

SEITEL INC
Form 10-Q
August 11, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2015

OR

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

Commission File Number: 001-10165

SEITEL, INC.
(Exact name of registrant as specified in its charter)

Delaware 76-0025431
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

10811 S. Westview Circle Drive
Building C, Suite 100 77043
Houston, Texas
(Address of principal executive offices) (Zip Code)
(713) 881-8900
(Registrant's telephone number, including area code)

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

Yes No

(Explanatory Note: The registrant is a voluntary filer and is therefore not subject to the filing requirements of the Securities Exchange Act of 1934. However, during the preceding 12 months, the registrant has filed all reports that it would have been required to file by Section 13 or 15(d) of the Securities Exchange Act of 1934 if the registrant was subject to the filing requirements of the Securities Exchange Act of 1934 during such timeframe.)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

Yes No

As of August 6, 2015, there were 100 shares of the Company’s common stock outstanding, par value \$.001 per share.

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PART I—FINANCIAL INFORMATION

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

	(Unaudited) June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$66,692	\$59,175
Receivables		
Trade, net of allowance for doubtful accounts of \$267 and \$268, respectively	26,456	53,250
Notes and other	1,523	1,698
Due from Seitel Holdings, Inc.	1,151	1,143
Income tax refund	325	—
Seismic data library, net of accumulated amortization of \$1,093,279 and \$1,074,260, respectively	166,981	165,079
Property and equipment, net of accumulated depreciation and amortization of \$15,090 and \$14,971, respectively	3,131	3,857
Prepaid expenses, deferred charges and other	10,129	10,075
Intangible assets, net of accumulated amortization of \$42,738 and \$41,785, respectively	7,746	10,013
Goodwill	187,696	193,722
Deferred income taxes	86,286	81,744
TOTAL ASSETS	\$558,116	\$579,756
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES		
Accounts payable and accrued liabilities	\$32,921	\$34,400
Income taxes payable	672	197
Senior Notes	250,000	250,000
Obligations under capital leases	1,948	2,219
Deferred revenue	34,085	34,517
Deferred income taxes	4,588	5,334
TOTAL LIABILITIES	324,214	326,667
COMMITMENTS AND CONTINGENCIES (Note G)		
STOCKHOLDER'S EQUITY		
Common stock, par value \$.001 per share; 100 shares authorized, issued and outstanding	—	—
Additional paid-in capital	400,374	400,177
Retained deficit	(158,698)	(148,776)
Accumulated other comprehensive income (loss)	(7,774)	1,688
TOTAL STOCKHOLDER'S EQUITY	233,902	253,089
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$558,116	\$579,756

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

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SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
REVENUE	\$30,722	\$47,334	\$55,048	\$104,387
EXPENSES:				
Depreciation and amortization	20,407	29,771	43,487	67,629
Cost of sales	27	127	127	253
Selling, general and administrative	5,543	6,893	11,857	14,318
	25,977	36,791	55,471	82,200
INCOME (LOSS) FROM OPERATIONS	4,745	10,543	(423)	22,187
Interest expense, net	(6,332)	(6,211)	(12,639)	(12,418)
Foreign currency exchange gains (losses)	38	831	(1,421)	(443)
Other income	5	73	5	59
Income (loss) before income taxes	(1,544)	5,236	(14,478)	9,385
Provision (benefit) for income taxes	732	2,661	(4,556)	4,918
NET INCOME (LOSS)	\$(2,276)	\$2,575	\$(9,922)	\$4,467

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

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SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(In thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income (loss)	\$(2,276	) \$2,575	\$(9,922	) \$4,467
Foreign currency translation adjustments	1,926	4,955	(9,462	) (576
Comprehensive income (loss)	\$(350	) \$7,530	\$(19,384	) \$3,891

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

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SEITEL, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDER'S EQUITY (Unaudited)

(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)
	Shares	Amount			
Balance, December 31, 2014	100	\$—	\$400,177	\$(148,776)	) \$1,688
Amortization of stock-based compensation costs	—	—	197	—	—
Net loss	—	—	—	(9,922)) —
Foreign currency translation adjustments	—	—	—	—	(9,462)
Balance, June 30, 2015	100	\$—	\$400,374	\$(158,698)	) \$(7,774)

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

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

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities:		
Reconciliation of net income (loss) to net cash provided by operating activities:		
Net income (loss)	\$(9,922	) \$4,467
Depreciation and amortization	43,487	67,629
Deferred income tax provision (benefit)	(4,822	) 3,047
Foreign currency exchange losses	1,421	443
Amortization of deferred financing costs	585	532
Amortization of stock-based compensation	197	304
Decrease in allowance for doubtful accounts	—	(337
Non-cash other loss	—	14
Non-cash revenue	(5,877	) (238
Decrease in receivables	25,735	1,290
Increase in other assets	(750	) (21
Decrease in deferred revenue	(2,301	) (15,809
Increase (decrease) in accounts payable and other liabilities	(1,723	) 1,114
Net cash provided by operating activities	46,030	62,435
Cash flows from investing activities:		
Cash invested in seismic data	(37,237	) (49,606
Cash paid to acquire property, equipment and other	(150	) (1,157
Advances to Seitel Holdings, Inc.	(8	) (7
Net cash used in investing activities	(37,395	) (50,770
Cash flows from financing activities:		
Principal payments on capital lease obligations	(118	) (123
Net cash used in financing activities	(118	) (123
Effect of exchange rate changes	(1,000	) 122
Net increase in cash and cash equivalents	7,517	11,664
Cash and cash equivalents at beginning of period	59,175	31,353
Cash and cash equivalents at end of period	\$66,692	\$43,017
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$12,087	\$12,022
Income taxes, net of refunds received	\$190	\$(3,989
Supplemental schedule of non-cash investing and financing activities:		
Additions to seismic data library	\$7,922	\$177

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

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

June 30, 2015

NOTE A-BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements of Seitel, Inc. and its subsidiaries (collectively, the “Company”) have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. In preparing the Company’s financial statements, a number of estimates and assumptions are made by management that affect the accounting for and recognition of assets, liabilities, revenues and expenses. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for any other quarter of 2015 or for the year ending December 31, 2015. The condensed consolidated balance sheet of the Company as of December 31, 2014 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, 2014.

NOTE B-REVENUE RECOGNITION

Revenue from Data Acquisition

The Company generates revenue when it creates a new seismic survey that is initially licensed by one or more of its customers to use the resulting data. The payments for the initial licenses are sometimes referred to as underwriting or prefunding. Customers make periodic payments throughout the creation period, which generally correspond to costs incurred and work performed. These payments are non-refundable. Contracts which are signed up to the time the Company makes a firm commitment to create the new seismic survey are considered underwriting. Any subsequent licensing of the data while the survey is in progress or once it is completed is considered a resale license (see “Revenue from Non-Exclusive Data Licenses”).

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

The Company outsources the substantial majority of the work required to complete data acquisition projects to third party contractors. The Company’s payments to these third party contractors comprise the substantial majority of the total estimated costs of the 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 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 master license agreement, which is a separate agreement from the acquisition contract. The Company’s acquisition contracts require the customer either to have a master license agreement in place or to execute one at the time the acquisition contract is signed. The Company typically maintains sole ownership of the newly acquired data,

which is added to its library, and is free to license the data to other customers.

Revenue from Non-Exclusive Data Licenses

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

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

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

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

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

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

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

- that all customers must also have in place or execute a master license agreement that governs the use of all data received under the Company's non-exclusive license contracts;
- the specific payment terms, generally ranging from 30 days to 12 months, and that such payments are non-cancelable and non-refundable;
- the actual data that is accessible to the customer; and
- that the data is licensed in its present form, as is, where is, and that the Company is under no obligation to make any enhancements, modifications or additions to the data unless specific terms to the contrary are included.

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

- the Company has an agreement with the customer that is validated by a signed contract;
- the sales price is fixed and determinable;
- collection is reasonably assured;
- the customer has selected the specific data or the contract has expired without full selection;
- the data is currently available for delivery; and
- the license term has begun.

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

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

Revenue from Non-Monetary Exchanges

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

following criteria:

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

In non-monetary exchange transactions, the Company records a data library asset for the seismic data received or processed at the time the contract is entered into or the data is completed, as applicable, and recognizes revenue on the transaction in equal

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value in accordance with its policy on revenue from data licenses or data acquisition, or as services are provided by Solutions, as applicable. The data license to the customer is in the form of one of the four basic forms of contracts discussed above. These transactions are valued at the fair value of the data received or the fair value of the license granted or services provided, whichever is more readily determinable.

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Seismic data library additions	\$7,793	\$—	\$7,922	\$177
Revenue recognized on specific data licenses or selections of data	5,696	61	5,713	238
Revenue recognized related to acquisition contracts	2	—	164	—
Revenue from Solutions				

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

NOTE C-SEISMIC DATA LIBRARY

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

Costs of Seismic Data Library

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

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

For newly created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data. 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 \$0.9 million and \$1.0 million for the three months ended June 30, 2015 and 2014, respectively, and \$1.7 million and \$1.9 million for the six months ended June 30, 2015 and 2014, respectively.

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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 completed and available for licensing to customers on a non-exclusive basis.

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

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

The actual aggregate rate of amortization depends on the specific seismic surveys licensed and selected by the Company’s customers during the period and the amount of straight-line amortization recorded. The income forecast amortization rates can vary by component and, as of July 1, 2015, is 70% for all components. For those seismic surveys which have been fully amortized, no amortization expense is required on revenue recorded.

Seismic Data Library Impairment

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

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

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

impairment charge.

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

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

The Company did not have any impairment charges during the six months ended June 30, 2015 or 2014.

NOTE D-DEBT

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

From time to time on or before April 15, 2016, the Company may redeem up to 35% of the aggregate principal amount of the 9½% Senior Notes with the net proceeds of equity offerings at a redemption price equal to 109.50% of the principal amount, plus accrued and unpaid interest. Upon a change of control (as defined in the indenture), each holder of the 9½% Senior Notes will have the right to require the Company to offer to purchase all of such holder's notes at a price equal to 101% of the principal amount, plus accrued and unpaid interest.

Credit Facility: On May 25, 2011, the Company entered into a credit agreement (the “Credit Facility”) with Wells Fargo Capital Finance, LLC (the “U.S. Lender”) and Wells Fargo Capital Finance Corporation Canada (the “Canadian Lender,” and collectively with the U.S. Lender, the “Lenders”). The Credit Facility provides a \$30.0 million revolving credit facility with a Canadian sublimit of \$5.0 million (Canadian), subject to borrowing base limitations based on the Company's seismic data assets and eligible accounts receivable, each as defined in the Credit Facility, calculated on a monthly basis. The Credit Facility matures on May 25, 2016. Each existing and future direct and indirect wholly-owned domestic subsidiary of the Company (collectively, the “U.S. Guarantors”) is a guarantor of payment of the U.S. obligations under the Credit Facility, and Seitel Canada Ltd. (“Seitel Canada”), a wholly-owned subsidiary of the Company, and each future direct and indirect wholly-owned Canadian subsidiary of the Company (such subsidiaries together with Seitel Canada, the “Canadian Guarantors”) are guarantors of payment of the Canadian obligations under the Credit Facility.

The borrowings under the Credit Facility are secured by a perfected first priority lien and security interest (subject to certain exceptions) in favor of the U.S. Lender in all present and future assets and equity of the Company and each U.S. Guarantor and 65% of the equity in Seitel Canada, and borrowings by Seitel Canada are secured by a perfected first priority lien and security interest (subject to certain exceptions) in favor of the Canadian Lender in all present and future assets of each Canadian Guarantor. U.S. borrowings under the Credit Facility bear interest at a rate per annum equal to, at the Company's option, either (a) the London Interbank Offered Rate (“LIBOR”) rate plus 3.50% or (b) a base rate determined by reference to the highest of (i) the federal funds rate plus ½ of 1%, (ii) the three-month LIBOR rate plus 1% and (iii) the prime rate of Wells Fargo Bank, National Association, plus 2.50%. Canadian borrowings under the Credit Facility bear interest based on a Canadian base rate, as defined in the Credit Facility.

The Credit Facility requires that the Company maintain minimum excess availability (as defined in the Credit Facility) of \$10.0 million or, if such excess availability is not maintained, then the Company's fixed charge coverage ratio (as defined in the Credit Facility) may not be less than 1.00 to 1.00. In addition, the Credit Facility contains affirmative and negative covenants, representations and warranties, borrowing conditions, events of default and remedies for the Lenders. The aggregate loan or any individual loan made under the Credit Facility may be prepaid at any time subject to certain restrictions. The Credit Facility is also subject to the payment of upfront, letter of credit, administrative and certain other fees. As of June 30, 2015, no amounts were outstanding under the Credit Facility and there was \$28.3 million of availability.

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NOTE E-FAIR VALUE MEASUREMENTS

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

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

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
At June 30, 2015:				
Cash equivalents	\$66,558	\$66,558	\$—	\$—
At December 31, 2014:				
Cash equivalents	\$58,981	\$58,981	\$—	\$—

The Company had no transfers of assets between any of the above levels during the six months ended June 30, 2015 or 2014.

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

Other Financial Instruments:

At June 30, 2015 and December 31, 2014, the carrying value of the Company's debt was \$250.0 million. The estimated fair value of the debt was approximately \$228.1 million at June 30, 2015 and \$243.8 million at December 31, 2014. The fair value of the Company's senior notes is based on quoted market prices (Level 1 inputs).

NOTE F-STATEMENT OF CASH FLOW INFORMATION

Cash and cash equivalents at June 30, 2015 and December 31, 2014 included \$0.8 million of restricted cash related to collateral on seismic operations bonds and \$125,000 (Canadian) of restricted cash posted as security against Company issued credit cards for Seitel Canada.

Income taxes paid during the six months ended June 30, 2015 and June 30, 2014 were \$0.3 million and \$1.9 million, respectively. During the first six months of 2015 and 2014, the Company received income tax refunds of \$0.1 million and \$5.9 million, respectively.

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

	Six Months Ended	
	June 30, 2015	2014
Non-monetary exchanges related to resale licensing revenue	\$7,924	\$177
Adjustment to prior year non-monetary exchange from underwriting of new data acquisition	(2)	—
Total non-cash additions to seismic data library	\$7,922	\$177

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

	Six Months Ended June 30,	
	2015	2014
Acquisition revenue on underwriting from non-monetary exchange contracts	\$ 164	\$—
Licensing revenue from specific data licenses and selections on non-monetary exchange contracts	5,713	238
Total non-cash revenue	\$5,877	\$238

NOTE G-COMMITMENTS AND CONTINGENCIES

The Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolution of these matters should not be material to the Company's financial position, results of operations or cash flows. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At June 30, 2015, the Company has recorded the estimated amount of potential exposure it may have with respect to claims. Such amounts are not material to the financial statements.

NOTE H-RECENT ACCOUNTING PRONOUNCEMENTS

In April 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-03, "Interest - Imputation of Interest." This ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This guidance requires retrospective application and is effective on January 1, 2016, with early adoption permitted.

Adopting ASU 2015-03 will only result in a change in presentation and will reduce the Company's prepaid expenses, deferred charges and other assets and Senior Notes liability amounts in the consolidated balance sheets. As of June 30, 2015, unamortized debt issue costs that would be subject to the guidance under this ASU were \$4.8 million.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This ASU provides guidance on management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern or to provide related footnote disclosures. The amendments require management to assess an entity's ability to continue as a going concern by incorporating and expanding upon certain principles that are currently in U.S. auditing standards. The new standard will be effective for annual periods ending after December 15, 2016, and interim periods within annual periods beginning after December 15, 2016. Early adoption is permitted. The Company is currently evaluating the impact of adopting ASU 2014-15, but does not expect that it will have a material effect on its financial statements.

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." The objective of the ASU is to establish a single comprehensive model in accounting for revenue arising from contracts with customers and will supersede most of the existing revenue recognition guidance, including industry-specific guidance. The core principle of the guidance is that an entity recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also significantly expands disclosure requirements concerning revenues for most entities. In July 2015, the FASB agreed to defer the effective date of the new revenue recognition standard by one year, which changes the date by which the Company is required to adopt the ASU to January 1, 2018. Early application of ASU 2014-09 is permitted, but not before January 1, 2017. Once effective, entities have the option of using either a full retrospective or modified approach to adopt the new standard. The Company is currently evaluating the effect that ASU 2014-09 will have on its financial statements and financial statement disclosures.

NOTE I-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

On March 20, 2013, the Company completed a private placement of 9½% Senior Notes in the aggregate principal amount of \$250.0 million. The Company's payment obligations under the 9½% Senior Notes are jointly and severally

guaranteed by substantially all of the Company's significant 100% owned U.S. subsidiaries ("Guarantor Subsidiaries"). All subsidiaries of the Company that do not guarantee the 9½% Senior Notes are referred to as Non-Guarantor Subsidiaries.

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

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guarantor becomes an immaterial subsidiary or (vi) the guarantor is released from its guarantee obligations under the Credit Facility.

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

The following consolidating condensed financial information presents the consolidating condensed balance sheets as of June 30, 2015 and December 31, 2014, the consolidating condensed statements of operations and statements of comprehensive income (loss) for the three and six months ended June 30, 2015 and June 30, 2014 and consolidating condensed statements of cash flows for the six months ended June 30, 2015 and June 30, 2014 of (a) the Company; (b) the Guarantor Subsidiaries; (c) the Non-Guarantor Subsidiaries; (d) elimination entries; and (e) the Company, the Guarantor Subsidiaries and the Non-Guarantor Subsidiaries on a consolidated basis.

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

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CONSOLIDATING CONDENSED BALANCE SHEET

As of June 30, 2015

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
ASSETS					
Cash and cash equivalents	\$—	\$64,263	\$2,429	\$—	\$66,692
Receivables					
Trade, net	—	23,199	3,257	—	26,456
Notes and other	—	9	1,514	—	1,523
Due from Seitel Holdings, Inc.	—	1,151	—	—	1,151
Income tax refund	—	—	325	—	325
Intercompany receivables (payables)	(4,457)	6,173	(1,716)	—	—
Investment in subsidiaries	494,928	426,413	590	(921,931)	—
Net seismic data library	—	119,207	47,879	(105)	166,981
Net property and equipment	—	1,456	1,675	—	3,131
Prepaid expenses, deferred charges and other	5,314	4,219	596	—	10,129
Intangible assets, net	900	5,220	1,626	—	7,746
Goodwill	—	107,688	80,008	—	187,696
Deferred income taxes	—	86,286	—	—	86,286
TOTAL ASSETS	\$496,685	\$845,284	\$138,183	\$ (922,036)	\$558,116
LIABILITIES AND STOCKHOLDER'S EQUITY					
LIABILITIES					
Accounts payable and accrued liabilities	\$5,009	\$21,974	\$5,938	\$—	\$32,921
Income taxes payable	—	—	672	—	672
Senior Notes	250,000	—	—	—	250,000
Obligations under capital leases	—	1	1,947	—	1,948
Deferred revenue	—	30,001	4,084	—	34,085
Deferred income taxes	—	—	4,588	—	4,588
TOTAL LIABILITIES	255,009	51,976	17,229	—	324,214
STOCKHOLDER'S EQUITY					
Common stock	—	—	—	—	—
Additional paid-in capital	400,374	—	—	—	400,374
Parent investment	—	764,105	156,217	(920,322)	—
Retained earnings (deficit)	(158,698)	29,203	(27,343)	(1,860)	(158,698)
Accumulated other comprehensive loss	—	—	(7,920)	146	(7,774)
TOTAL STOCKHOLDER'S EQUITY	241,676	793,308	120,954	(922,036)	233,902
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$496,685	\$845,284	\$138,183	\$ (922,036)	\$558,116

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CONSOLIDATING CONDENSED BALANCE SHEET

As of December 31, 2014

(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
ASSETS					
Cash and cash equivalents	\$—	\$48,525	\$10,650	\$—	\$59,175
Receivables					
Trade, net	—	41,386	11,864	—	53,250
Notes and other	—	29	1,669	—	1,698
Due from Seitel Holdings, Inc.	—	1,143	—	—	1,143
Intercompany receivables (payables)	2,803	13,666	(16,469)	—	—
Investment in subsidiaries	497,151	427,481	692	(925,324)	—
Net seismic data library	—	113,930	51,290	(141)	165,079
Net property and equipment	—	1,848	2,009	—	3,857
Prepaid expenses, deferred charges and other	5,751	3,994	330	—	10,075
Intangible assets, net	900	6,826	2,287	—	10,013
Goodwill	—	107,688	86,034	—	193,722
Deferred income taxes	—	81,744	—	—	81,744
TOTAL ASSETS	\$506,605	\$848,260	\$150,356	\$(925,465)	\$579,756
LIABILITIES AND STOCKHOLDER'S EQUITY					
LIABILITIES					
Accounts payable and accrued liabilities	\$5,007	\$22,841	\$6,552	\$—	\$34,400
Income taxes payable	197	—	—	—	197
Senior Notes	250,000	—	—	—	250,000
Obligations under capital leases	—	18	2,201	—	2,219
Deferred revenue	—	29,822	4,695	—	34,517
Deferred income taxes	—	—	—	—	—