BOISE CASCADE CORP
Form DEF 14A
March 06, 2001

Use these links to rapidly review the document

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant / /
Filed by a Party other than the Registrant / /

Check the appropriate box:

/ /	Preliminary Proxy Statement
/ /	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
/x/	Definitive Proxy Statement
/ /	Definitive Additional Materials
/ /	Soliciting Material Pursuant to §240.14a-12

Boise Cascade Corporation

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

/x/	No fee required		
/ /	Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11		
	(1)	Title of each class of securities to which transaction applies:	
	(2)	Aggregate number of securities to which transaction applies:	
	(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):	
	(4)	Proposed maximum aggregate value of transaction:	
	(5)	Total fee paid:	
/ /	Fee paid previously with preliminary materials.		

/ / Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Annual Meeting of Shareholders

Boise, Idaho
April 19, 2001

Notice and Proxy Statement

NOTICE OF ANNUAL MEETING

Thursday, April 19, 2001
12 noon, Mountain Daylight Time

Powerhouse Event Center
621 South 17th Street
Boise, Idaho

March 6, 2001

Dear Shareholder:

You are cordially invited to attend the 2001 Boise Cascade Corporation annual meeting of shareholders to:

- elect five directors to serve three-year terms;
- approve appointment of Arthur Andersen LLP as independent auditors for 2001;
- approve an amendment to the 1984 Key Executive Stock Option Plan to increase the number of shares of common stock available for issuance;
- approve the Key Executive Performance Unit Plan;
- consider and act upon two shareholder proposals; and
- conduct other business properly brought before the meeting.

Shareholders who owned stock at the close of business on February 26, 2001, can vote at the meeting.

Your vote is important. Whether you plan to attend or not, please sign, date, and return the enclosed proxy card in the envelope provided. If you attend the meeting and prefer to vote at that time, you may do so.

Thank you for your ongoing support of and continued interest in Boise Cascade.

Sincerely yours,

George J. Harad
Chairman and
Chief Executive Officer

Table of Contents

Boise Cascade Corporation

Boise Cascade is a major distributor of office products and building materials and an integrated manufacturer and distributor of paper and wood products. We also own or control 2.3 million acres of timberland in the United States. We use third-party audits and an advisory council of independent experts in our Forest Stewardship Program to ensure the protection of wildlife, plants, soil, and air and water quality. The address of our corporate headquarters is 1111 West Jefferson Street, P.O. Box 50, Boise, Idaho 83728-0001, and our telephone number is (208) 384-6161. You can visit us on the Internet at www.bc.com.

Annual Meeting Information

Proxy Statement

This proxy statement summarizes information we must provide to you under the rules of the Securities and Exchange Commission (SEC). It is designed to assist you in voting your shares. We began mailing these proxy materials on or about March 6, 2001.

Voting

Shareholders can vote by:

- returning a completed proxy card by mail;
- delivering a completed proxy card to the inspector of election prior to the annual meeting; or
- completing a ballot and returning it to the inspector of election during the annual meeting.

If you submit a properly executed proxy card, the individuals named on the card, as your proxies, will vote your shares in the manner you indicate. If you sign and return the card without indicating your instructions, your shares will be voted *for* the:

- election of the five nominees to serve three-year terms on our board of directors;
- appointment of Arthur Andersen LLP as our independent auditors for 2001;
- amendment of the 1984 Key Executive Stock Option Plan; and
- approval of the Key Executive Performance Unit Plan

and *against* the shareholder proposals to:

- declassify our board of directors; and
- separate the position of chairman of the board and chief executive officer.

You may revoke or change your proxy at any time prior to the vote at the annual meeting. To do so:

- deliver a new proxy to the independent tabulator, Corporate Election Services, Inc.;
- give us written notice of your change or revocation; or
- attend the annual meeting and vote in person.

1

Each share of Boise Cascade stock is entitled to one vote. As of February 26, 2001 (the record date for determining shareholders entitled to vote at the meeting), we had the following outstanding voting stock:

Type/Series of Stock	Number of Shares Outstanding
Common stock	57,340,481
Convertible preferred stock, Series D (ESOP)	4,649,507

Boise Cascade Employees Who Are Shareholders

Employees participating in the Employee Stock Ownership Plan (ESOP) fund of our Savings and Supplemental Retirement Plan (SSRP) or in the company's common stock fund in one of our savings plans will receive one proxy for all their shares in these plans. ESOP participants may instruct the plan's trustee how to vote the shares allocated to their accounts, as well as a proportionate amount of unallocated and unvoted shares. Participants in the company's common stock fund may instruct the plans' trustee how to vote the shares allocated to their accounts. If you do not provide instructions, the plans provide that the trustee will vote your shares in the same proportion as shares for which other participants have provided voting instructions.

Confidential Voting Policy

We have a confidential voting policy. Shareholders' votes on our proxy card will not be disclosed to us other than in limited situations. The tabulator will collect, tabulate, and retain all proxy cards and will forward any comments written on the proxy cards to management.

Votes Necessary for Action to be Taken

A quorum is necessary to hold a valid meeting. A quorum will exist if a majority of the shareholders entitled to cast votes at the meeting are present in person or by proxy.

The five nominees who receive the greatest number of votes at the annual meeting will be elected as directors. The appointment of Arthur Andersen LLP as our independent public accountants for 2001, approval of the 1984 Key Executive Stock Option Plan amendment, and approval of the Key Executive Performance Unit Plan require an affirmative vote of the majority of the votes cast on these matters.

The shareholder proposal regarding declassifying our board of directors will be approved if the votes for the proposal exceed the votes against the proposal. Declassifying the board and reinstating an annual election of directors will not automatically occur if this proposal is approved. Eliminating board classification would require a formal amendment to our Certificate of Incorporation. Amendment of the Certificate of Incorporation requires approval by at least 80% of the outstanding shares entitled to vote.

Approval of the shareholder proposal regarding separation of the position of chairman of the board and chief executive officer requires an affirmative vote of the majority of the votes cast on this matter. Separating the position of chairman of the board and chief executive officer will not automatically occur if this proposal is approved. Separation of this position would require a formal amendment to our Bylaws.

Abstentions do not count as votes cast either for or against the directors, the independent public accountants, or any of the proposals. Broker nonvotes do not count as votes cast either for or against any of the proposals.

Proxy Solicitation

We will pay the expenses of soliciting proxies. We retained D. F. King and Company Inc. to assist us in the distribution and solicitation of proxies. We will pay D. F. King a fee of $14,500, plus expenses, for these services. Proxies may also be solicited on our behalf by directors, officers, and other employees in person or by telephone or electronic transmission. We will not, however, specially compensate these persons for doing so.

Items You May Vote On

1. Election of Directors

We have five nominees for election this year. Detailed information on each nominee is provided beginning on page 10. If a nominee is unavailable for election, either we will vote the proxies for another nominee recommended by the Governance Committee and nominated by the board of directors or the board may reduce the number of directors to be elected at the meeting.

Your board unanimously recommends a vote "FOR" each of these nominees.

2. Appointment of Independent Public Accountants

Your board of directors, upon the recommendation of its Audit Committee, has appointed Arthur Andersen LLP to serve as our independent auditors for 2001, subject to shareholder approval. Arthur Andersen has served us in this capacity since 1956. Representatives of Arthur Andersen will be present at the annual meeting to answer questions. They will also have the opportunity to make a statement if they desire to do so.

Audit services provided by Arthur Andersen during 2000 included an audit of the consolidated financial statements included in our Annual Report, audits of employee benefit plan financial statements, and a review of other filings with the SEC and other governmental agencies. For additional information regarding the services Arthur Andersen provided for us during the year, see the "Audit Committee Report" on page 19.

Your board unanimously recommends a vote "FOR" the approval of Arthur Andersen LLP as our independent auditors for 2001.

3. Amendment of 1984 Key Executive Stock Option Plan

We ask you to consider and approve an amendment, adopted by the board of directors in February 2001, to our Key Executive Stock Option Plan ("KESOP"). This amendment, subject to your approval, increases the number of shares available under the plan by 3,400,000 shares.

History and Operation of the KESOP

We use the KESOP to tie a portion of our key employees' total compensation directly to improvement in shareholder value. The KESOP also supports our ability to attract and retain highly qualified managers in key positions.

Under the KESOP, the Executive Compensation Committee of the board of directors may grant options to key employees, including executive officers, to purchase shares of the company's common stock. Nonemployees are not eligible for grants under this plan. In 2000, 25 executive officers and 302 other key employees received option grants under the plan. There are 5,843,306

3

shares of our common stock that remain subject to options from prior grants. We have 476,892 shares currently available for future stock option grants under the plan.

Options under the KESOP must be granted at the fair market value of the company's common stock on the date of grant. The plan does not permit "repricing" of previously granted options. No incentive stock options or tax offset bonuses have been granted under the plan. All previously granted stock appreciation rights were canceled effective May 1, 1991, and no stock appreciation rights have been granted since then.

Employees exercising an option may pay the exercise price in the form of:

- cash;
- Boise Cascade stock that has a fair market value equal to the exercise price;
- proceeds of a loan authorized by the Executive Compensation Committee; or
- any combination of the above methods (including a "cashless" broker-assisted process).

The board of directors may amend the KESOP at any time and may make adjustments to the KESOP and outstanding options, without shareholder approval, to reflect a stock split, stock dividend, recapitalization, merger, consolidation, or other corporate events. Shareholders, however, must approve amendments which:

- change the number of shares subject to this plan;
- change employee eligibility requirements;
- change the method of pricing options on the grant date;
- allow any member of the Executive Compensation Committee to receive an option;
- change the manner of computing the amount to be paid through a stock appreciation right;
- materially increase the cost of the KESOP to the company or the benefits to participants; or
- extend the period for granting options or stock appreciation rights.

Options may not be granted under the KESOP after July 24, 2004. The plan, however, will remain in effect until all stock subject to the plan has been purchased through the exercise of options granted under the plan.

Federal Income Tax Consequences

Under current federal law, an employee granted a stock option under the KESOP has no income tax consequences at that time. If the employee exercises an option, then at that time he or she will realize ordinary income equal to the difference between the value of the common stock and the exercise price. In general, shares acquired by exercising an option have a basis equal to the market value of the stock on the date of exercise. When an employee exercises an option, the company is entitled to a federal income tax deduction in the same amount as the employee's realized income.

Proposed Plan Amendment

This amendment increases the number of shares available under the plan by 3,400,000 shares.

The board believes this amendment is essential to maintain our balanced and competitive total compensation program. Without this amendment, we would not have sufficient shares available under the plan to provide for continued option grants in 2001 and beyond, consistent with the

purpose of the plan and our normal compensation practices. In order to maintain the continuity and consistency of the program, the board recommends amending the plan to authorize additional shares.

This amendment will not be effective unless it is approved by our shareholders.

Additional Information

As of February 26, 2001, the closing price of our common stock on the New York Stock Exchange was $32.11 per share. We cannot determine the number of options under the KESOP that will be granted in 2001 to specific officers, officers as a group, or nonofficer employees as a group. The plan, however, does not permit grants to any one individual, during the life of the plan, of options to purchase more than 15% of the total number of shares authorized for issuance under the plan. You can find more information regarding options granted and exercised under the KESOP on page 26 under "Stock Option Tables." The tables show the stock options granted under the KESOP to our employees and executive officers in 2000. These amounts would have been the same under the proposed amendment. A copy of the plan is on file with the Securities and Exchange Commission.

The Board of Directors Unanimously Recommends a Vote "FOR" the Approval of the Amendment to the Key Executive Stock Option Plan.

4. Approve Key Executive Performance Unit Plan

We ask you to consider and approve the adoption of the Key Executive Performance Unit Plan ("KEPUP") so that Boise Cascade will be entitled to deduct, as compensation expense, amounts paid to executives under this plan.

Description of the Key Executive Performance Unit Plan

The company relies on its long-term incentive compensation program to attract and retain the key executives essential for its continuing success. The program is also designed to incent performance that adds to long-term shareholder value. For a number of years, this long-term incentive compensation has been provided solely through stock options granted under the KESOP.

We periodically review the program to assess whether it is continuing to promote these objectives. As a result of a review during 2000, the Executive Compensation Committee adopted the KEPUP in February 2001. It will *reduce* the amount of long-term compensation provided through the KESOP and *add* an element of long-term compensation which may be earned if the company's financial performance compares favorably to that achieved by our key business competitors. Our key business competitors, for this purpose, include all the companies which comprise the Standard & Poor's paper and forest products company index used for comparison purposes in our performance graph, plus several other companies chosen because they have comparable distribution businesses. The KEPUP is not intended to increase the total long-term incentive compensation paid to executives over time. It is intended to add incentives to achieve financial benchmarks that exceed the financial performance of these competitors and to encourage participants to remain in the company's service.

Implementation of the KEPUP does not require shareholder approval. For us to be able to fully deduct compensation paid to our executive officers under the KEPUP, however, federal tax laws require that our shareholders approve the material features of the plan. A copy of the KEPUP is on file with the Securities and Exchange Commission.

The KEPUP will help reduce the potential dilutive effect, over time, of our stock options and will help our compensation program be more competitive in the employment market. By using improvement in economic value added as the financial measure and comparing the company's financial performance against that of our key competitors, the new plan will continue to link the executive's long-term compensation with improvements in long-term shareholder value.

Under the program, participants will be granted Performance Units. The value of each Performance Unit will be paid as additional cash compensation based on the company's financial performance over rolling three-year periods, measured by "economic value added," and compared to the financial performance of a key competitor group. "Economic value added" is determined by calculating our pretax operating profit and then subtracting a charge for the capital used to generate that profit. Unless the company meets at least minimum relative performance standards, the Performance Units will have no value. Each Performance Unit has a maximum potential value of $2.25. The number of Performance Units granted to each executive officer is based on a target value of $1.00 per unit, which will be earned if the company's three-year improvement in economic value added is better than half the competitor group's economic value added improvement.

Actual payments under the program, if any, will vary from year to year, depending on our financial performance over each three-year period and how it compares with the competitor group's performance.

We cannot determine the number of Performance Units that either will be granted in 2001 or would have been granted in 2000, if the KEPUP had been in effect, to specific officers or officers as a group. Under the plan, however, no executive officer may be granted more than 1,500,000 Performance Units in any one year.

The value, if any, of the Performance Units to be granted in 2001 will be determined by the company's financial performance during the period 2001-2003 relative to the competitor group's financial performance during the same period, measured by improvement in economic value added.

If the Performance Units granted under the plan have value at the end of the three-year period, participants may elect to defer receipt of all or a portion of the amount earned under the terms of our Key Executive Deferred Compensation Plan. These deferred amounts become unfunded general obligations of Boise Cascade. Deferred amounts are either credited with interest at a rate based on Moody's Corporate Bond Index or credited with Stock Units. A copy of the Key Executive Deferred Compensation Plan is also on file with the Securities Exchange Commission. In the event of a change in control, as defined in the plan, a trust will pay the previously deferred awards. For more information on this trust, see "Deferred Compensation and Benefits Trust" on page 32.

The Executive Compensation Committee is responsible for overseeing the administration of the KEPUP. The committee may amend or terminate the plan at any time, but any amendment or termination may not adversely affect a participant's earned or accrued benefits.

Federal Income Tax Consequences

Cash amounts received by executives under the KEPUP are subject to income taxation in the year received. Boise Cascade will be entitled to deduct, as compensation expense, amounts paid to executives under this plan if it is approved by shareholders.

The Board of Directors Unanimously Recommends a Vote "FOR" the Approval of the Key Executive Performance Unit Plan.

---

5. Shareholder Proposal Regarding Classified Board

In October 2000, we received a shareholder proposal to declassify our board of directors.

Proposal

Gail H. Rowe, c/o Morgan Stanley Dean Witter, 1087 West River Street, Suite 300, Boise, Idaho 83707, who owns 200 shares of Boise Cascade common stock, has given us notice that she intends to present the following proposal at the annual meeting.

> RESOLVED, that the stockholders of Boise Cascade Corp. urge the board to take the necessary steps to amend the Company's Bylaws, in compliance with applicable law, to reorganize itself into one class. The reorganization shall be done in a manner that does not affect the unexpired terms of directors previously elected.

Statement by Shareholder in Support of the Proposal

Accountability by the board of directors is of paramount importance to shareholders. This proposal aims to eliminate the Company's so-called "classified board," whereby the directors are divided into three classes, each serving a three-year term. Under the current structure, shareholders can only vote on one-third of the board at any given time. By classifying itself, a board insulates its members from immediate challenge. Insularity may have made sense in the past (e.g., during the takeover frenzy of the 1980s). But now, we believe that insularity works primarily to hamper accountability. A classified board can prevent shareholders from mounting a successful opposition to the entire board, because only one-third of the directors are up for election in any given year. By way of contrast, a declassified board would stand for election in its entirety, every year. Many thoughtful investors believe that corporate governance procedures and practices, and the level of accountability they impose, are closely related to financial performance. It is intuitive that, when directors are accountable for their actions, they perform better. Boise Cascade's financial performance has disappointed. This resolution is intended to improve that performance through this structural reorganization of the board. If the board acts on our proposal, shareholders would have the opportunity to register their views at each annual meeting on performance of the board as a whole, and of each director as an individual.

Statement by Directors in Opposition to the Proposal

In 1985, the company's shareholders voted overwhelmingly to create a classified board. At that time, the board cited two primary benefits of a classified board structure:

> First, a classified board would provide the assurance of continuity, stability, and knowledge in the business affairs and financial strategies of the company, because a majority of the directors would always have prior experience as directors of the company. This continuity of directors would ensure that the board had the necessary background and knowledge to handle these issues and others in a way that would best enhance shareholder value.

> Second, with staggered elections, at least two annual shareholder meetings would be required to change control of the board of directors. This fact would enhance the board's ability to negotiate with a person or entity seeking to gain control of the company. This enhanced negotiating leverage would put the board in a better position to achieve higher shareholder value if a change in control situation were to arise.

In 2000, a shareholder proposal by Dr. John Osborn to declassify the board received a majority of shareholder votes cast for and against the proposal (although less than a majority of all outstanding shares). An 80% affirmative vote of all outstanding shares would be required to amend the Certificate of Incorporation to eliminate the classified board provision.

Since the shareholder vote of 2000, your board has once again considered the classified board structure. After lengthy and thoughtful consideration and discussion, the board has concluded that the classified board structure continues to be in the best interests of the company and its shareholders. The majority vote at the company's last annual meeting was given considerable weight in the board's discussion. Nevertheless, the board observed the current climate of rapid consolidation in our industry and the merger and takeover activity associated with that consolidation. Indeed, substantial consolidation activity has taken place since the 2000 annual meeting.

Given the recent consolidation in the industry, the board noted that the classified structure is perhaps even more important now than it was at the time of its adoption 15 years ago. A classified structure provides the board with the ability to protect shareholder interests in the event of a change of control. This fact is exemplified by the recent proposed acquisition of Willamette by Weyerhaeuser. A November 14, 2000, *Wall Street Journal* article noted that Willamette's classified board structure gave Willamette additional time to negotiate with Weyerhaeuser for a higher price.

The board believes that each of the company's directors is accountable to the company's shareholders, whether he or she is elected for a one-year term or for a three-year term. Board classification does not prevent shareholders from voting for or against directors when they are presented for election. Except for our chairman of the board, all of our directors are independent. Additionally, all of our directors have received high shareholder support: no nominee received less than 96% of the votes cast in the last five years. More frequent votes for each director are unnecessary.

Your board understands that this issue continues to be important to many of the company's shareholders. In recognition of this interest in board structure and other governance issues, the board formed a Governance Committee in December 2000. The committee is made up entirely of independent directors and is charged with, among other things, reviewing corporate governance issues and addressing related shareholder concerns. The Governance Committee will continue to periodically review the classified board to evaluate whether such a structure continues to serve the best interests of the company and its shareholders.

The Board of Directors Unanimously Recommends a Vote "AGAINST"
the Proposal to Declassify Boise Cascade's Board.

6. Shareholder Proposal Regarding Separation of Position of Chairman of the Board and Chief Executive Officer

In November 2000, we received a shareholder proposal to separate the position of chairman of the board and chief executive officer.

Proposal

John Osborn, M.D., 2421 W. Mission Avenue, Spokane, Washington 99201, who owns 105 shares of Boise Cascade common stock, has given us notice that he intends to present the following proposal at the annual meeting.

> RESOLVED: That shareholders urge the board to take the necessary steps to provide that two separate people hold the positions of Chair of the Board and Chief Executive Officer.

Statement by Shareholder in Support of the Proposal

Under the present chair/CEO's tenure, (CEO since 1994, and chairman since 1995), the stock has performed poorly, significantly below the S&P 500, the Dow, and its peers.

Any board must rely on its chair to help it filter information, and to present circumstances fairly so as to make important and sometimes difficult decisions. The present chair is a veteran of BC, well educated (Ph.D, various advanced Harvard business degrees), presumably persuasive in the board room.

Board of directors, led by the chair, oversee management. Some view an insoluble conflict when the director is also the manager being overseen and many institutional investors support independent boards. Funds across the country support a separation of the positions of chair and CEO, from CalPERS to the state Treasurer of Connecticut and others.

I urge to you support this measure.

Statement by Directors in Opposition to the Proposal

Our company has a long tradition of an independent board consisting primarily of outsiders not employed by the company. All members of our board are independent, outside directors, except our chief executive officer, Mr. Harad. The chair of our Committee of Outside Directors, Mr. Shrontz, leads a meeting of this committee, which includes all outside directors, at least twice a year to review the company's strategy and performance outside the presence of Mr. Harad. The committee also has a formal process to review the CEO's performance against agreed-upon goals. In addition, the Audit, Executive Compensation, and Governance Committees are each composed solely of outside directors, providing extensive independent review.

The board of directors is strengthened by the presence of Mr. Harad, who provides strategic, operational, and technical expertise and context for the matters considered by the board. Our board believes it needs to retain the ability to balance independent board structure with the flexibility to determine board leadership. The board believes this proposal is not in the best interest of the company or its shareholders.

***The Board of Directors Unanimously Recommends a Vote "AGAINST"
the Proposal to Separate the Position of
Chairman of the Board and Chief Executive Officer.***

7. Other Matters to be Presented at the Meeting

Management does not know of any other matters to be voted on at the meeting. If, however, other matters are presented for a vote at the meeting, the persons named on the enclosed proxy card will vote your properly executed proxy according to their judgment on those matters.

Board of Directors

Structure

Mr. Robert K. Jaedicke is retiring from the board in April because he reached our mandatory retirement age for directors. We thank Mr. Jaedicke for his many years of thoughtful counsel and loyal service to our board.

Our board of directors, comprised of 14 persons after Mr. Jaedicke's retirement, is divided into three classes for purposes of election. Shareholders elect one class at each annual meeting to serve for a three-year term.

Five directors are nominees for reelection in 2001, each to hold office until the annual meeting of shareholders in 2004.

Our other directors are not up for election this year and will continue in office for the remainder of their terms or until they retire.

Directors Nominated This Year for Terms Expiring in 2004

Philip J. Carroll, 63, joined our board of directors in 1997. Since 1998, Mr. Carroll has been the chairman of the board and chief executive officer of Fluor Corporation, a global engineering, construction, maintenance, and diversified services company. He was the president and chief executive officer of Shell Oil Company from 1993 to 1998. Mr. Carroll is also a director of Vulcan Materials Company.

Claire S. Farley, 43, joined our board of directors in 2000. In 2001, Ms. Farley became the chief executive officer of Trade-Ranger Inc., a global Internet-based marketplace dedicated to buying and selling materials and services used by the energy industry. She was the chief executive officer of Intelligent Diagnostics, Inc., an Internet-based developer of artificial intelligence software used to diagnose medical conditions, from 1999 to 2000. Ms. Farley was a corporate officer for Texaco, Inc., from 1997 to 1999, having been with the company since 1981. In addition, Ms. Farley served as president of its Worldwide Exploration and New Ventures division from 1998 to 1999, as president of its Texaco North America Production from 1997 to 1998, and as chief executive officer of Hydro Texaco in Denmark from 1996 to 1997.

Rakesh Gangwal, 47, joined our board of directors in 1998. Since 1998, Mr. Gangwal has been the president and chief executive officer of US Airways Group, Inc., the parent corporation for US Airways' mainline jet and express divisions as well as several related companies. He also has been the president and chief executive officer of US Airways, Inc., the main operating arm of US Airways Group, since 1998. Mr. Gangwal was the president and chief operating officer of US Airways Group, Inc., and US Airways, Inc., from 1996 to 1998. He was the executive vice president, Planning and Development, of Air France from 1994 to 1996. Mr. Gangwal is also a director of US Airways Group, Inc., and US Airways, Inc.

Gary G. Michael, 60, joined our board of directors in 1997. Since 1991, Mr. Michael has been the chairman of the board and chief executive officer of Albertson's, Inc., a retail food and drug company. He is also a director of Questar Corporation and former chairman of the Federal Reserve Bank of San Francisco.

A. William Reynolds, 67, joined our board of directors in 1989. Since 1995, Mr. Reynolds has been the chief executive of Old Mill Group, a private investment firm. He was the chairman of the board and chief executive officer of GenCorp Inc., a diversified manufacturing and service company, from 1987 to 1995. Mr. Reynolds is also a director of Eaton Corporation and former chairman of the Federal Reserve Bank of Cleveland.

Directors Whose Terms Expire in 2003

Richard R. Goodmanson, 53, joined our board of directors in 2000. Also in 2000, he became an executive vice president and the chief operating officer of DuPont, a broadly diversified company and the largest chemicals producer in the U.S. He joined DuPont in 1999 as an executive vice president and co-chief operating officer. Mr. Goodmanson was the president and chief executive officer of America West Airlines from 1996 to 1999. He served as senior vice president of operations for Frito-Lay, Inc., from 1992 to 1996.

Edward E. Hagenlocker, 61, joined our board of directors in 1998. In 1998, he retired from Ford Motor Company, an automotive manufacturer, after serving as its vice-chairman from 1996 to 1998 and serving as the chairman of Visteon Automotive Systems, an automotive parts business and enterprise of Ford Motor Company, from 1997 to 1998. Mr. Hagenlocker was the president of Ford Automotive Operations from 1994 to 1996. He is also a director of Air Products and Chemicals, Inc., AmeriSource Corporation, and Nanophase Technologies Corporation.

George J. Harad, 56, is the company's chairman and CEO. He became a director and president of the company in 1991. He was elected chief executive officer of Boise Cascade in 1994 and became chairman of the board in 1995. Mr. Harad has been an executive officer of the company since 1982.

Donald S. Macdonald, 69, joined our board for the second time in 1996. He was originally elected in 1978 but resigned in 1986. In 2000, Mr. Macdonald became a senior advisor to UBS Bunting Warburg, a business group of UBS AG, one of the leading global financial services firms. He was of counsel to the Toronto law firm of McCarthy Tétrault from 1991 until his retirement in 2000. In addition, Mr. Macdonald has served as a member of the Canadian House of Commons, chairman of the Royal Commission on the Economic Union and Development Prospects for Canada, and Canadian High Commissioner to Great Britain and Northern Ireland. Mr. Macdonald is a director of Aber Diamond Corporation, Alberta Energy Company Limited, Boltons Capital Corporation, Sun Life Financial Services of Canada Inc., TransCanada Pipelines Limited; and several private companies.

Jane E. Shaw, 62, joined our board of directors in 1994. Since 1998, Dr. Shaw has been the chairman of the board and chief executive officer of AeroGen, Inc., a company specializing in the development of pulmonary drug delivery systems. She founded The Stable Network, a biopharmaceutical consulting firm, in 1995 and has worked as a consultant in the biopharmaceutical industry since that time. Dr. Shaw was the president and chief operating officer of ALZA Corporation, a pharmaceutical company, from 1987 to 1994. She is also a director of Intel Corporation, IntraBiotics Pharmaceuticals, Inc., and McKesson HBOC, Inc.

Directors Whose Terms Expire in 2002

Francesca Ruiz de Luzuriaga, 46, joined our board of directors in 1998. From 1999 to 2000, Ms. Luzuriaga served as the chief operating officer of Mattel Interactive, a business unit of Mattel, Inc., one of the major toy manufacturers in the world. Prior to holding this position, she served Mattel as its executive vice president, worldwide business planning and resources, from 1997 to 1999 and as its chief financial officer from 1995 to 1997. Since leaving Mattel, Ms. Luzuriaga has been working as an independent business development consultant.

Frank A. Shrontz, 69, joined our board of directors in 1989. He is chairman emeritus of The Boeing Company, an aerospace company. Mr. Shrontz was the chairman of the board and chief executive officer of The Boeing Company from 1988 until his retirement in 1997. He is also a director of Chevron Corporation and Minnesota Mining & Manufacturing Co.

Carolyn M. Ticknor, 53, joined our board of directors in 2000. Ms. Ticknor was a vice president of Hewlett-Packard Company, a global provider of computing, printing, and imaging products and services, from 1995 until her retirement in early 2001. She was also the president of HP's Imaging and Printing Systems from 1999 until her retirement, and had served as the president or general manager of LaserJet Solutions since 1994.
Ms. Ticknor is also a director of Stamps.com.

Ward W. Woods, Jr., 58, joined our board of directors in 1992. He was president and chief executive officer of Bessemer Securities, LLC, a privately held investment company, from 1989 until his retirement in 1999. Mr. Woods is a member, through wholly owned corporations, of the general partner of Bessemer Holdings, L.P., and affiliated investment partnerships. He is also a special partner of Bessemer Holdings & Co. Mr. Woods is a director of Bessemer Securities, LLC, Contour Energy Co., and several private companies.

Business Relationships with Directors

Donald S. Macdonald was of counsel to the law firm of McCarthy Tétrault, located in Toronto, Ontario, Canada, until he retired from this position on March 1, 2000. We and some of our affiliates occasionally used McCarthy Tétrault's services in 2000 to advise us on Canadian legal matters. We expect to do the same in 2001. We retain this firm independent of Mr. Macdonald's service on our board of directors, and Mr. Macdonald derived no financial benefit from our use of McCarthy Tétrault.

Meetings and Committees of the Board

During 2000, our board of directors met seven times. In addition to meetings of the full board, directors also attended meetings of board committees. All the directors, except Mr. Carroll, attended at least 75% of the meetings of the board and the committees on which they served. Overall, our directors had an attendance rate of 90%.

The Board of Directors and Committee Membership

Director	Committee of Outside Directors	Executive Committee	Executive Compensation Committee	Audit Committee	Governance Committee
Philip J. Carroll	X		X	X	
Claire S. Farley	X		X	X	
Rakesh Gangwal	X			X	X
Richard R. Goodmanson	X			X	X
Edward E. Hagenlocker	X		X		X
George J. Harad		X(1)			
Robert K. Jaedicke(2)	X			X	
Donald S. Macdonald	X	X		X(1)	
Gary G. Michael	X		X	X	
A. William Reynolds	X	X	X(1)		
Francesca Ruiz de Luzuriaga	X		X	X	
Jane E. Shaw	X	X			X(1)
Frank A. Shrontz	X(1)	X			X
Carolyn M. Ticknor	X		X		X
Ward W. Woods, Jr.	X		X	X	
2000 Meetings	2	1	5	3	3

(1)

Committee chair.

(2) Mr. Jaedicke is retiring from the board in April 2001.

Committee of Outside Directors

The Committee of Outside Directors reviews the performance of the chief executive officer against his individual and corporate goals and strategies. It also reviews the performance and processes of the board of directors and evaluates the communication among the board, management, and shareholders. The committee meets at least twice each year without Mr. Harad (our only management director) present.

Executive Committee

In the absence of a full meeting of the board, the Executive Committee can exercise most of the powers and authority of the full board to manage our business and affairs.

Executive Compensation Committee

The Executive Compensation Committee is comprised entirely of independent directors. It approves all executive officer compensation, including salaries, incentives, stock options, stock grants, and all plans providing benefits to our executive officers. The committee also periodically reviews business and staff organizations to ensure that capable personnel are available to implement the company's business strategies. For additional information regarding the Executive

Compensation Committee and its functions and responsibilities, see the "Executive Compensation Committee Report" on page 21.

Audit Committee

The Audit Committee, in keeping with its charter, is comprised entirely of independent directors. It provides independent, objective oversight of the company's accounting functions and internal controls and ensures the objectivity of our financial statements. For additional information regarding the Audit Committee and its functions and responsibilities, see the "Audit Committee Report" on page 19.

Governance Committee

The Governance Committee (formerly the Nominating Committee), comprised entirely of independent directors, is responsible for reviewing and recommending to the board:

- candidates for nomination;
- director compensation;
- responses to shareholder proposals;
- board and committee structure; and
- corporate governance policies, practices, and procedures.

The board of directors has established qualifications for directors, including the ability to apply good and independent judgment in a business situation and the ability to represent the interests of all our shareholders and constituencies. A director also must be free from any conflicts of interest that would interfere with his or her loyalty to our shareholders and us. In evaluating board candidates, the committee considers these qualifications as well as several other factors, including but not limited to:

- demonstrated maturity and experience;
- geographic balance;
- expertise in business areas relevant to Boise Cascade;
- background as an educator in business, economics, or the sciences; and
- diversity of background, with particular consideration to female and minority candidates.

Director Compensation

Our current board members, except Mr. Harad (a salaried employee of Boise Cascade), receive compensation for board service. In 2000, that compensation included:

Annual Retainer:	$40,000
Annual Committee Chair Stipend:	$6,500
Attendance Fees:	$1,500 for each board meeting $1,000 for each committee meeting Expenses related to attendance
Annual Stock Options:	2,000

Director Stock Option Plan

Through our shareholder-approved Director Stock Option Plan, each nonemployee director receives an annual stock option grant. The options are exercisable one year after the grant date, and they expire the earlier of (a) three years after the director's retirement, resignation, death, or termination as a director or (b) ten years after the grant date. Individuals who are directors on January 1, or who are appointed between January 1 and July 31, receive a grant on July 31. Directors appointed between August 1 and December 31 receive a grant when they join our board.

In 2000, each nonemployee director was granted an option to purchase 2,000 shares of our common stock at a price equal to the stock's closing market price on the grant date.

Director Stock Compensation Plan

Through our shareholder-approved Director Stock Compensation Plan, nonemployee directors can elect to receive part or all of their retainers and meeting fees in stock options rather than cash. Under the plan, the directors must specify by December 31 of each year how much of their retainer and meeting fees for the following year they wish to receive in the form of stock options.

Options are granted to participating directors at the end of each calendar year, equal in value to the cash compensation that the participating directors would otherwise have received. The number of option shares granted to a participating director is based on the amount of compensation he or she elected to have paid in options and the market value of our common stock on July 31 of each year. The options have an exercise price of $2.50 per share, can be exercised six months after the date of grant, and expire three years after the director's resignation, retirement, or termination as director. Ten of the 14 eligible directors participated in this plan in 2000, and nine directors have elected to participate in the plan in 2001.

Director Deferred Compensation Program

Our directors' deferred compensation program allows each nonemployee director to defer all or a portion of his or her cash compensation.

Under this program, nonemployee directors may defer from a minimum of $5,000 to a maximum of 100% of their cash compensation in a calendar year. For deferrals prior to 1988, interest is imputed on the deferred amount at a monthly rate equal to Moody's Composite Average of Yields on Corporate Bonds plus four percentage points. For deferrals from 1988 to the present, interest is imputed at a rate equal to 130% of Moody's Composite Average of Yields on Corporate Bonds. A minimum death benefit is also provided based on pre-1995 deferrals. We have purchased corporate-owned life insurance policies to help offset the expense of this program. In the event of a change in control of the company, as defined in the plans, a trust will pay our obligations under these plans. For more information on this trust, see "Deferred Compensation and Benefits Trust" on page 32.

As of December 31, 2000, nine directors participated in the deferred compensation program.

Stock Ownership

Directors and Executive Officers

The directors, nominees for director, and executive officers furnished the following information to us regarding the shares of our common stock that they beneficially owned on December 31, 2000.

Ownership of Boise Cascade Corporation Stock

Name of Beneficial Owner	**Amount and Nature of Beneficial Ownership**	**Percent of Class**
Directors(1)		
Philip J. Carroll	11,627	*
Claire S. Farley	2,982	*
Rakesh Gangwal	6,388	*
Richard R. Goodmanson	2,471	*
Edward E. Hagenlocker	7,563	*
George J. Harad	993,738(2)	1.57%
Robert K. Jaedicke	9,496	*
Donald S. Macdonald	9,222	*
Gary G. Michael	10,053	*
A. William Reynolds	30,217	*
Francesca Ruiz de Luzuriaga	8,091	*
Jane E. Shaw	14,376	*
Frank A. Shrontz	12,000	*
Carolyn M. Ticknor	2,000	*
Ward W. Woods, Jr.	33,635	*

Other Named Executives(2)		
Christopher C. Milliken	63,571	*
N. David Spence	201,510	*
Theodore Crumley	260,709	*
John W. Holleran	211,104	*
A. Ben Groce	166,445	*
All directors, nominees for director, and executive officers as a group (1)(2)(3)	3,206,804	5.06%

*Less than 1% of class

(1)
Beneficial ownership for the directors includes all shares held of record or in street name, plus options granted but unexercised under the Director Stock Compensation Plan ("DSCP") and Director Stock Option Plan ("DSOP"), described on page 15 under "Director Compensation." The number of shares subject to options under the DSCP included in the beneficial ownership table is as follows: Ms. Farley, 982 shares; Ms. Ruiz de Luzuriaga, 2,091 shares; Ms. Shaw, 5,376 shares; and Messrs. Carroll, 5,127 shares; Gangwal, 1,388 shares; Goodmanson, 471 shares; Hagenlocker, 2,563 shares; Macdonald, 22 shares; Michael, 1,208 shares; Reynolds, 11,217 shares; Woods, 14,635 shares; and directors as a group, 45,080 shares. The number of shares subject to options under the DSOP included in the beneficial ownership table is as follows: Ms. Farley, 2,000 shares; Ms. Ruiz de Luzuriaga, 5,000 shares; Ms. Shaw, 9,000 shares; Ms. Ticknor, 2,000 shares; and Messrs. Carroll, 6,500 shares; Gangwal, 5,000 shares; Goodmanson, 2,000 shares; Hagenlocker, 5,000 shares; Jaedicke, 9,000 shares; Macdonald, 8,000 shares; Michael, 6,500 shares; Reynolds, 9,000 shares; Shrontz, 9,000 shares; Woods, 9,000 shares; and directors as a group, 87,000 shares.

(2)
The beneficial ownership for these executive officers includes all shares held of record or in street name, plus options granted but unexercised under the KESOP, described on page 26 under "Stock Option Tables;" interests in shares of common stock held in the Boise Cascade Common Stock Fund by the trustee of the company's Savings and Supplemental Retirement Plan ("SSRP"), a defined contribution plan qualified under Section 401(a) of the Internal Revenue Code; and deferred stock units held under the Key Executive Performance Plan for Executive Officers and the 1995 Executive Officer Deferred Compensation Plan. The following table indicates the nature of each executive's stock ownership and also shows the number of shares of convertible preferred stock, Series D, held in the Employee Stock Ownership Plan ("ESOP") fund of the SSRP which are not included in the beneficial ownership table.

16

	Common Shares Owned	**Unexercised Option Shares**	**Deferred Stock Units**	**SSRP (Common Stock)**	**ESOP (Preferred Stock)**
George J. Harad	3,511	970,800	11,170	8,257	697
Christopher C. Milliken	4,600	52,033	0	6,938	1,047
N. David Spence	2,038	193,100	6,372	0	0
Theodore Crumley	1,247	235,300	3,958	20,204	663
John W. Holleran	74	202,800	7,078	1,152	1,033
A. Ben Groce	1,147	161,300	3,950	48	283
All executive officers as a group	15,353	2,896,442	56,029	78,858	20,239

(3)
Our executive officers (individually or as a group) do not own more than 1% of the company's Series D Preferred Stock (ESOP).

(24)

Non-cash revenue

(6,525) (14,441)

Loss on sale of subsidiary

19 -

Decrease in receivables

32,868 372

Decrease in other assets

1,222 273

Decrease (increase) in deferred revenue

(22,305) 2,723

Decrease in accounts payable and other liabilities

(16,652) (10,375)

Net cash provided by operating activities

20,015 59,098

Cash flows from investing activities:

Cash invested in seismic data

(50,387) (65,484)

Cash paid to acquire property and equipment and other

(305) (910)

Advances to Seitel Holdings, Inc.

(9) (135)

Cash transferred upon sale of subsidiary

(22) -

Cash from disposal of property and equipment

14 -

Increase in restricted cash

- (2)

Net cash used in investing activities

(50,709) (66,531)

Cash flows from financing activities:

Principal payments on notes payable

(36) (32)

Principal payments on capital lease obligations

(90) (98)

Borrowings on line of credit

196 286

Payments on line of credit

(196) (286)

Payments on notes receivable

- 54

Net cash used in financing activities

(126) (76)

Effect of exchange rate changes

(892) 1,004

Net decrease in cash and equivalents

(31,712) (6,505)

Cash and cash equivalents at beginning of period

42,678 43,333

Cash and cash equivalents at end of period

$10,966 $36,828

Supplemental disclosure of cash flow information:

Cash paid during the period for:

Interest

$39,363 $39,615

Income taxes

$262 $44

Supplemental schedule of non-cash investing activities:

Additions to seismic data library	$1,443	$17,566

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)

September 30, 2009

NOTE A-ORGANIZATION

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

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

In addition, on February 14, 2007, the Company issued $400.0 million aggregate principal amount of 9.75% senior notes due 2014 (the 9.75% Senior Notes) pursuant to an indenture by and among the Company, certain subsidiary guarantors and Bank of America, N.A. (as successor by merger to LaSalle Bank National Association), as trustee. Effective September 21, 2009, Deutsche Bank Trust Company Americas became trustee.

The Company also entered into an Amended and Restated Loan and Security Agreement with Wells Fargo Foothill, Inc. which provided for the ability to borrow up to $25.0 million, subject to certain borrowing base limitations. The Company terminated the facility effective August 28, 2009 in advance of its stated maturity.

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

NOTE B-BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of the Company and its subsidiaries have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the amounts in the prior year s financial statements to conform to the current year s presentation. In preparing the Company s financial statements, a number of estimates and assumptions are made by management that affect the accounting for and recognition of assets, liabilities, revenues and expenses. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. The condensed consolidated balance sheet of the Company as of December 31, 2008, has been derived from the audited balance sheet of the Company as of that date. These financial statements should be read in conjunction with the financial statements and notes thereto contained in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2008. The Company has evaluated subsequent events for potential recognition and/or disclosure through November 16, 2009, the date the condensed consolidated interim financial statements were issued.

Table of Contents

NOTE C-LIQUIDITY

Effective August 28, 2009, the Company terminated its loan agreement with Wells Fargo Foothill, Inc. prior to its stated maturity. Under this agreement, the Company had the ability to borrow up to $25.0 million. As a result of the termination of this loan agreement, the Company no longer has a credit facility available to it in the U.S. As of September 30, 2009, the Company had $11.0 million of cash and cash equivalents and expects to satisfy its operating and capital needs for the remainder of 2009 and for 2010 from its available cash and cash flows from operating activities. The Company has semi-annual interest payments on its 9.75% Senior Notes due on February 15, 2010 and August 15, 2010 and on its 11.75% Senior Notes due on January 15, 2010 and July 15, 2010. Depending on demand for the Company s services and cash flows from operations, the Company may need to obtain additional capital to meet its debt service obligations and operational needs. The Company is exploring obtaining financing with acceptable terms that would be available to it in the future. If the Company cannot raise required funds on acceptable terms, the Company may not be able to, among other things, (i) maintain our general and administrative expenses at current levels; (ii) meet our debt service obligations; or (iii) respond to competitive pressures or unanticipated capital requirements.

NOTE D-REVENUE RECOGNITION

Revenue from Data Acquisition

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

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

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

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

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

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

Table of Contents

Revenue from Non-Exclusive Data Licenses

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

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

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

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

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

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

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

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

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

the actual data that is accessible to the customer; and

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

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

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

the sales price is fixed and determinable;

collection is reasonably assured;

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

the license term has begun.

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

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

Revenue from Non-Monetary Exchanges

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

Table of Contents

a non-exclusive license to selected data from the Company s library. These exchanges are referred to as non-monetary exchanges. A non-monetary exchange for data always complies with the following criteria:

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Seismic data library additions	$ 834	$ 3,825	$ 1,443	17,566
Revenue recognized on specific data licenses and selections of data	1,435	2,029	3,687	4,766
Revenue recognized related to acquisition contracts	365	4,053	2,838	9,675

Revenue from Seitel Solutions

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

NOTE E-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.

Table of Contents

Costs of Seismic Data Library

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

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

For internally created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data. Such costs include salaries and benefits of the Company s processing personnel and certain other costs incurred for the benefit of the processing activity. The Company believes that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for internal data processing were $281,000 and $484,000 for the three months ended September 30, 2009 and 2008, respectively, and $1,156,000 and $1,425,000 for the nine months ended September 30, 2009 and 2008, respectively.

Data Library Amortization

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

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

The actual aggregate rate of amortization depends on the specific seismic surveys licensed and selected by the Company s customers during the period and the amount of straight-line amortization recorded. The income forecast amortization rates can vary by component and, as of October 1, 2009, range from 70% to 74% with a weighted average of 70%. For those seismic surveys which have been fully amortized, no amortization expense is required on revenue recorded.

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

Seismic Data Library Impairment

The Company evaluates its seismic data library investment by grouping individual surveys into components based on its operations and geological and geographical trends, resulting in the following data library segments for

Table of Contents

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

As events or conditions require, the Company evaluates the recoverability of its seismic data library investment. 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 related to such component over its remaining estimated useful life with the carrying value of such library component. If the undiscounted cash flows are equal to or greater than the carrying value of such component, no impairment is recorded. If undiscounted cash flows are less than the carrying value of any component, the forecast of future cash flows related to such component is discounted to fair value and compared with such component s carrying amount. The difference between the library component s carrying amount and the discounted future value of the expected revenue stream is recorded as an impairment charge.

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

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

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

NOTE F-DEBT

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

	September 30, 2009	December 31, 2008
9.75% Senior Notes	$ 400,000	$ 400,000
11.75% Senior Notes	2,000	2,000
Revolving Credit Facility	-	-
Subsidiary revolving line of credit	-	-
Note payable to former executive	220	256
	402,220	402,256
Plus: Premium on debt	178	247
	$ 402,398	$ 402,503

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

Table of Contents

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

11.75% Senior Notes: On July 2, 2004, the Company issued in a private placement $193.0 million aggregate principal amount of 11.75% Senior Notes. As required by their terms, the 11.75% Senior Notes were exchanged for senior notes of like amounts and terms in a registered exchange offer in February 2005. In connection with an excess cash flow offer in March 2005, $4.0 million aggregate principal amount of these notes was tendered and accepted. In connection with the Merger and related transactions, $187.0 million aggregate principal amount of these notes was tendered and accepted on February 14, 2007. The fair value of these notes was higher than the face value on the date of the Merger; consequently, a premium has been reflected in the financial statements related to these notes. Interest on the remaining notes is payable semi-annually in arrears on January 15 and July 15 of each year. The remaining $2.0 million of notes mature on July 15, 2011. The 11.75% Senior Notes are unsecured and are guaranteed by substantially all of the Company s U.S. subsidiaries on a senior basis.

As a result of the tender and consent offer, effective February 14, 2007, the 11.75% Senior Notes no longer contain any restrictive covenants, other than the requirement to make excess cash flow offers. Subject to certain conditions, if at the end of each fiscal year the Company has excess cash flow (as defined in the indenture governing the 11.75% Senior Notes) in excess of $5.0 million, the Company is required to use 50% of the excess cash flow to fund an offer to repurchase the 11.75% Senior Notes on a pro rata basis at 100% of its principal amount, plus accrued and unpaid interest. If the Company has less than $5.0 million in excess cash flow at the end of any fiscal year, such excess cash flow will be carried forward to succeeding years, and such repurchase offer is required to be made in the first year in which the cumulative excess cash flow for all years in which there has not been an offer is at least $5.0 million. Such repurchase offer is required only if there is no event of default under the Company s revolving credit facilities prior to and after giving effect to the repurchase payment. The Company was not required to make an excess cash flow offer for the year ended December 31, 2008. Upon a change of control (as defined in the indenture governing the 11.75% Senior Notes), each holder of the 11.75% Senior Notes will have the right to require the Company to offer to purchase all of such holder s notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest.

Revolving Credit Facility: On February 14, 2007, the Company entered into an amended and restated U.S. revolving credit facility with Wells Fargo Foothill, Inc., as lender, which provided for the ability to borrow up to $25.0 million, subject to borrowing base limitations. The Company terminated the facility effective August 28, 2009 in advance of its stated maturity. There were no amounts outstanding under the credit facility at the date of termination. In connection with the termination, the Company recorded approximately $128,000 of deferred financing costs in interest expense.

Subsidiary Revolving Line of Credit: Our wholly owned subsidiary, Olympic Seismic Ltd. (Olympic), has a revolving credit facility, which allows it to borrow up to $5.0 million (Canadian) subject to an availability formula by way of prime-based loans or letters of credit. The interest rate applicable to borrowings is the bank s prime rate plus 0.75% per annum. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The facility is secured by the assets of Olympic, but is not guaranteed by the Company or any of its other U.S. subsidiaries. Available borrowings under the facility are equivalent to a maximum of $5.0 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the credit agreement) of Olympic, less prior-ranking claims, if any, relating to inventory or accounts. The facility is subject to repayment upon demand and is available from time to time at the bank s sole discretion.

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

NOTE G-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).

Table of Contents

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

		Fair Value Measurements Using		
	Total	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Cash equivalents	$ 10,833	$ 10,833	$ -	$ -
Investment in equity securities	2,030	2,030	-	-
Investment in stock options related to equity securities	163	-	163	-

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

Investment in marketable securities are available-for-sale equity securities with total unrealized gains of $2.2 million reflected in accumulated other comprehensive income (loss) at September 30, 2009.

Other Financial Instruments:

Debt Based upon the rates available to the Company, the fair value of the 9.75% Senior Notes, the 11.75% Senior Notes and the note payable to a former executive approximated $274.9 million as of September 30, 2009, compared to the book value of $402.4 million. The quoted market price of the 9.75% Senior Notes was $273.0 million at September 30, 2009.

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

NOTE H-STATEMENT OF CASH FLOW INFORMATION

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

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

	Nine Months Ended September 30,	
	2009	2008
Non-monetary exchanges related to resale licensing revenue	$ 1,010	$ 8,682
Non-monetary exchanges from underwriting of new data acquisition	(1,291)	9,681
Other non-monetary exchanges	-	24
Completion of data in progress from prior non-monetary exchanges	1,724	1,779
Less: Non-monetary exchanges for data in progress	-	(2,600)
Total non-cash additions to seismic data library	$ 1,443	$ 17,566

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

Table of Contents

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

	Nine Months Ended September 30, 2009	2008
Acquisition revenue on underwriting from non-monetary exchange contracts	$ 2,838	$ 9,675
Licensing revenue from specific data licenses and selections on non-monetary exchange contracts	3,687	4,766
Total non-cash revenue	$ 6,525	14,441

NOTE I-COMMITMENTS AND CONTINGENCIES

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

NOTE J-RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued guidance which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This guidance is contained in Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures. In February 2008, the FASB deferred the effective date for all non-financial assets and non-financial liabilities, except those that are measured at fair value on a recurring basis. Effective January 1, 2009, the Company adopted ASC Topic 820 with respect to non-financial assets and liabilities measured on a non-recurring basis. The application of the fair value framework to these fair value measurements did not have a material impact on the Company s consolidated financial statements. See Note G for disclosures about the Company s fair value measurements.

In April 2009, the FASB issued additional guidance related to ASC Topic 820 for estimating fair value, increasing the frequency of fair value disclosures and providing for additional guidance in accounting for and presenting impairment losses on securities. The adoption of this guidance did not have a material impact on the Company s consolidated financial statements. See Note G for expanded disclosures about the Company s investments and the fair value measurements used for the Company s financial instruments.

In May 2009, the FASB issued ASC Topic 855, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of Topic 855 did not have a material impact on the Company s consolidated financial statements.

In June 2009, the FASB issued ASC Topic 105, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles. This topic instituted a major change in the way accounting standards are organized. The accounting standards Codification became the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles (GAAP). As of September 30, 2009 only one level of authoritative GAAP exists, other than guidance issued by the Securities and Exchange Commission. All other literature is non-authoritative. Topic 105 is effective for interim or annual financial periods ending after September 15, 2009. The Company adopted this statement in the third quarter of 2009 and updated all existing GAAP references to the new codification.

Table of Contents

Accounting Pronouncements Issued But Not Yet Adopted

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009 05, Fair Value Measurements and Disclosures (Topic 820) Measuring Liabilities at Fair Value to provide guidance when estimating the fair value of a liability. When a quoted price in an active market for the identical liability is not available, fair value should be measured using (a) the quoted price of an identical liability when traded as an asset; (b) quoted prices for similar liabilities or similar liabilities when traded as assets; or (c) another valuation technique consistent with the principles of ASC Topic 820 such as an income approach or a market approach. If a restriction exists that prevents the transfer of the liability, a separate adjustment related to the restriction is not required when estimating fair value. The ASU will be effective October 1, 2009 for the Company and is not expected to have a material impact on its consolidated financial statements.

In October 2009, the FASB issued ASU 2009-13 on Topic 605, Revenue Recognition Multiple Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force. The ASU provides guidance on accounting for products or services (deliverables) separately rather than as a combined unit utilizing a selling price hierarchy to determine the selling price of a deliverable. The selling price is based on vendor-specific evidence, third-party evidence or estimated selling price. The Company will be required to apply the standard prospectively for future revenue arrangements entered into or materially modified on or after January 1, 2011; however, earlier application is permitted. The Company does not currently expect the adoption of this new accounting update to have a material impact on its consolidated financial statements.

NOTE K-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

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

The consolidating condensed financial statements are presented below and should be read in connection with the Condensed Consolidated Interim Financial Statements of the Company as of September 30, 2009. Separate financial statements of the Guarantor Subsidiaries are not presented because (i) the Guarantor Subsidiaries are wholly-owned and have fully and unconditionally guaranteed the 9.75% Senior Notes on a joint and several basis, and (ii) the Company s management has determined such separate financial statements are not material to investors.

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

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

Table of Contents

CONSOLIDATING CONDENSED BALANCE SHEET

As of September 30, 2009

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
ASSETS					
Cash and cash equivalents	$ -	$ 10,384	$ 582	$ -	$ 10,966
Receivables					
Trade, net	-	19,874	8,411	-	28,285
Notes and other, net	-	397	36	-	433
Intercompany receivables (payables)	141,596	(141,214)	(382)	-	-
Investment in subsidiaries	300,944	438,196	717	(739,857)	-
Net seismic data library	-	169,709	59,518	-	229,227
Net property and equipment	-	2,348	4,886	-	7,234
Investment in marketable securities	-	2,193	-	-	2,193
Prepaid expenses, deferred charges and other	8,968	5,543	512	-	15,023
Intangible assets, net	900	23,690	14,971	-	39,561
Goodwill	-	107,688	93,291	-	200,979
Deferred income taxes	-	210	-	-	210
TOTAL ASSETS	$ 452,408	$ 639,018	$ 182,542	$ (739,857)	$ 534,111
LIABILITIES AND STOCKHOLDER S EQUITY					
Accounts payable and accrued liabilities	$ 5,178	$ 5,727	$ 11,474	$ -	$ 22,379
Income taxes payable	112	24	-	-	136
Senior Notes	402,178	-	-	-	402,178
Notes payable	220	-	-	-	220
Obligations under capital leases	-	-	3,324	-	3,324
Deferred revenue	-	31,584	8,705	-	40,289
Deferred income taxes	-	-	5,485	-	5,485
TOTAL LIABILITIES	407,688	37,335	28,988	-	474,011
STOCKHOLDER S EQUITY					
Common stock	-	-	-	-	-
Additional paid-in capital	274,407	-	-	-	274,407
Parent investment	-	764,755	172,069	(936,824)	-
Retained deficit	(229,687)	(165,265)	(31,702)	196,967	(229,687)
Accumulated other comprehensive income	-	2,193	13,187	-	15,380
TOTAL STOCKHOLDER S EQUITY	44,720	601,683	153,554	(739,857)	60,100
TOTAL LIABILITIES AND STOCKHOLDER S EQUITY	$ 452,408	$ 639,018	$ 182,542	$ (739,857)	$ 534,111

Table of Contents

CONSOLIDATING CONDENSED BALANCE SHEET

As of December 31, 2008

(In thousands)

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

Table of Contents

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Nine Months Ended September 30, 2009

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	$ -	$ 56,783	$ 21,938	$ (2,049)	$ 76,672
EXPENSES:					
Depreciation and amortization	-	80,711	27,971	-	108,682
Cost of sales	-	232	6	-	238
Selling, general and administrative	3,200	11,325	7,583	(2,049)	20,059
	3,200	92,268	35,560	(2,049)	128,979
LOSS FROM OPERATIONS	(3,200)	(35,485)	(13,622)	-	(52,307)
Interest expense, net	(12,392)	(18,011)	(128)	-	(30,531)
Foreign currency exchange gains	-	-	873	-	873
Other income (loss)	-	93	(19)	-	74
Loss before income taxes and equity in loss of subsidiaries	(15,592)	(53,403)	(12,896)	-	(81,891)
Provision (benefit) for income taxes	-	149	(3,540)	-	(3,391)
Equity in loss of subsidiaries	(62,908)	(9,356)	-	72,264	-
NET LOSS	$ (78,500)	$ (62,908)	$ (9,356)	$ 72,264	$ (78,500)

Table of Contents

CONSOLIDATING CONDENSED STATEMENT OF OPERATIONS

For the Nine Months Ended September 30, 2008

(In thousands)

	Parent	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	$ -	$ 92,950	$ 49,128	$ (3,886)	$ 138,192
EXPENSES:					
Depreciation and amortization	23	86,214	46,469	-	132,706
Impairment of intangible asset	-	-	225	-	225
Cost of sales	-	312	39	-	351
Selling, general and administrative	4,947	15,321	13,716	(3,886)	30,098
Merger	-	357	-	-	357
	4,970	102,204	60,449	(3,886)	163,737
LOSS FROM OPERATIONS	(4,970)	(9,254)	(11,321)	-	(25,545)
Interest expense, net	(13,618)	(15,708)	(715)	-	(30,041)
Foreign currency exchange losses	-	(123)	(1,319)	-	(1,442)
Other Income	-	15	24	-	39
Loss before income taxes and equity in loss of subsidiaries	(18,588)	(25,070)	(13,331)	-	(56,989)
Provision (benefit) for income taxes	-	181	(1,143)	-	(962)
Equity in loss of subsidiaries	(37,439)	(12,188)	-	49,627	-
NET LOSS	$ (56,027)	$ (37,439)	$ (12,188)	$ 49,627	$ (56,027)

Table of Contents

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Nine Months Ended September 30, 2009

(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	$ (38,457)	$ 39,648	$ 18,824	$ -	$ 20,015
Cash flows from investing activities:					
Cash invested in seismic data	-	(38,329)	(12,058)	-	(50,387)
Cash paid to acquire property and equipment and other	-	(236)	(69)	-	(305)
Advances to Seitel Holdings, Inc.	-	(9)	-	-	(9)
Cash transferred upon sale of subsidiary	-	-	(22)	-	(22)
Return of capital from subsidiary	-	500	(500)	-	-
Cash from disposal of property and equipment	-	14	-	-	14
Net cash used in investing activities	-	(38,060)	(12,649)	-	(50,709)
Cash flows from financing activities:					
Principal payments on notes payable	(36)	-	-	-	(36)
Principal payments on capital lease obligations	-	-	(90)	-	(90)
Borrowings on line of credit	-	-	196	-	196
Payments on line of credit	-	-	(196)	-	(196)
Intercompany transfers	38,493	(24,238)	(14,255)	-	-
Net cash provided by (used in) financing activities	38,457	(24,238)	(14,345)	-	(126)
Effect of exchange rate changes	-	-	(892)	-	(892)
Net decrease in cash and cash equivalents	-	(22,650)	(9,062)	-	(31,712)
Cash and cash equivalents at beginning of period	-	33,034	9,644	-	42,678
Cash and cash equivalents at end of period	$ -	$ 10,384	$ 582	$ -	$ 10,966

Table of Contents

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS

For the Nine Months Ended September 30, 2008

(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	$ (40,194)	$ 66,289	$ 33,003	$ -	$ 59,098
Cash flows from investing activities:					
Cash invested in seismic data	-	(41,077)	(24,407)	-	(65,484)
Cash paid to acquire property and equipment and other	-	(419)	(491)	-	(910)
Advances to Seitel Holdings, Inc.	-	(135)	-	-	(135)
Increase in restricted cash	-	(2)	-	-	(2)
Net cash used in investing activities	-	(41,633)	(24,898)	-	(66,531)
Cash flows from financing activities:					
Principal payments on notes payable	(32)	-	-	-	(32)
Principal payments on capital lease obligations	-	-	(98)	-	(98)
Borrowings on line of credit	-	-	286	-	286
Payments on line of credit	-	-	(286)	-	(286)
Payments on notes receivable	-	54	-	-	54
Intercompany transfers	40,226	(35,261)	(4,965)	-	-
Net cash provided by (used in) financing activities	40,194	(35,207)	(5,063)	-	(76)
Effect of exchange rate changes	-	-	1,004	-	1,004
Net increase (decrease) in cash and cash equivalents	-	(10,551)	4,046	-	(6,505)
Cash and cash equivalents at beginning of period	-	36,847	6,486	-	43,333
Cash and cash equivalents at end of period	$ -	$ 26,296	$ 10,532	$ -	$ 36,828

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 consolidated financial statements and the related notes to the financial statements included elsewhere in this document.

CAUTIONARY STATEMENTS CONCERNING FORWARD-LOOKING INFORMATION

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

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

Overview

General

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

Table of Contents

Our primary areas of focus are onshore United States and Canada and, to a lesser extent, offshore U.S. Gulf of Mexico. Exploration activity in North America began to decline in late 2008 as a result of the economic downturn and weak commodity prices. North American drilling activity bottomed in May 2009 and was down 62% from its peak in August 2008. North American drilling activity increased 34% from its low in May to the end of September 2009. However, the average year-to-date rig count is 44% lower than the same period of 2008.

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

The Merger

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

Principal Factors Affecting Our Business

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

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

Availability of Capital for Our Customers: Many of our customers consist of independent oil and gas companies and private prospect-generating companies that rely primarily on private capital markets to fund their exploration, production, development and field management activities. The reduction in cash flows being experienced by our customers resulting from the declines in commodity prices, along with the reduced availability of credit and increased costs of borrowing due to the tightening of the credit markets, could have a material impact on the ability of such companies to obtain funding necessary to purchase our seismic data.

Merger and Acquisition Activity: Merger and acquisition 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.

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

Table of Contents

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

Non-GAAP Key Performance Measures

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

The following are the key performance measures considered by management.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cash resales	$ 12,293	$ 37,297	$ 29,553	$ 89,802
Other revenue components:				
Acquisition revenue	6,615	11,598	32,990	42,547
Non-monetary exchanges	834	2,202	1,010	6,659
Revenue deferred	(7,833)	(18,064)	(15,932)	(47,081)
Recognition of revenue previously deferred	6,717	11,566	25,711	41,129
Solutions and other	878	1,492	3,340	5,136
Total revenue, as reported	$ 19,504	$ 46,091	$ 76,672	$ 138,192

Table of Contents

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cash EBITDA	$ 8,519	$ 30,529	$ 17,059	$ 69,632
Add (subtract) other revenue components not included in cash EBITDA:				
Acquisition revenue	6,615	11,598	32,990	42,547
Non-monetary exchanges	834	2,202	1,010	6,659
Revenue deferred	(7,833)	(18,064)	(15,932)	(47,081)
Recognition of revenue previously deferred	6,717	11,566	25,711	41,129
Recognition of Solutions revenue previously deferred	-	-	-	44
Less:				
Depreciation and amortization	(33,436)	(43,592)	(108,682)	(132,706)
Impairment of intangible asset	-	(225)	-	(225)
Merger expenses	-	-	-	(357)
Merger and acquisition transaction costs	-	-	-	(5)
One-time costs associated with cost reduction measures	43	-	(1,168)	-
Non-cash operating expenses	(897)	(1,662)	(3,295)	(5,182)
Operating loss, as reported	$ (19,438)	$ (7,648)	$ (52,307)	$ (25,545)

Growth of Our Seismic Data Library: We regularly add to our seismic data library through four different methods: (1) recording new data; (2) buying ownership of existing data for cash; (3) obtaining ownership of existing data sets through non-monetary exchanges; and (4) creating new value-added products from existing data within our library. For the period from January 1, 2009 to September 30, 2009, we completed the addition of approximately 710 square miles of seismic data to our library. As of September 30, 2009, we had approximately 320 square miles of seismic data in progress.

Critical Accounting Policies

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

Table of Contents

Results of Operations

Revenue

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

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Acquisition revenue:				
Cash underwriting	$ 6,250	$ 7,545	$ 30,152	$ 32,872
Underwriting from non-monetary exchanges	365	4,053	2,838	9,675
Total acquisition revenue	6,615	11,598	32,990	42,547
Resale licensing revenue:				
Cash resales	12,293	37,297	29,553	89,802
Non-monetary exchanges	834	2,202	1,010	6,659
Revenue deferred	(7,833)	(18,064)	(15,932)	(47,081)
Recognition of revenue previously deferred	6,717	11,566	25,711	41,129
Total resale licensing revenue	12,011	33,001	40,342	90,509
Total seismic revenue	18,626	44,599	73,332	133,056
Solutions and other	878	1,492	3,340	5,136
Total revenue	$ 19,504	$ 46,091	$ 76,672	$ 138,192

Total revenue for the third quarter of 2009 was $19.5 million, a decrease of $26.6 million, or 58%, from total revenue of $46.1 million for the third quarter of 2008. This decline was primarily driven by a $21.0 million, or 64%, decline in total resale licensing revenue from our library. Resale revenue in the third quarter of 2009 continued to be impacted by weak natural gas prices and the slowdown in drilling activity in North America with oil and gas companies continuing to curtail their exploration and development spending as compared to the third quarter of 2008. Cash resales for the third quarter of 2009 were $12.3 million, down 67% from the third quarter of 2008 as clients general concerns about the economic environment and liquidity delayed spending on seismic data. Cash resales for the third quarter of 2009 were lower in both the U.S. and Canada, falling 66% and 69%, respectively. Revenue deferred was lower in the third quarter of 2009 as a result of fewer library cards purchased. Recognition of previously deferred revenue, primarily selections, was lower between the quarters as customers made fewer selections on open library cards. Acquisition revenue was $6.6 million for the third quarter of 2009, a $5.0 million, or 43%, decrease from the third quarter of 2008. The decrease was primarily due to a reduction in Canada s acquisition revenue between periods as we did not shoot any summer programs in Canada during 2009 due to our planned reduction in capital programs as a result of the current industry conditions. Solutions and other revenue was $0.9 million in the third quarter of 2009 compared to $1.5 million in the third quarter of 2008. Solutions revenue is primarily driven by the level of seismic revenue; therefore, the $0.6 million reduction was primarily due to the lower level of total seismic revenue.

Total revenue for the first nine months of 2009 was $76.7 million as compared to $138.2 million in total revenue for the first nine months of 2008. This $61.5 million, or 45%, decline was due to lower total resale licensing revenue and a decrease in acquisition revenue. Total resale licensing revenue was $40.3 million in the first nine months of 2009 compared to $90.5 million in the first nine months of 2008, reflecting the lower activity levels by our clients. Cash resales for the first nine months of 2009 were $29.6 million, down 67% from the first nine months of 2008. For the first nine months of 2009, cash resales were lower in both the U.S. and Canada, declining 66% and 69%, respectively, from the first nine months of 2008. Revenue deferred was lower in the first nine months of 2009 as a result of fewer library cards purchased. Recognition of previously deferred revenue, primarily selections, was lower between the nine-month periods as customers made fewer selections on open library cards. Acquisition revenue was $33.0 million for the first nine months of 2009, a $9.6 million, or 22%, decrease from the first nine months of 2008. The decrease was primarily attributable to lower acquisition revenue in Canada in the 2009 period as a result of a very strong seismic data shooting season in 2008. Solutions and other revenue decreased $1.8 million between the nine-month periods due to the lower level of total seismic revenue.

At September 30, 2009, we had a deferred revenue balance of $40.3 million, compared to the December 31, 2008 balance of $67.7 million. The deferred revenue balance was related to (i) data licensing contracts on which selection of specific data had not yet occurred, (ii) deferred revenue on data acquisition projects and (iii) contracts in which the data products are not yet available or the revenue recognition criteria has not yet been met. The deferred revenue will be recognized when selection of specific data is made by the customer, upon expiration of the data selection period specified in the data licensing contracts, as work progresses on the data acquisition contracts, as the data products become available or as all of the revenue recognition criteria are met.

Depreciation and Amortization

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Amortization of seismic data:				
Income forecast	$ 11,328	$ 28,068	$ 45,508	$ 82,824
Straight-line	20,143	13,502	57,414	43,740
Total amortization of seismic data	31,471	41,570	102,922	126,564
Depreciation of property and equipment	566	592	1,682	1,776
Amortization of acquired intangibles	1,399	1,430	4,078	4,366
Total	$ 33,436	$ 43,592	$ 108,682	$ 132,706

Total seismic data library amortization amounted to $31.5 million in the third quarter of 2009 compared to $41.6 million in the third quarter of 2008 and $102.9 million for the first nine months of 2009 compared to $126.6 million for the first nine months of 2008. The amount of seismic data library amortization fluctuates based on the level and location of specific seismic surveys licensed (including licensing resulting from new data acquisitions) and selected by our customers during any period as well as the amount of straight-line amortization required under our accounting policy.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Components of Amortization	2009	2008	2009	2008
Income forecast	60.8%	62.9%	62.1%	62.2%
Straight-line	108.1%	30.3%	78.3%	32.9%
Total	168.9%	93.2%	140.4%	95.1%

The percentage of income forecast amortization to total seismic revenue decreased slightly between the three and nine month periods of 2009 and 2008 due to the mix of data being licensed. In all periods, we had resale revenue recognized which was from data whose costs were fully amortized. In the third quarter and first nine months of 2009, 21% and 20%, respectively, of resale revenue recognized was from data whose costs were fully amortized as compared to 14% and 17%, in the third quarter and first nine months of 2008, respectively. Straight-line amortization represents the expense required under our accounting policy to ensure our data value is fully amortized within four years of when the data becomes available for sale. The amount of straight-line amortization increased $6.6 million between the 2008 and 2009 third quarter periods and $13.7 million in the first nine months of 2009 compared to the first nine months of 2008 due to lower revenues in the 2009 periods and the distribution of revenue among the various seismic surveys, resulting in more straight-line amortization required in 2009.

Table of Contents

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses were $5.4 million in the third quarter of 2009 compared to $9.9 million in the third quarter of 2008 and $20.1 million in the first nine months of 2009 compared to $30.1 million in the first nine months of 2008. SG&A expenses are made up of the following cash and non-cash expenses (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cash SG&A expenses	$ 4,478	$ 8,188	$ 16,764	$ 24,916
Non-cash compensation expense	831	1,594	3,110	4,972
Non-cash rent expense	66	68	185	210
Total	$ 5,375	$ 9,850	$ 20,059	$ 30,098

The decrease in cash SG&A expenses of $3.7 million from the third quarter of 2008 to the third quarter of 2009 was primarily due to (1) a decrease of $1.1 million in personnel costs resulting from workforce reductions and reductions in base salaries and employee benefits implemented in 2009, (2) a decrease of $1.0 million due to no performance incentive accruals in 2009 because of the current economic environment and lower cash resales, (3) a decrease of $0.8 million in sales commissions as a result of lower revenues and (4) a decrease of $0.8 million in various other expenses primarily resulting from cost cutting measures implemented in 2009.

The decrease in cash SG&A expenses of $8.2 million from the first nine months of 2008 to the first nine months of 2009 was primarily due to (1) a decrease of $3.3 million in personnel costs resulting from workforce reductions and reductions in base salaries and employee benefits implemented in 2009, (2) a decrease of $2.7 million due to no performance incentive accruals in 2009 because of the current economic environment and lower cash resales, (3) a decrease of $1.6 million in sales commissions as a result of lower revenues and (4) a decrease of $2.0 million in various other expenses resulting primarily from cost cutting measures implemented in 2009. These decreases were partially offset by $1.2 million of one-time costs incurred to implement cost reduction measures and additional reserves for bad debt in 2009 of $0.2 million.

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

Merger Expenses

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

Income Taxes

Tax benefit was $1.2 million for both the third quarter of 2009 and 2008. The benefit in the third quarter of 2009 was comprised of (i) a benefit of $0.8 million related to our Canadian operations, (ii) a benefit of $0.3 million related to certain research and development tax credits received in Canada and (iii) a benefit of $0.1 million primarily related to a reduction in interest on uncertain tax positions following the expiration of the statute of limitations. The 2008 third quarter benefit was comprised of (i) a benefit of $0.9 million related to our Canadian operations, (ii) a benefit of $0.8 million related to certain research and development tax credits received in Canada, (iii) an expense of $0.3 million related to interest on uncertain tax positions and (iv) $0.2 million of state tax expense in the U.S. The Federal tax benefit in both the third quarter of 2009 and 2008 resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

Tax benefit was $3.4 million and $1.0 million for the nine months ended September 30, 2009 and 2008, respectively. The benefit for the first nine months of 2009 was comprised of (i) a benefit of $3.3 million related to our Canadian operations, (ii) a benefit of $0.3 million related to certain research and development tax credits

received in Canada and (iii) $0.2 million of state tax expense in the U.S. The benefit for the first nine months of 2008 was comprised of (i) a benefit of $3.7 million related to our Canadian operations, (ii) a benefit of $0.8 million related to certain research and development tax credits received in Canada, (iii) an expense of $2.7 million related to an additional reserve, penalties and interest on uncertain tax positions, (iv) $0.7 million of state tax expense in the U.S. and (v) $0.2 million of Canadian withholding taxes. The Federal tax benefit in both the first nine months of 2009 and 2008 resulting from our U.S. operations was offset by a valuation allowance because it was more likely than not that the deferred tax asset would not be realized.

Liquidity and Capital Resources

As of September 30, 2009, we had $11.0 million in consolidated cash, cash equivalents and short-term investments, including $113,000 of restricted cash. We currently anticipate satisfying our operating and capital needs for the remainder of 2009 and for 2010, as well as our debt service obligations in 2010, from our available cash and cash flows from operating activities. Depending on demand for our services and cash flows from operations, we may need to obtain additional capital to meet our debt service obligations and operational needs in 2010. Effective August 28, 2009, we terminated our U.S. revolving credit facility. We are currently seeking to replace this facility with another source of financing. However, we cannot assure you that any financing will be available to us in the future on acceptable terms or at all. As described below, our Canadian credit facility continues to be in place. For further discussion on our liquidity see - Anticipated Liquidity.

Canadian Credit Facility: Our wholly owned subsidiary, Olympic Seismic Ltd. (Olympic), has a revolving credit facility which allows it to borrow up to $5.0 million (Canadian), subject to an availability formula, by way of prime-based loans or letters of credit. Available borrowings under the facility are equivalent to a maximum of $5.0 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of Olympic, less prior-ranking claims, if any, relating to inventory or accounts. As of September 30, 2009, no amounts were outstanding on this revolving line of credit and $1.3 million (Canadian) was available on the line of credit.

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

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

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

		Payments due by period			
Contractual cash obligations	Total	Remainder of 2009	2010-2012	2013-2014	2015 and Thereafter
Debt obligations [1][2]	$ 578,234	$ 18	$ 119,686	$ 458,530	$ -
Capital lease obligations [2]	4,913	86	1,062	764	3,001
Operating lease obligations	3,658	298	3,088	272	-
Total contractual cash obligations	$ 586,805	$ 402	$ 123,836	$ 459,566	$ 3,001

(1) Debt obligations include the face amount of our 9.75% Senior Notes totaling $400.0 million and the 11.75% Senior Notes totaling $2.0 million.
(2) Amounts include interest related to debt and capital lease obligations.

Cash Flows from Operating Activities: Cash flows provided by operating activities were $20.0 million and $59.1 million for the nine months ended September 30, 2009 and 2008, respectively. Operating cash flows for 2009 decreased from 2008 primarily due to decreased collections from our cash resales in the 2009 period as a result of the slowdown in activity.

Table of Contents

Cash Flows from Investing Activities: Cash flows used in investing activities were $50.7 million and $66.5 million for the nine months ended September 30, 2009 and 2008, respectively. Cash expenditures for seismic data were $50.4 million and $65.5 million for the nine months ended September 30, 2009 and 2008, respectively. The decrease in cash invested in seismic data for 2009 compared to 2008 was primarily due to a decrease in cash paid for new data acquisition projects in both the U.S. and Canada and a reduction in payments on cash purchases.

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

Anticipated Liquidity: Our ability to cover our operating and capital expenses, make required payments of interest on our 9.75% and 11.75% Senior Notes and incur additional indebtedness, will depend primarily on our ability to generate substantial operating cash flows. Over the next 12 months, we anticipate obtaining the funds necessary to pay our operating, capital and other expenses and principal and interest on our senior notes and our other indebtedness from our operating cash flows and cash and cash equivalents on hand. Our ability to satisfy our payment obligations depends substantially on our future operating and financial performance, which necessarily will be affected by, and subject to, industry, market, economic and other factors. To the extent our operating cash flows and cash on hand are not sufficient to cover our anticipated expenditures, we could seek to obtain additional financing. We are currently seeking to replace our U.S. credit facility with another source of financing. However, there can be no assurance that we will be able to accomplish any such financing on satisfactory terms or at all. If necessary, we could choose to 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 September 30, 2009, we had a net deferred tax liability of $5.5 million attributable to our Canadian operations and a $210,000 deferred tax asset attributable to U.S. state deferred taxes. In the U.S., we had a deferred tax asset of $82.3 million, all of which was fully offset by a valuation allowance. The recognition of the U.S. deferred tax asset will not occur until such time that it is more likely than not that some portion or all of the deferred tax asset will be realized. As of September 30, 2009, it was more likely than not that all of the U.S. deferred tax asset will not 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.

Table of Contents

Capital Expenditures

During the nine months ended September 30, 2009, capital expenditures for seismic data and other property and equipment amounted to $44.9 million. Our capital expenditures for the remainder of 2009 are presently estimated to be $12.8 million. The first nine months of 2009 actual and 2009 estimated remaining capital expenditures are comprised of the following (in thousands):

	Nine Months Ended September 30, 2009	Estimate for Remainder of 2009	Total Estimate for 2009
New data acquisition	$ 41,523	$ 10,677	$ 52,200
Cash purchases of seismic data and other	1,636	964	2,600
Non-monetary exchanges	1,443	957	2,400
Property and equipment and other	308	192	500
Total capital expenditures	44,910	12,790	57,700
Less: Non-monetary exchanges	(1,443)	(957)	(2,400)
Changes in working capital	7,225	-	7,225
Cash investment per statement of cash flows	$ 50,692	$ 11,833	$ 62,525

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

	Nine Months Ended September 30, 2009	Estimate for Remainder of 2009	Total Estimate for 2009
Total capital expenditures	$ 44,910	$ 12,790	$ 57,700
Less: Non-cash additions	(1,443)	(957)	(2,400)
Cash underwriting	(30,152)	(5,948)	(36,100)
Capital expenditures funded from operating cash flow	$ 13,315	$ 5,885	$ 19,200

As of November 12, 2009, we had capital expenditure commitments related to data acquisition projects of approximately $17.8 million, of which we have obtained approximately $12.4 million of cash underwriting.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

We may enter into various financial instruments, such as interest rate swaps or interest rate lock agreements, to manage the impact of changes in interest rates. As of September 30, 2009, we did not have any open interest rate swap or interest rate lock agreements. Therefore, our exposure to changes in interest rates primarily results from our short-term and long-term debt with both fixed and floating interest rates.

Foreign Currency Exchange Rate Risk

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

We have not had any significant changes in our market risk exposures during the quarter ended September 30, 2009.

Table of Contents

Item 4T. CONTROLS AND PROCEDURES

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

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, our President and Chief Executive Officer along with our Chief Financial Officer concluded that the Company s disclosure controls and procedures as of September 30, 2009 were effective in ensuring that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management, including our President and Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

b) **Changes in Internal Control Over Financial Reporting**

There have been no changes in our internal controls over financial reporting during the quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

Part 1, Item 1A, Risk Factors, of our Annual Report on Form 10-K for fiscal year ended December 31, 2008 (the 2008 Form 10-K) includes a detailed discussion of our risk factors. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in our 2008 Form 10-K. The risks described in this report and in our 2008 Form 10-K are not the only risks we face. Additional risks and uncertainties not currently known to us, or that we currently deem to be immaterial, also may materially adversely affect our business, financial condition and future results.

We may require additional funding, and our failure to raise additional capital could adversely affect our ability to meet our debt service obligations and could harm our business.

Effective August 28, 2009, we terminated our loan agreement with Wells Fargo Foothill, Inc. prior to its stated maturity. Under this agreement, we had the ability to borrow up to $25.0 million. As a result of the termination of this loan agreement, we no longer have a credit facility available to us in the U.S. As of September 30, 2009, we had $11.0 million of cash and cash equivalents and expect to satisfy our operating and capital needs for the remainder of 2009 and for 2010 from our available cash and cash flows from operating activities. We have semi-annual interest payments on our 9.75% Senior Notes due on February 15, 2010 and August 15, 2010 and on our 11.75% Senior Notes due on January 15, 2010 and July 15, 2010. Depending on demand for our services and cash flow from operations, we may need to obtain additional capital to meet our debt service obligations and operational needs. We cannot assure you that any financing will be available to us in the future on acceptable terms or at all. If we cannot raise required funds on acceptable terms, we may not be able to, among other things, (i) maintain our general and administrative expenses at current levels; (ii) meet our debt service obligations; or (iii) respond to competitive pressures or unanticipated capital requirements.

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

Item 6. EXHIBITS

3.1	Certificate of Incorporation of the Company (incorporated by reference from Exhibit 3.1 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
3.2	Bylaws of Seitel, Inc. (incorporated by reference from Exhibit 3.2 to the Registration Statement on Form S-4, No. 333-144844, as filed with the SEC on July 25, 2007).
31.1*	Certification of Robert D. Monson pursuant to Rule 13a-14(a)/15d-14(a).
31.2*	Certification of Marcia H. Kendrick pursuant to Rule 13a-14(a)/15d-14(a).
32.1**	Certification of Robert D. Monson pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2**	Certification of Marcia H. Kendrick pursuant to Section 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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

Table of Contents

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.

Dated: November 16, 2009	/s/ ROBERT D. MONSON **Robert D. Monson** **Chief Executive Officer and President**
Dated: November 16, 2009	/s/ MARCIA H. KENDRICK **Marcia H. Kendrick** **Chief Financial Officer**

Page 37 of 42

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).
31.1*	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002
31.2*	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 302 Of The Sarbanes-Oxley Act of 2002
32.1**	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002
32.2**	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 Of The Sarbanes-Oxley Act of 2002

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

Page 38 of 42