Notes is based on quoted market prices (Level 1 inputs).

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

Cash and cash equivalents at June 30, 2016 and December 31, 2015 included \$0.5 million of restricted cash related to collateral on seismic operations bonds. The balance at December 31, 2015 also included \$125,000 (Canadian) of restricted cash posted as security against Company issued credit cards.



Table of Contents

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

	Six Months Ended June 30,	
	2016	2015
Non-monetary exchanges related to resale licensing revenue	\$222	\$7,924
Non-monetary exchanges from underwriting of new data acquisition	408	—
Adjustment to prior year non-monetary exchange from underwriting of new data acquisition	—	(2 )
Non-monetary exchanges related to data processing and reproduction services	392	—
Total non-cash additions to seismic data library	\$1,022	\$7,922

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

	Six Months Ended June 30,	
	2016	2015
Acquisition revenue on underwriting from non-monetary exchange contracts	\$24	\$164
Licensing revenue from specific data licenses and selections on non-monetary exchange contracts	1,340	5,713
Total non-cash revenue	\$1,364	\$5,877

**NOTE H-COMMITMENTS AND CONTINGENCIES**

The Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolution of these matters should not be material to the Company's financial position, results of operations or cash flows. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At June 30, 2016, the Company has recorded the estimated amount of potential exposure it may have with respect to claims. Such amounts are not material to the financial statements.

**NOTE I-RECENT ACCOUNTING PRONOUNCEMENTS**

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The objective of the ASU is to establish a single comprehensive model in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of the guidance is that an entity recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also significantly expands disclosure requirements concerning revenues for most entities. In August 2015, the FASB issued ASU No. 2015-14, "Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date" which deferred the effective date of ASU 2014-09 by one year. In March 2016, the FASB issued ASU No. 2016-08, "Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", amending the principal-versus-agent implementation guidance set forth in ASU 2014-09. Among other things, ASU 2016-08 clarifies that an entity should evaluate whether it is the principal or the agent for each specified good or service promised in a contract with a customer. In April 2016, the FASB issued ASU No. 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing", which amends certain aspects of the guidance related to identifying performance obligations and licensing implementation. In May 2016, the FASB issued ASU No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" to address certain issues in the guidance on assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The Company is required to adopt the guidance set forth by these ASUs on January 1, 2018. Early application is permitted, but not before January 1, 2017. Entities have the option of using either a full retrospective or modified approach to adopt the new guidance. The Company anticipates adopting the new revenue recognition guidance effective January 1, 2018 and is currently evaluating the method of adoption and the effect on its consolidated financial statements and financial statement disclosures.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" with the objective of increasing transparency and comparability among organizations by requiring lessees to recognize assets and liabilities on the balance sheet for the present value of the rights and obligations created by all leases with terms of more than 12 months. The ASU will also require disclosures designed to give financial statement users information on the amount, timing and uncertainty of cash flows arising from leases. The amendments in this ASU are to be applied using a modified retrospective approach and will be effective for

Table of Contents

the Company as of January 1, 2019, but early adoption is permitted. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The amendments in this ASU simplify several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. This guidance is effective on January 1, 2017, with early adoption permitted. The Company is currently evaluating the impact of adopting ASU 2016-09, but does not expect that it will have a material effect on its consolidated financial statements.

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

On March 20, 2013, the Company completed a private placement of 9½% Senior Notes in the aggregate principal amount of \$250.0 million. The Company's payment obligations under the 9½% Senior Notes are jointly and severally guaranteed by substantially all of the Company's significant 100% owned U.S. subsidiaries ("Guarantor Subsidiaries"). All subsidiaries of the Company that do not guarantee the 9½% Senior Notes are referred to as Non-Guarantor Subsidiaries.

The indenture governing the 9½% Senior Notes provides that the guarantees by the Guarantor Subsidiaries will be released in the following customary circumstances: (i) upon a sale or other disposition, whether by merger, consolidation or otherwise, of the equity interests of that guarantor to a person that is not the Company or a restricted subsidiary of the Company; (ii) the guarantor sells all or substantially all of its assets to a person that is not the Company or a restricted subsidiary of the Company; (iii) the guarantor is properly designated as an unrestricted subsidiary or ceases to be a restricted subsidiary; (iv) upon legal defeasance of the 9½% Senior Notes or satisfaction and discharge of the indenture governing the 9½% Senior Notes; (v) the guarantor becomes an immaterial subsidiary or (vi) the guarantor, having also been a guarantor under a credit facility, is released from its guarantee obligations under a credit facility and does not guarantee any indebtedness of the Company or the Guarantor Subsidiaries.

The consolidating condensed financial statements are presented below and should be read in connection with the condensed consolidated financial statements of the Company. Separate financial statements of the Guarantor Subsidiaries are not presented because (i) the Guarantor Subsidiaries are wholly-owned and have fully and unconditionally guaranteed the 9½% Senior Notes on a joint and several basis and (ii) the Company's management has determined such separate financial statements are not material to investors.

The following consolidating condensed financial information presents the consolidating condensed balance sheets as of June 30, 2016 and December 31, 2015, and the consolidating condensed statements of operations, statements of comprehensive income (loss) for the three and six months ended June 30, 2016 and June 30, 2015 and consolidating condensed statements of cash flows for the six months ended June 30, 2016 and June 30, 2015 of (a) the Company; (b) the Guarantor Subsidiaries; (c) the Non-Guarantor Subsidiaries; (d) elimination entries; and (e) the Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis.

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

Table of Contents

## CONSOLIDATING CONDENSED BALANCE SHEET

As of June 30, 2016

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>					
Cash and cash equivalents	\$—	\$42,056	\$2,417	\$—	\$44,473
Receivables					
Trade, net	—	17,583	4,111	—	21,694
Notes and other	—	44	4,895	—	4,939
Due from Seitel Holdings, Inc.	—	1,172	—	—	1,172
Intercompany receivables (payables)	(40,423 )	42,603	(2,180 )	—	—
Investment in subsidiaries	409,408	416,833	629	(826,870 )	—
Net seismic data library	—	107,526	29,322	(50 )	136,798
Net property and equipment	—	936	1,262	—	2,198
Prepaid expenses, deferred charges and other	102	1,622	443	—	2,167
Intangible assets, net	900	2,007	600	—	3,507
Goodwill	—	107,688	76,715	—	184,403
Deferred income taxes	—	59	—	—	59
<b>TOTAL ASSETS</b>	<b>\$369,987</b>	<b>\$740,129</b>	<b>\$118,214</b>	<b>\$(826,920 )</b>	<b>\$401,410</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>					
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$5,009	\$10,251	\$6,354	\$—	\$21,614
Income taxes payable	—	—	175	—	175
Senior Notes	246,262	—	—	—	246,262
Obligations under capital leases	—	—	1,664	—	1,664
Deferred revenue	—	22,456	2,047	—	24,503
Deferred income taxes	—	—	1,563	—	1,563
<b>TOTAL LIABILITIES</b>	<b>251,271</b>	<b>32,707</b>	<b>11,803</b>	<b>—</b>	<b>295,781</b>
<b>STOCKHOLDER'S EQUITY</b>					
Common stock	—	—	—	—	—
Additional paid-in capital	400,581	—	—	—	400,581
Parent investment	—	764,105	156,482	(920,587 )	—
Retained deficit	(281,865 )	(56,683 )	(36,745 )	93,428	(281,865 )
Accumulated other comprehensive loss	—	—	(13,326 )	239	(13,087 )
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>118,716</b>	<b>707,422</b>	<b>106,411</b>	<b>(826,920 )</b>	<b>105,629</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$369,987</b>	<b>\$740,129</b>	<b>\$118,214</b>	<b>\$(826,920 )</b>	<b>\$401,410</b>



Table of Contents

## CONSOLIDATING CONDENSED BALANCE SHEET

As of December 31, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
<b>ASSETS</b>					
Cash and cash equivalents	\$—	\$ 51,192	\$ 1,483	\$—	\$ 52,675
Receivables					
Trade, net	—	12,459	2,371	—	14,830
Notes and other	—	3	1,315	—	1,318
Due from Seitel Holdings, Inc.	—	1,156	—	—	1,156
Intercompany receivables (payables)	(29,144 )	31,537	(2,393 )	—	—
Investment in subsidiaries	420,547	419,499	692	(840,738 )	—
Net seismic data library	—	125,253	36,180	(70 )	161,363
Net property and equipment	—	1,273	1,330	—	2,603
Prepaid expenses, deferred charges and other	139	1,737	307	—	2,183
Intangible assets, net	900	3,613	1,015	—	5,528
Goodwill	—	107,688	72,104	—	179,792
Deferred income taxes	—	39	—	—	39
<b>TOTAL ASSETS</b>	<b>\$392,442</b>	<b>\$ 755,449</b>	<b>\$ 114,404</b>	<b>\$ (840,808 )</b>	<b>\$ 421,487</b>
<b>LIABILITIES AND STOCKHOLDER'S EQUITY</b>					
<b>LIABILITIES</b>					
Accounts payable and accrued liabilities	\$5,007	\$ 13,253	\$ 5,390	\$—	\$ 23,650
Senior Notes	245,696	—	—	—	245,696
Obligations under capital leases	—	—	1,661	—	1,661
Deferred revenue	—	23,525	2,378	—	25,903
Deferred income taxes	—	—	2,361	—	2,361
<b>TOTAL LIABILITIES</b>	<b>250,703</b>	<b>36,778</b>	<b>11,790</b>	<b>—</b>	<b>299,271</b>
<b>STOCKHOLDER'S EQUITY</b>					
Common stock	—	—	—	—	—
Additional paid-in capital	400,505	—	—	—	400,505
Parent investment	—	764,105	156,395	(920,500 )	—
Retained deficit	(258,766 )	(45,434 )	(34,102 )	79,536	(258,766 )
Accumulated other comprehensive loss	—	—	(19,679 )	156	(19,523 )
<b>TOTAL STOCKHOLDER'S EQUITY</b>	<b>141,739</b>	<b>718,671</b>	<b>102,614</b>	<b>(840,808 )</b>	<b>122,216</b>
<b>TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY</b>	<b>\$392,442</b>	<b>\$ 755,449</b>	<b>\$ 114,404</b>	<b>\$ (840,808 )</b>	<b>\$ 421,487</b>

Table of Contents

## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Three Months Ended June 30, 2016

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$—	\$ 18,806	\$ 5,903	\$ (369 )	\$ 24,340
EXPENSES:					
Depreciation and amortization	—	20,256	4,561	(12 )	24,805
Cost of sales	—	62	5	(56 )	11
Selling, general and administrative	360	3,370	1,266	(328 )	4,668
	360	23,688	5,832	(396 )	29,484
INCOME (LOSS) FROM OPERATIONS	(360 )	(4,882 )	71	27	(5,144 )
Interest expense, net	(5,646 )	(599 )	(89 )	—	(6,334 )
Foreign currency exchange losses	—	—	(10 )	—	(10 )
Other income	—	3	1	—	4
Loss before income taxes and equity in income (loss) of subsidiaries	(6,006 )	(5,478 )	(27 )	27	(11,484 )
Provision (benefit) for income taxes	—	16	(2,265 )	—	(2,249 )
Equity in income (loss) of subsidiaries	(3,229 )	2,238	—	991	—
NET INCOME (LOSS)	\$ (9,235 )	\$ (3,256 )	\$ 2,238	\$ 1,018	\$ (9,235 )

Table of Contents

## CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the Three Months Ended June 30, 2016

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Net income (loss)	\$(9,235)	\$ (3,256 )	\$ 2,238	\$ 1,018	\$ (9,235 )
Foreign currency translation adjustments	—	—	(308 )	—	(308 )
Comprehensive income (loss)	\$(9,235)	\$ (3,256 )	\$ 1,930	\$ 1,018	\$ (9,543 )

Table of Contents

## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Three Months Ended June 30, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$—	\$ 21,505	\$ 9,543	\$ (326 )	\$ 30,722
EXPENSES:					
Depreciation and amortization	—	13,307	7,113	(13 )	20,407
Cost of sales	—	9	18	—	27
Selling, general and administrative	271	3,721	1,877	(326 )	5,543
	271	17,037	9,008	(339 )	25,977
INCOME (LOSS) FROM OPERATIONS	(271 )	4,468	535	13	4,745
Interest expense, net	(5,574 )	(700 )	(58 )	—	(6,332 )
Foreign currency exchange gains	—	—	38	—	38
Other income	—	5	—	—	5
Income (loss) before income taxes and equity in income of subsidiaries	(5,845 )	3,773	515	13	(1,544 )
Provision (benefit) for income taxes	(1,471 )	1,841	362	—	732
Equity in income of subsidiaries	2,098	153	—	(2,251 )	—
NET INCOME (LOSS)	\$(2,276)	\$ 2,085	\$ 153	\$ (2,238 )	\$ (2,276 )

Table of Contents

## CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE LOSS

For the Three Months Ended June 30, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Net income (loss)	\$(2,276)	\$ 2,085	\$ 153	\$ (2,238 )	\$ (2,276 )
Foreign currency translation adjustments	—	—	1,928	(2 )	1,926
Comprehensive income (loss)	\$(2,276)	\$ 2,085	\$ 2,081	\$ (2,240 )	\$ (350 )

Table of Contents

## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2016

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total	
REVENUE	\$—	\$ 29,280	\$ 7,722	\$ (712	) \$ 36,290	
EXPENSES:						
Depreciation and amortization	—	29,166	10,765	(25	) 39,906	
Cost of sales	—	77	12	(56	) 33	
Selling, general and administrative	573	7,457	3,253	(656	) 10,627	
	573	36,700	14,030	(737	) 50,566	
LOSS FROM OPERATIONS	(573	) (7,420	) (6,308	) 25	(14,276	)
Interest expense, net	(11,302	) (1,206	) (182	) —	(12,690	)
Foreign currency exchange gains	—	—	163	—	163	
Other income	—	9	1	—	10	
Loss before income taxes and equity in loss of subsidiaries	(11,875	) (8,617	) (6,326	) 25	(26,793	)
Benefit for income taxes	—	(11	) (3,683	) —	(3,694	)
Equity in loss of subsidiaries	(11,224	) (2,643	) —	13,867	—	
NET LOSS	\$(23,099)	\$(11,249	) \$(2,643	) \$ 13,892	\$(23,099	)

Table of Contents

## CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

For the Six Months Ended June 30, 2016

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Net loss	\$(23,099)	\$(11,249 )	\$(2,643 )	\$ 13,892	\$(23,099 )
Foreign currency translation adjustments	—	—	6,353	83	6,436
Comprehensive income (loss)	\$(23,099)	\$(11,249 )	\$ 3,710	\$ 13,975	\$(16,663 )

Table of Contents

## CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Six Months Ended June 30, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$—	\$ 33,268	\$ 22,441	\$ (661 )	\$ 55,048
EXPENSES:					
Depreciation and amortization	—	25,426	18,087	(26 )	43,487
Cost of sales	—	87	40	—	127
Selling, general and administrative	575	8,100	3,843	(661 )	11,857
	575	33,613	21,970	(687 )	55,471
INCOME (LOSS) FROM OPERATIONS	(575 )	(345 )	471	26	(423 )
Interest expense, net	(11,034 )	(1,411 )	(194 )	—	(12,639 )
Foreign currency exchange losses	—	(3 )	(1,418 )	—	(1,421 )
Other income	—	5	—	—	5
Loss before income taxes and equity in loss of subsidiaries	(11,609 )	(1,754 )	(1,141 )	26	(14,478 )
Benefit for income taxes	(3,932 )	(578 )	(46 )	—	(4,556 )
Equity in loss of subsidiaries	(2,245 )	(1,095 )	—	3,340	—
NET LOSS	\$(9,922)	\$(2,271)	\$(1,095)	\$ 3,366	\$(9,922)



Table of Contents

## CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE LOSS

For the Six Months Ended June 30, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Net loss	\$(9,922)	\$ (2,271 )	\$ (1,095 )	\$ 3,366	\$ (9,922 )
Foreign currency translation adjustments	—	—	(9,590 )	128	(9,462 )
Comprehensive loss	\$(9,922)	\$ (2,271 )	\$ (10,685 )	\$ 3,494	\$ (19,384 )

Table of Contents

## CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2016

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$(12,262)	\$ 15,018	\$ 1,998	\$	—\$ 4,754
Cash flows from investing activities:					
Cash invested in seismic data	—	(11,947 )	(922 )	—	(12,869 )
Cash paid to acquire property and equipment	—	(145 )	—	—	(145 )
Cash from sale of property and equipment	—	17	1	—	18
Advances to Seitel Holdings, Inc.	—	(16 )	—	—	(16 )
Net cash used in investing activities	—	(12,091 )	(921 )	—	(13,012 )
Cash flows from financing activities:					
Principal payments on capital lease obligations	—	—	(100 )	—	(100 )
Intercompany transfers	12,262	(12,063 )	(199 )	—	—
Net cash provided by (used in) financing activities	12,262	(12,063 )	(299 )	—	(100 )
Effect of exchange rate changes	—	—	156	—	156
Net increase (decrease) in cash and cash equivalents	—	(9,136 )	934	—	(8,202 )
Cash and cash equivalents at beginning of period	—	51,192	1,483	—	52,675
Cash and cash equivalents at end of period	\$—	\$ 42,056	\$ 2,417	\$	—\$ 44,473

Table of Contents

## CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Six Months Ended June 30, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
Cash flows from operating activities:					
Net cash provided by (used in) operating activities	\$(12,691)	\$ 45,722	\$ 12,999	\$	—\$ 46,030
Cash flows from investing activities:					
Cash invested in seismic data	—	(28,125 )	(9,112 )	—	(37,237 )
Cash paid to acquire property and equipment	—	(140 )	(10 )	—	(150 )
Advances to Seitel Holdings, Inc.	—	(8 )	—	—	(8 )
Net cash used in investing activities	—	(28,273 )	(9,122 )	—	(37,395 )
Cash flows from financing activities:					
Principal payments on capital lease obligations	—	(17 )	(101 )	—	(118 )
Intercompany transfers	12,691	(1,691 )	(11,000 )	—	—
Net cash provided by (used in) financing activities	12,691	(1,708 )	(11,101 )	—	(118 )
Effect of exchange rate changes	—	(3 )	(997 )	—	(1,000 )
Net increase (decrease) in cash and cash equivalents	—	15,738	(8,221 )	—	7,517
Cash and cash equivalents at beginning of period	—	48,525	10,650	—	59,175
Cash and cash equivalents at end of period	\$—	\$ 64,263	\$ 2,429	\$	—\$ 66,692

Table of Contents

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

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (this “Quarterly Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements contained in this report about our future outlook, prospects, strategies and plans, and about industry conditions, demand for seismic services and the future economic life of our seismic data are forward-looking, among others. All statements that express belief, expectation, estimates or intentions, as well as those that are not statements of historical fact, are forward-looking. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “propose,” “plan,” “target,” “foresee,” “should,” “intend,” “may,” “will,” “would,” and similar expressions are intended to identify forward-looking statements. Forward-looking statements represent our present belief and are based on our current expectations and assumptions with respect to future events and their potential effect on us. While we believe our expectations and assumptions are reasonable, they involve risks and uncertainties beyond our control that could cause the actual results or outcome to differ materially from the expected results or outcome reflected in our forward-looking statements. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report may not occur. Such risks and uncertainties include, without limitation, actual customer demand for our seismic data and related services, the timing and extent of changes in commodity prices for natural gas, crude oil and condensate and natural gas liquids, conditions in the capital markets during the periods covered by the forward-looking statements, the effect of economic conditions, our ability to obtain financing on satisfactory terms if internally generated cash flows are insufficient to fund our capital needs, the impact on our financial condition as a result of our debt and our debt service, our ability to obtain and maintain normal terms with our vendors and service providers, our ability to maintain contracts that are critical to our operations, changes in the oil and gas industry or the economy generally and changes in the capital expenditure budgets of our customers, as well as the risk factors identified in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the Securities and Exchange Commission (“SEC”).

The forward-looking statements contained in this report speak only as of the date hereof and readers are cautioned not to place undue reliance on such forward-looking statements. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason. All forward-looking statements attributable to the Company or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to herein, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2015 filed with the SEC and in our future periodic reports filed with the SEC.

Overview

General

We are a leading provider of onshore seismic data to the oil and gas industry in North America. We own an extensive library of onshore and offshore seismic data that we have accumulated since our inception in 1982 that we offer for license to exploration and production (“E&P”) companies. Our primary areas of focus are onshore United States and Canada and, to a lesser extent, offshore U.S. Gulf of Mexico. As a result of the energy reform in Mexico, we began to expand our data library coverage into Mexico in 2015. We believe our data library is one of the largest onshore three-dimensional (“3D”) databases available for licensing in North America and includes leading positions in oil, liquids-rich and natural gas unconventional plays as well as conventional areas.

Our products and services are used by E&P companies in oil and gas exploration and development efforts to increase the probability of drilling success, to better delineate existing oil and gas fields and to augment their reservoir completion and management techniques. In unconventional plays, E&P companies use seismic data as a development tool to better identify efficient drilling plans and maximize production by identifying and understanding a series of critical characteristics of the targeted resource. We generate revenue primarily by licensing data from our data library

and from new data creation projects, which are substantially underwritten or paid for by our clients. By participating in underwritten, non-exclusive surveys or purchasing licenses to existing data, E&P companies can obtain access to surveys at reduced costs as compared to acquiring seismic data on a proprietary basis.

## Table of Contents

E&P companies have further reduced their capital expenditure budgets in 2016 as compared to 2015 in an effort to protect cash flows. As a result, we expect the demand for seismic data to remain weak throughout 2016. We are unable to predict the severity or duration of such weakness in demand. We have implemented a number of measures to deal with the industry environment, including reducing our investment in new data acquisition and reducing our headcount by approximately 40% since the beginning of 2015. We believe we are well positioned to deal with this challenging environment due to our variable operating structure, asset-light business model and our strong cash balance at June 30, 2016.

### Principal Factors Affecting Our Business

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

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

**Merger and Acquisition/Joint Venture Activity:** Merger and acquisition ("M&A") activity continues to occur within our client base. This activity could have a negative impact on seismic companies that operate in markets with a limited number of participating clients. However, we believe that, over time, this activity could have a positive impact on our business, as it should generate re-licensing fees, result in increased vitality in the trading of mineral interests and result in the creation of new independent customers through the rationalization of staff within those companies affected by this activity.

**Exploiting unconventional plays** is a capital intensive endeavor and many technically proficient E&P companies remain subject to capital constraints. These companies find themselves needing to sell their positions to, or create partnerships with, large well-capitalized companies in order to develop their recoverable resource base. These joint venture partners or new owners will often need to purchase licenses to our seismic data for their own use.

**North America Drilling Activity:** The decline in crude oil prices and the reduction in capital spending by E&P companies in 2015 and 2016 has had a direct impact on drilling activity in North America. As of July 22, 2016, the North American land rig count had fallen by approximately 76% since its peak in October 2014. The North American land rig count began to improve in the second quarter of 2016 and, as of July 22, 2016, had increased to 543 rigs, an increase of 29% from a low of 422 rigs in May 2016.

**Availability of Capital for Our Customers:** Some of our customers are independent E&P companies and private prospect-generating companies that rely primarily on private capital markets to fund their exploration, production, development and field management activities. Certain of our customers have credit facilities with borrowing bases that are tied to the net present value of their reserves. Low oil prices have decreased the value of those reserves and, as a result, the borrowing bases under such facilities have been reduced. Reductions in cash flows resulting from lower commodity prices, along with the reduced availability of credit and increased costs of borrowing, has had, and could continue to have, a material impact on the ability of such companies to obtain funding necessary to purchase our seismic data.

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

### Key Performance Measures

Management considers, among others, the following performance and financial measures in evaluating and managing our operating performance and financial condition. Some of these measures are not calculated in accordance with United States generally accepted accounting principles, or GAAP. Generally, a non-GAAP measure is a numerical measure of a company's performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. These non-GAAP measures are intended to supplement the presentation of our financial results that are prepared in accordance with GAAP and should not be considered substitutes for GAAP financial measures.

Table of Contents

Cash Resales: Cash resales represent new contracts for data licenses from our library, including data currently in progress, payable in cash. We believe cash resales are an important measure of our operating performance and are useful in assessing overall industry and client activity. Cash resales are likely to fluctuate quarter to quarter as they do not require the longer planning and lead times necessary for new data creation.

Cash resales for the three and six months ended June 30, 2016 and 2015 were as follows (in thousands):

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Cash resales	\$ 19,135	\$ 15,121	\$ 21,833	\$ 27,307

Cash EBITDA: Cash EBITDA represents cash generated from licensing data from our seismic library net of recurring cash operating expenses. We believe this measure is helpful in determining the level of cash from operations we have available for debt service and funding of capital expenditures (net of the portion funded or underwritten by our customers). Cash EBITDA includes cash resales plus all other cash revenues other than from data acquisitions, less cost of goods sold and cash selling, general and administrative expenses (excluding severance and other non-routine costs).

The following is a quantitative reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, cash flows from operating activities (in thousands):

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2015	
Cash EBITDA	\$15,030	\$9,977	\$13,259	\$16,722
Add (subtract) other components not included in cash EBITDA:				
Cash acquisition underwriting revenue	4,886	10,409	9,837	22,021
Revenue recognition adjustments from contracts payable in cash	(1,404 )	(844 )	2,352	(1,272 )
Severance and other non-routine costs	(160 )	(5 )	(1,106 )	(87 )
Interest expense, net	(6,334 )	(6,332 )	(12,690 )	(12,639 )
Amortization of deferred financing costs	310	296	628	585
Decrease in allowance for doubtful accounts	(21 )	—	(21 )	—
Other cash operating income	3	5	3	5
Current income tax expense	(9 )	(180 )	(9 )	(266 )
Changes in operating working capital	(18,236 )	(12,361)	(7,499 )	20,961
Net cash provided by (used in) operating activities	\$(5,935 )	\$965	\$4,754	\$46,030

Growth of Our Seismic Data Library: We regularly add to our seismic data library through four different methods: (1) recording new data; (2) buying ownership of existing data for cash; (3) obtaining ownership of existing data sets through non-monetary exchanges; and (4) creating new value-added products from existing data within our library. For the period from January 1, 2016 to August 8, 2016, we completed the addition of approximately 1,000 square miles of seismic data to our library. As of August 8, 2016, we had approximately 200 square miles of seismic data in progress.

**Critical Accounting Policies**

We operate in one business segment, which is made up of seismic data acquisition, seismic data licensing, seismic data processing and seismic reproduction services. There have not been any changes in our critical accounting policies since December 31, 2015.





Table of Contents

## Results of Operations

## Revenue

The following table summarizes the components of our revenue for the three and six months ended June 30, 2016 and 2015 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Acquisition underwriting revenue:				
Cash underwriting	\$4,886	\$10,409	\$9,837	\$22,021
Underwriting from non-monetary exchanges	23	2	24	164
Total acquisition underwriting revenue	4,909	10,411	9,861	22,185
Resale licensing revenue:				
Cash resales	19,135	15,121	21,833	27,307
Non-monetary exchanges	—	7,793	222	7,924
Revenue recognition adjustments	(64 )	(2,941 )	3,470	(3,483 )
Total resale licensing revenue	19,071	19,973	25,525	31,748
Total seismic revenue	23,980	30,384	35,386	53,933
Solutions and other	360	338	904	1,115
Total revenue	\$24,340	\$30,722	\$36,290	\$55,048

Total revenue was \$24.3 million in the second quarter of 2016 compared to \$30.7 million in the second quarter of 2015. Acquisition underwriting revenue was \$4.9 million in the second quarter of 2016 compared to \$10.4 million in the second quarter of 2015. The decrease in acquisition underwriting revenue was due to a planned reduction in new data acquisition projects as a result of the current industry environment. The majority of new data acquisition activity in the second quarter of 2016 occurred in the U.S. with a focus in the Permian unconventional play as well as activity in Northern Louisiana. Total resale licensing revenue was \$19.1 million in the second quarter of 2016 compared to \$20.0 million in the second quarter of 2015. Cash resales were \$19.1 million in the second quarter of 2016 compared to cash resales of \$15.1 million in the second quarter of 2015. In the second quarter of 2016, we saw some clients begin to take advantage of improving economics and M&A opportunities which positively impacted our cash resale activity in the quarter. We cannot predict whether this level of activity will continue for the remainder of the year. Non-monetary exchanges fluctuate quarter to quarter depending upon the data available for trade. The decrease of \$7.8 million between the second quarter of 2015 and second quarter of 2016 was primarily due to one large non-cash licensing contract entered into in the second quarter of 2015. Revenue recognition adjustments are non-cash adjustments to revenue and reflect the net amount of (i) revenue deferred as a result of all of the revenue recognition criteria not being met and (ii) the subsequent revenue recognition once the criteria are met. The \$2.9 million change in revenue recognition adjustments between the second quarters of 2015 and 2016 primarily resulted from an increase in revenue recognized on previously deferred direct licensing contracts and an increase in selections from library card contracts, partially offset by higher deferrals associated with new licensing contracts. Solutions and other revenue was \$0.4 million in the second quarter of 2016 compared to \$0.3 million in the second quarter of 2015.

Total revenue for the first six months of 2016 was \$36.3 million compared to \$55.0 million in the first six months of 2015. Acquisition underwriting revenue was \$9.9 million for the first six months of 2016 compared to \$22.2 million in the first six months of 2015. This decrease was primarily attributable to the planned reduction in activity discussed above. Total resale licensing revenue was \$25.5 million in the first six months of 2016 compared to \$31.7 million in the first six months of 2015. Cash resales for the first six months of 2016 were \$21.8 million compared to \$27.3 million in the first six months of 2015 reflecting reduced capital spending by our E&P clients as a result of the continued low commodity price environment. We had one large non-monetary exchange in the first six months of 2015 causing the significant decrease from the first six months of 2015 to the first six months of 2016. The increase of \$7.0 million in revenue recognition adjustments from the first six months of 2015 to the first six months of 2016 was primarily due to an increase in revenue recognized on previously deferred direct licensing contracts and a decrease in

the deferral of new licensing contracts, partially offset by a decrease in selections of data from library card contracts. Solutions and other revenue was \$0.9 million in the first six months of 2016 compared to \$1.1 million in the first six months of 2015. Solutions revenue is primarily driven by the level of seismic revenue; therefore, the decrease between the six-month periods resulted from the lower level of seismic revenue activity.

At June 30, 2016, we had a deferred revenue balance of \$24.5 million, compared to the December 31, 2015 balance of \$25.9 million. The deferred revenue balance related to (i) data licensing contracts on which selection of specific data had not yet

Table of Contents

occurred, (ii) deferred revenue on data acquisition projects and (iii) contracts in which the data products are not yet available or the revenue recognition criteria has not yet been met. The deferred revenue will be recognized when selection of specific data is made by the customer, upon expiration of the data selection period specified in the data licensing contracts, as work progresses on the data acquisition contracts, as the data products become available or as all of the revenue recognition criteria are met.

**Depreciation and Amortization**

The table below sets forth the components of depreciation and amortization and presents seismic data amortization as a percentage of total seismic revenue for the three months and six month ended June 30, 2016 and 2015 (dollars in thousands):

	Three Months Ended		Six Months Ended					
	June 30,		June 30,					
	2016	2015	2016	2015				
Amortization of seismic data:								
Income forecast	\$12,010	50.1%	\$12,059	39.7%	\$16,059	45.4%	\$24,722	45.8%
Straight-line	11,564	48.2%	7,058	23.2%	21,399	60.5%	16,189	30.0%
Total amortization of seismic data	23,574	98.3%	19,117	62.9%	37,458	105.9%	40,911	75.8%
Depreciation of property and equipment	186		234		369		470	
Amortization of acquired intangibles	1,045		1,056		2,079		2,106	
Total	\$24,805		\$20,407		\$39,906		\$43,487	

Total seismic data library amortization amounted to \$23.6 million in the second quarter of 2016 compared to \$19.1 million in the second quarter of 2015 and \$37.5 million for the first half of 2016 compared to \$40.9 million for the first half of 2015. 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 the period as well as the amount of straight-line amortization required under our accounting policy. Income forecast amortization as a percentage of total seismic revenue fluctuated from 2015 to 2016 primarily due to the mix of data being licensed. In all periods, we had resale revenue recognized from data whose costs were fully amortized. In the three and six months ended June 30, 2016, the percentage of resale revenue recognized from data whose costs were fully amortized was 36% and 49%, respectively, as compared to 66% and 58% in the three and six months ended June 30, 2015. Straight-line amortization represents the expense required under our accounting policy to ensure the book value of our data is fully amortized within four years of when the data becomes available for licensing. The amount of straight-line amortization varies between periods due to the distribution of revenue among the various seismic surveys.

**Selling, General and Administrative Expenses**

Selling, general and administrative (“SG&A”) expenses were \$4.7 million in the second quarter of 2016 compared to \$5.5 million in the second quarter of 2015 and \$10.6 million in the first six months of 2016 compared to \$11.9 million in the first six months of 2015. SG&A expenses are made up of the following cash and non-cash expenses (in thousands):

	Three Months		Six Months	
	Ended		Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Cash SG&A expenses	\$4,614	\$5,460	\$10,551	\$11,660
Non-cash compensation expense	54	83	76	197
Total	\$4,668	\$5,543	\$10,627	\$11,857

The decrease in cash SG&A expenses of \$0.8 million from the second quarter of 2015 to the second quarter of 2016 was primarily due to savings of \$0.7 million in salaries and benefits from headcount reductions throughout 2015 and 2016 through attrition and layoffs in October 2015 and February 2016. The decrease in cash SG&A expenses of \$1.1 million from the first six months of 2015 to the first six months of 2016 primarily consisted of a \$2.1 million decrease in routine overhead costs partially offset by an increase in non-routine costs of \$1.0 million. The reduction in routine

overhead costs in the six month periods mainly consisted of savings of \$1.5 million in salaries and benefits from headcount reductions discussed previously. Additionally, variable compensation was lower in the first six months of 2016 by \$0.2 million resulting from lower revenue activity. Non-routine costs were primarily made up of termination benefits of \$0.9 million related to layoffs of personnel in 2016. Currently, we estimate that our 2016 SG&A expenses (excluding severance and other non-routine costs) will be approximately \$3.0 million less than our routine SG&A expenses for the year ended December 31, 2015 due to our overall reduction in headcount, including a further reduction of headcount in our Canadian operations in August 2016, and other planned cost savings.

Table of Contents

## Income Taxes

Income tax expense (benefit) was \$(2.2) million in the second quarter of 2016 compared to \$0.7 million in the second quarter of 2015. The income tax benefit in the second quarter of 2016 was primarily comprised of (i) a \$2.1 million benefit on our uncertain tax positions resulting from settlement of our outstanding appeal with Canada Revenue Agency in the second quarter of 2016 and remeasurement of our remaining uncertain tax positions due to the settlement and (ii) a benefit of \$0.2 million related to our Canadian operations. The federal tax benefit of \$4.0 million resulting from our second quarter 2016 U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized. Income tax expense in the second quarter of 2015 was primarily comprised of (i) U.S. federal tax expense of \$0.3 million, which included approximately \$1.0 million expense resulting from a revision in our estimated annual effective tax rate, (ii) \$0.7 million expense related to our Canadian operations, which included approximately \$0.5 million expense resulting from a rate adjustment recorded due to an increase in Alberta's provincial tax rate enacted in the second quarter of 2015, (iii) a U.S. state tax expense of \$0.1 million and (iv) a benefit of \$0.3 million related to certain research and development tax credits in Canada. Income tax benefit was \$3.7 million and \$4.6 million for the six months ended June 30, 2016 and 2015, respectively. The benefit for the first six months of 2016 was comprised of (i) a \$1.7 million benefit related to our Canadian operations and (ii) a \$2.0 million benefit which primarily related to uncertain tax position settlements and remeasurements recorded in the second quarter of 2016. The federal tax benefit of \$7.1 million resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized. The benefit for the first six months of 2015 was comprised of (i) U.S. federal tax benefit of \$4.5 million on our U.S. operations, (ii) \$0.2 million expense related to our Canadian operations, which included approximately \$0.5 million expense resulting from the rate adjustment mentioned above and (iii) a benefit of \$0.3 million related to certain research and development tax credits in Canada.

## Net Loss

Net loss was \$9.2 million in the second quarter of 2016 compared to \$2.3 million in the second quarter of 2015. The increase in the loss between quarters was primarily due to a reduction in revenues and higher amortization of our seismic data library partially offset by lower SG&A expenses and higher income tax benefit. Net loss was \$23.1 million in the first six months of 2016 compared to \$9.9 million in the first six months of 2015. The \$13.2 million increase in loss between the six month periods was primarily due to a reduction in revenues and lower income tax benefit offset slightly by lower SG&A expenses and lower amortization of our seismic data library.

## Liquidity and Capital Resources

As of June 30, 2016, we had \$44.5 million in consolidated cash, cash equivalents and short-term investments, including \$0.5 million of restricted cash. Our foreign subsidiary regularly holds cash which is used to reinvest in our Canadian operations. If we decide at a later date to repatriate those funds to the U.S., we may be required to pay taxes on certain of those funds based on applicable U.S. tax rates net of foreign taxes. Cash held by our foreign subsidiary fluctuates throughout the year and at June 30, 2016, was \$2.4 million.

Our primary sources of liquidity are cash on hand and cash generated from operations. Historically, our liquidity sources also included available borrowings under our Credit Facility; however, the Credit Facility expired on its own terms in May 2016 and management made a decision not to renew or extend this facility. A summary of our 9½% Senior Notes is included below; for additional information regarding the Senior Notes and the Credit Facility, See "Note E - Debt" in the Notes to Condensed Consolidated Interim Financial Statements herein.

9½% Senior Unsecured Notes: On March 20, 2013, we issued in a private placement \$250.0 million aggregate principal amount of our 9½% Senior Notes. Interest is payable in cash, semi-annually on April 15 and October 15 of each year. The notes mature on April 15, 2019. To the best of our knowledge, we were in compliance with all covenants contained in the indenture governing our 9½% Senior Notes at June 30, 2016.

We may from time to time, as part of various financing and investment strategies, purchase our outstanding indebtedness. These purchases, if any, could have a material positive or negative impact on our liquidity available to repay outstanding debt obligations or on our consolidated results of operations.

Cash Flows from Operating Activities: Cash flows provided by operating activities were \$4.8 million and \$46.0 million for the six months ended June 30, 2016 and 2015, respectively. Operating cash flows for 2016 decreased from

2015 primarily due to the first six months of 2015 including significant collections from cash resale activity in the fourth quarter of 2014 as well as the reduced level of cash resales and lower acquisition underwriting revenue in 2016.

33

---

Table of Contents

**Cash Flows from Investing Activities:** Cash flows used in investing activities were \$13.0 million and \$37.4 million for the six months ended June 30, 2016 and 2015, respectively. Cash expenditures for seismic data were \$12.9 million and \$37.2 million for the six months ended June 30, 2016 and 2015, respectively. The decrease in cash invested in seismic data for 2016 compared to 2015 was primarily due to a planned reduction in our capital expenditures as a result of the current industry environment.

**Cash Flows from Financing Activities:** Cash flows used in financing activities were \$0.1 million for both the six months ended June 30, 2016 and 2015.

**Anticipated Liquidity:** Our ability to cover our operating and capital expenses, make required debt service payments on our 9½% Senior Notes, incur additional indebtedness and comply with our various debt covenants will depend primarily on our ability to generate substantial operating cash flows. Over the next 12 months, we expect to obtain the funds necessary to pay our operating, capital and other expenses, as well as interest on our 9½% Senior Notes and principal and interest on our other indebtedness, from our operating cash flows and cash and cash equivalents on hand. Our ability to satisfy our payment obligations depends substantially on our future operating and financial performance, which necessarily will be affected by, and subject to, industry, market, economic and other factors. To the extent our operating cash flows and cash on hand are not sufficient to cover our anticipated expenditures, we could seek to obtain additional financing. However, there can be no assurance that we would be able to obtain any such financing on satisfactory terms or at all. If necessary, we could choose to further reduce our spending on capital projects and operating expenses to ensure we operate within the cash flow generated from our operations. We will not be able to predict or control many of these factors, such as economic conditions in the markets where we operate and competitive pressures.

**Deferred Taxes**

As of June 30, 2016, we had a net deferred tax liability of \$1.6 million attributable to our Canadian operations. In the United States, we had a federal deferred tax asset of \$94.6 million, which was fully offset by a valuation allowance. The recognition of the U.S. federal deferred tax asset will not occur until such time that it is more likely than not that some portion or all of the federal deferred tax asset will be realized. As of June 30, 2016, it was more likely than not that all of the U.S. federal deferred tax asset will not be realized. Additionally, in the U.S., we had a state deferred tax asset of \$1.4 million of which all but \$59,000 was offset by a valuation allowance. The remaining state deferred tax asset was recognized as it is more likely than not that the state deferred tax asset will be realized.

**Off-Balance Sheet Transactions**

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

**Capital Expenditures**

During the six months ended June 30, 2016, capital expenditures for seismic data and other property and equipment amounted to \$10.8 million. Our capital expenditures for the remainder of 2016 are presently estimated to be \$16.1 million. The first six months of 2016 actual and 2016 estimated remaining capital expenditures are comprised of the following (in thousands):

	Six Months Ended June 30, 2016	Estimate for Remainder of 2016	Total Estimate for 2016
New data acquisition	\$8,957	\$ 11,200	\$ 20,157
Cash purchases and data processing	626	3,400	4,026
Non-monetary exchanges	1,022	1,000	2,022
Property and equipment	145	500	645
Total capital expenditures	10,750	16,100	26,850
Less: Non-monetary exchanges	(1,022 )	(1,000 )	(2,022 )



Edgar Filing: SEITEL INC - Form 10-Q

Changes in working capital	3,286	—	3,286
Cash investment per statement of cash flows	\$13,014	\$15,100	\$28,114

34

---

Table of Contents

Net cash capital expenditures represent total capital expenditures less cash underwriting revenue from our clients and non-cash additions to the seismic data library. We believe this measure is important as it reflects the amount of capital expenditures funded from our operating cash flow. The following table shows how our net cash capital expenditures (a non-GAAP financial measure) are derived from total capital expenditures, the most directly comparable GAAP financial measure (in thousands):

	Six Months Ended June 30, 2016	Estimate for Remainder of 2016	Total Estimate for 2016
Total capital expenditures	\$10,750	\$ 16,100	\$26,850
Less: Non-monetary exchanges	(1,022 )	(1,000 )	(2,022 )
Cash underwriting	(9,837 )	(11,100 )	(20,937 )
Net cash capital expenditures	\$(109 )	\$ 4,000	\$3,891

Net cash capital expenditures for the six months ended June 30, 2016, reflected acquisition underwriting revenue in excess of gross capital costs. Gross capital costs in the first six months of 2016 included a revision to the previous estimated costs related to one of our new data acquisition surveys resulting in a reduction of the gross costs of approximately \$2.5 million.

As of August 8, 2016, we had capital expenditure commitments related to data acquisition projects of approximately \$11.2 million, of which we have obtained approximately \$11.1 million of cash underwriting. We expect all of the work on these projects to occur in 2016. See discussion of our sources of liquidity under “Liquidity and Capital Resources” beginning on page 33 of this Quarterly Report.

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

We are exposed to market risk, including adverse changes in foreign currency exchange rates. Historically, we have not entered into financial instruments to mitigate these risks. We do not enter into derivative or other financial instruments for speculative or trading purposes.

Hypothetical changes in foreign currency exchange rates chosen for the estimated sensitivity analysis are considered to be reasonable near-term changes generally based on consideration of past fluctuations in foreign currency exchange rates. However, since it is not possible to accurately predict future changes in foreign currency exchange rates, these hypothetical changes may not necessarily be an indicator of probable future fluctuations.

The following information about our market-sensitive financial instruments constitutes a “forward-looking statement.”  
Foreign Currency Exchange Rate Risk

Our Canadian subsidiary conducts business in the Canadian dollar and is 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.

Additionally, certain intercompany balances between our U.S. and Canadian subsidiaries are denominated in U.S. dollars. Since this is not the functional currency of our Canadian subsidiary, the changes in these balances are translated in our Consolidated Statements of Operations. As a result, we are exposed to foreign exchange risk as it relates to these intercompany balances. A sensitivity analysis on the intercompany balance as of June 30, 2016 indicates that if the U.S. dollar strengthened or weakened 4% (determined using an average of the last three years’ historical exchange rates) against the Canadian dollar, the effect upon our Consolidated Statements of Operations would be approximately \$0.1 million.

We have not had any significant changes in our market risk exposures during the quarter ended June 30, 2016.

### Item 4. CONTROLS AND PROCEDURES

#### a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and President and our Chief Financial Officer, of the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), pursuant to Exchange Act Rule 13a-15. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as

Table of Contents

appropriate, to allow timely decisions regarding required disclosures and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our Chief Executive Officer and President along with our Chief Financial Officer concluded that the Company's disclosure controls and procedures as of June 30, 2016 were effective at the reasonable assurance level.

b) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

For a discussion of our potential risks and uncertainties, see the information under the heading "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2015, as amended, initially filed with the SEC on February 19, 2016, and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015. You should be aware that these risk factors and other information may not describe every risk we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition and/or results of operations.

Item 6. EXHIBITS

Those exhibits required to be filed by Item 601 of Regulation S-K are listed in the Exhibit Index immediately preceding the exhibits filed herewith and such listing is incorporated herein by reference.

SIGNATURES

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

SEITEL, INC.

Date: August 11, 2016 /s/ Robert D. Monson  
Robert D. Monson  
Chief Executive Officer and President  
(Duly Authorized Officer and Principal Executive Officer)

Date: August 11, 2016 /s/ Marcia H. Kendrick  
Marcia H. Kendrick  
Chief Financial Officer  
(Duly Authorized Officer and Principal Financial Officer)

Table of Contents

EXHIBIT  
INDEX

Exhibit	Title
3.1	Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
3.2	Bylaws of Seitel, Inc. (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
10.1	† Employment Agreement by and between Seitel, Inc. and Kevin P. Callaghan entered into June 9, 2016 (incorporated by reference from Exhibit 10.1 to the Seitel, Inc. current report on Form 8-K, as filed with the SEC on June 13, 2016).
31.1	* Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.
31.2	* Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.
32.1	** Section 1350 Certification of Chief Executive Officer.
32.2	** Section 1350 Certification of Chief Financial Officer.
101.INS	* XBRL Instance Document.
101.SCH	* XBRL Taxonomy Extension Schema Document.
101.CAL	* XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	* XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	* XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	* XBRL Taxonomy Extension Presentation Linkbase Document.

† Management contract, compensation plan or arrangement.

\* Filed herewith.

\*\* Furnished, not filed.