
**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 March 31, 2014
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
(State or other jurisdiction of
incorporation or organization)**

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

**10811 S. Westview Circle Drive
Building C, Suite 100
Houston, Texas
(Address of principal executive offices)**

**77043
(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 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 May 8, 2014, 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) March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	\$ 33,146	\$ 31,353
Receivables		
Trade, net of allowance for doubtful accounts of \$444 and \$332, respectively	42,390	34,616
Notes and other, net of allowance for doubtful accounts of \$351 and \$688, respectively	1,832	1,932
Due from Seitel Holdings, Inc.	1,133	1,130
Income tax refund	7,161	7,441
Seismic data library, net of accumulated amortization of \$1,009,959 and \$984,536, respectively	180,438	195,778
Property and equipment, net of accumulated depreciation and amortization of \$14,558 and \$14,432, respectively	4,244	4,611
Prepaid expenses, deferred charges and other	9,833	9,844
Intangible assets, net of accumulated amortization of \$39,346 and \$38,739, respectively	13,382	14,762
Goodwill	197,991	201,535
Deferred income taxes	91,033	92,511
TOTAL ASSETS	\$ 582,583	\$ 595,513
LIABILITIES AND STOCKHOLDER'S EQUITY		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 38,159	\$ 37,777
Income taxes payable	2,106	787
Senior Notes	250,000	250,000
Obligations under capital leases	2,516	2,676
Deferred revenue	31,909	41,739
Deferred income taxes	6,398	7,578
TOTAL LIABILITIES	331,088	340,557
COMMITMENTS AND CONTINGENCIES (Note G)		
STOCKHOLDER'S EQUITY		
Common stock, par value \$.001 per share; 100 shares authorized, issued and outstanding at March 31, 2014 and December 31, 2013	—	—
Additional paid-in capital	399,819	399,641
Retained deficit	(156,562)	(158,454)
Accumulated other comprehensive income	8,238	13,769
TOTAL STOCKHOLDER'S EQUITY	251,495	254,956
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 582,583	\$ 595,513

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

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

	Three Months Ended March 31,	
	2014	2013
REVENUE	\$ 57,053	\$ 51,351
EXPENSES:		
Depreciation and amortization	37,858	29,338
Cost of sales	126	39
Selling, general and administrative	7,425	7,387
	<u>45,409</u>	<u>36,764</u>
INCOME FROM OPERATIONS	11,644	14,587
Interest expense, net	(6,207)	(9,315)
Foreign currency exchange losses	(1,274)	(647)
Loss on early extinguishment of debt	—	(1,504)
Other income (loss)	(14)	1
Income before income taxes	<u>4,149</u>	<u>3,122</u>
Provision for income taxes	2,257	1,384
NET INCOME	<u>\$ 1,892</u>	<u>\$ 1,738</u>

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

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

	Three Months Ended March 31,	
	2014	2013
Net income	\$ 1,892	\$ 1,738
Foreign currency translation adjustments	(5,531)	(3,077)
Comprehensive loss	<u>\$ (3,639)</u>	<u>\$ (1,339)</u>

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

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
	Shares	Amount			
Balance, December 31, 2013	100	\$ —	\$ 399,641	\$ (158,454)	\$ 13,769
Amortization of stock-based compensation costs	—	—	178	—	—
Net income	—	—	—	1,892	—
Foreign currency translation adjustments	—	—	—	—	(5,531)
Balance, March 31, 2014	100	\$ —	\$ 399,819	\$ (156,562)	\$ 8,238

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

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

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities:		
Reconciliation of net income to net cash provided by operating activities:		
Net income	\$ 1,892	\$ 1,738
Depreciation and amortization	37,858	29,338
Loss on early extinguishment of debt	—	1,504
Deferred income tax provision	631	523
Foreign currency exchange losses	1,274	647
Amortization of deferred financing costs	262	502
Amortization of stock-based compensation	178	226
Decrease in allowance for doubtful accounts	(224)	—
Non-cash other loss	14	—
Non-cash revenue	(177)	(635)
Decrease (increase) in receivables	(8,265)	17,520
Decrease (increase) in other assets	(785)	287
Decrease in deferred revenue	(9,732)	(1,146)
Increase (decrease) in accounts payable and other liabilities	7,140	(15,092)
Net cash provided by operating activities	<u>30,066</u>	<u>35,412</u>
Cash flows from investing activities:		
Cash invested in seismic data	(27,071)	(40,132)
Cash paid to acquire property, equipment and other	(983)	(336)
Advances to Seitel Holdings, Inc.	(3)	(246)
Net cash used in investing activities	<u>(28,057)</u>	<u>(40,714)</u>
Cash flows from financing activities:		
Issuance of 9½% Senior Notes	—	250,000
Repayment of 9.75% Senior Notes	—	(275,000)
Principal payments on notes payable	—	(17)
Principal payments on capital lease obligations	(61)	(62)
Costs of debt transactions	—	(5,822)
Net cash used in financing activities	<u>(61)</u>	<u>(30,901)</u>
Effect of exchange rate changes	(155)	(144)
Net increase (decrease) in cash and cash equivalents	1,793	(36,347)
Cash and cash equivalents at beginning of period	31,353	61,891
Cash and cash equivalents at end of period	<u>\$ 33,146</u>	<u>\$ 25,544</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 71	\$ 18,253
Income taxes, net of refunds received	\$ 714	\$ 3,770
Supplemental schedule of non-cash investing and financing activities:		
Additions to seismic data library	\$ 177	\$ 2,716

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

SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

March 31, 2014

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 months ended March 31, 2014 are not necessarily indicative of the results that may be expected for any other quarter of 2014 or for the year ending December 31, 2014. The condensed consolidated balance sheet of the Company as of December 31, 2013 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, 2013.

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 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.

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

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 March 31,	
	2014	2013
Seismic data library additions	\$ 177	\$ 2,716
Revenue recognized on specific data licenses or selections of data	177	578
Revenue recognized related to acquisition contracts	—	57

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 for each of the three months ended March 31, 2014 and 2013.

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.

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%. 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 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 April 1, 2014, is 70% for all components. For those seismic surveys which have been fully amortized, no amortization expense is required on revenue recorded.

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

Seismic Data Library Impairment

The Company evaluates its seismic data library investment by grouping individual surveys into components based on its operations and geological and geographical trends, resulting in the following data library segments for purposes of evaluating impairments: (I) 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 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 three months ended March 31, 2014 or 2013.

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, 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 expires 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 March 31, 2014, no amounts were outstanding under the Credit Facility and there was \$30.0 million of availability.

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 March 31, 2014:				
Cash equivalents	\$ 32,854	\$ 32,854	\$ —	\$ —
At December 31, 2013:				
Cash equivalents	\$ 30,729	\$ 30,729	\$ —	\$ —

The Company had no transfers of assets between any of the above levels during the three months ended March 31, 2014 or 2013.

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 March 31, 2014 and December 31, 2013, the carrying value of the Company's debt was \$250.0 million. The estimated fair value of the debt was approximately \$262.5 million at March 31, 2014 and \$256.8 million at December 31, 2013. 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 March 31, 2014 and December 31, 2013 included \$651,000 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.

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

	Three Months Ended March 31,	
	2014	2013
Non-monetary exchanges related to resale licensing revenue	\$ 177	\$ 324
Completion of data in progress from prior non-monetary exchanges	—	2,392
Total non-cash additions to seismic data library	\$ 177	\$ 2,716

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

	Three Months Ended March 31,	
	2014	2013
Acquisition revenue on underwriting from non-monetary exchange contracts	\$ —	\$ 57
Licensing revenue from specific data licenses and selections on non-monetary exchange contracts	177	578
Total non-cash revenue	\$ 177	\$ 635

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 March 31, 2014, the Company has recorded the estimated amount of potential exposure it may have with respect to litigation and claims. Such amounts are not material to the financial statements.

NOTE H-SUPPLEMENTAL GUARANTORS CONSOLIDATING CONDENSED FINANCIAL INFORMATION

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

The indenture governing the 9½% Senior Notes provides that the guarantees by the Guarantor Subsidiaries will be released in the following customary circumstances: (i) upon a sale or other disposition, whether by merger, consolidation or otherwise, of the equity interests of that guarantor to a person that is not the Company or a restricted subsidiary of the Company; (ii) the guarantor sells all or substantially all of its assets to a person that is not the Company or a restricted subsidiary of the Company; (iii) the guarantor is properly designated as an unrestricted subsidiary or ceases to be a restricted subsidiary; (iv) upon legal defeasance of the 9½% Senior Notes or satisfaction and discharge of the indenture governing the 9½% Senior Notes; (v) the guarantor becomes an immaterial subsidiary or (vi) the guarantor 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 March 31, 2014 and December 31, 2013, and the consolidating condensed statements of income, statements of comprehensive income (loss) and statements of cash flows for the three months ended March 31, 2014 and March 31, 2013 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.

CONSOLIDATING CONDENSED BALANCE SHEET
As of March 31, 2014
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
ASSETS					
Cash and cash equivalents	\$ —	\$ 26,253	\$ 6,893	\$ —	\$ 33,146
Receivables					
Trade, net	—	30,751	11,639	—	42,390
Notes and other, net	—	21	1,811	—	1,832
Due from Seitel Holdings, Inc.	—	1,133	—	—	1,133
Income tax refund	—	—	7,161	—	7,161
Intercompany receivables (payables)	16,531	14,219	(30,750)	—	—
Investment in subsidiaries	480,640	432,437	615	(913,692)	—
Net seismic data library	—	110,466	70,164	(192)	180,438
Net property and equipment	—	2,040	2,204	—	4,244
Prepaid expenses, deferred charges and other	6,601	2,725	507	—	9,833
Intangible assets, net	900	9,235	3,247	—	13,382
Goodwill	—	107,688	90,303	—	197,991
Deferred income taxes	—	91,033	—	—	91,033
TOTAL ASSETS	\$ 504,672	\$ 828,001	\$ 163,794	\$ (913,884)	\$ 582,583
LIABILITIES AND STOCKHOLDER'S EQUITY					
Accounts payable and accrued liabilities	\$ 10,945	\$ 18,323	\$ 8,891	\$ —	\$ 38,159
Income taxes payable	470	891	745	—	2,106
Senior Notes	250,000	—	—	—	250,000
Obligations under capital leases	—	42	2,474	—	2,516
Deferred revenue	—	29,628	2,281	—	31,909
Deferred income taxes	—	—	6,398	—	6,398
TOTAL LIABILITIES	261,415	48,884	20,789	—	331,088
STOCKHOLDER'S EQUITY					
Common stock	—	—	—	—	—
Additional paid-in capital	399,819	—	—	—	399,819
Parent investment	—	764,110	156,152	(920,262)	—
Retained deficit	(156,562)	15,007	(21,374)	6,367	(156,562)
Accumulated other comprehensive income	—	—	8,227	11	8,238
TOTAL STOCKHOLDER'S EQUITY	243,257	779,117	143,005	(913,884)	251,495
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 504,672	\$ 828,001	\$ 163,794	\$ (913,884)	\$ 582,583

CONSOLIDATING CONDENSED BALANCE SHEET
As of December 31, 2013
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
ASSETS					
Cash and cash equivalents	\$ —	\$ 24,859	\$ 6,494	\$ —	\$ 31,353
Receivables					
Trade, net	—	22,711	11,905	—	34,616
Notes and other, net	—	4	1,928	—	1,932
Due from Seitel Holdings, Inc.	—	1,130	—	—	1,130
Income tax refund	—	—	7,441	—	7,441
Intercompany receivables (payables)	15,416	14,719	(30,135)	—	—
Investment in subsidiaries	473,191	433,709	1,335	(908,235)	—
Net seismic data library	—	116,199	79,794	(215)	195,778
Net property and equipment	—	2,244	2,367	—	4,611
Prepaid expenses, deferred charges and other	6,841	2,581	422	—	9,844
Intangible assets, net	900	10,038	3,824	—	14,762
Goodwill	—	107,688	93,847	—	201,535
Deferred income taxes	—	92,511	—	—	92,511
TOTAL ASSETS	\$ 496,348	\$ 828,393	\$ 179,222	\$ (908,450)	\$ 595,513
LIABILITIES AND STOCKHOLDER'S EQUITY					
Accounts payable and accrued liabilities	\$ 5,008	\$ 16,636	\$ 16,133	\$ —	\$ 37,777
Income taxes payable	153	634	—	—	787
Senior Notes	250,000	—	—	—	250,000
Obligations under capital leases	—	50	2,626	—	2,676
Deferred revenue	—	38,748	2,991	—	41,739
Deferred income taxes	—	—	7,578	—	7,578
TOTAL LIABILITIES	255,161	56,068	29,328	—	340,557
STOCKHOLDER'S EQUITY					
Common stock	—	—	—	—	—
Additional paid-in capital	399,641	—	—	—	399,641
Parent investment	—	764,752	156,924	(921,676)	—
Retained deficit	(158,454)	7,573	(20,796)	13,223	(158,454)
Accumulated other comprehensive income	—	—	13,766	3	13,769
TOTAL STOCKHOLDER'S EQUITY	241,187	772,325	149,894	(908,450)	254,956
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 496,348	\$ 828,393	\$ 179,222	\$ (908,450)	\$ 595,513

CONSOLIDATING CONDENSED STATEMENT OF INCOME
For the Three Months Ended March 31, 2014
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$ —	\$ 39,918	\$ 17,481	\$ (346)	\$ 57,053
EXPENSES:					
Depreciation and amortization	—	24,137	13,736	(15)	37,858
Cost of sales	—	114	12	—	126
Selling, general and administrative	311	4,771	2,689	(346)	7,425
	<u>311</u>	<u>29,022</u>	<u>16,437</u>	<u>(361)</u>	<u>45,409</u>
INCOME (LOSS) FROM OPERATIONS	(311)	10,896	1,044	15	11,644
Interest expense, net	(5,232)	(527)	(448)	—	(6,207)
Foreign currency exchange gains (losses)	—	3	(1,277)	—	(1,274)
Other loss	(14)	—	—	—	(14)
Income (loss) before income taxes and equity in income (loss) of subsidiaries	(5,557)	10,372	(681)	15	4,149
Provision (benefit) for income taxes	—	2,360	(103)	—	2,257
Equity in income (loss) of subsidiaries	7,449	(578)	—	(6,871)	—
NET INCOME (LOSS)	<u>\$ 1,892</u>	<u>\$ 7,434</u>	<u>\$ (578)</u>	<u>\$ (6,856)</u>	<u>\$ 1,892</u>

CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)
For the Three Months Ended March 31, 2014
(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Consolidating Eliminations</u>	<u>Consolidated Total</u>
Net income (loss)	\$ 1,892	\$ 7,434	\$ (578)	\$ (6,856)	\$ 1,892
Foreign currency translation adjustments	—	—	(5,539)	8	(5,531)
Comprehensive income (loss)	<u>\$ 1,892</u>	<u>\$ 7,434</u>	<u>\$ (6,117)</u>	<u>\$ (6,848)</u>	<u>\$ (3,639)</u>

CONSOLIDATING CONDENSED STATEMENT OF INCOME
For the Three Months Ended March 31, 2013
(In thousands)

	Parent	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Consolidating Eliminations	Consolidated Total
REVENUE	\$ —	\$ 33,120	\$ 18,575	\$ (344)	\$ 51,351
EXPENSES:					
Depreciation and amortization	—	18,009	11,329	—	29,338
Cost of sales	—	38	1	—	39
Selling, general and administrative	285	4,463	2,983	(344)	7,387
	<u>285</u>	<u>22,510</u>	<u>14,313</u>	<u>(344)</u>	<u>36,764</u>
INCOME (LOSS) FROM OPERATIONS	(285)	10,610	4,262	—	14,587
Interest expense, net	(7,831)	(1,065)	(419)	—	(9,315)
Foreign currency exchange losses	—	—	(647)	—	(647)
Loss on early extinguishment of debt	(1,504)	—	—	—	(1,504)
Other income	—	1	—	—	1
Income (loss) before income taxes and equity in income of subsidiaries	(9,620)	9,546	3,196	—	3,122
Provision for income taxes	—	484	900	—	1,384
Equity in income of subsidiaries	11,358	2,296	—	(13,654)	—
NET INCOME	<u>\$ 1,738</u>	<u>\$ 11,358</u>	<u>\$ 2,296</u>	<u>\$ (13,654)</u>	<u>\$ 1,738</u>

CONSOLIDATING CONDENSED STATEMENT OF COMPREHENSIVE INCOME (LOSS)**For the Three Months Ended March 31, 2013**

(In thousands)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Non- Guarantor Subsidiaries</u>	<u>Consolidating Eliminations</u>	<u>Consolidated Total</u>
Net income	\$ 1,738	\$ 11,358	\$ 2,296	\$ (13,654)	\$ 1,738
Foreign currency translation adjustments	—	—	(3,077)	—	(3,077)
Comprehensive income (loss)	<u>\$ 1,738</u>	<u>\$ 11,358</u>	<u>\$ (781)</u>	<u>\$ (13,654)</u>	<u>\$ (1,339)</u>

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
For the Three Months Ended March 31, 2014
(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	\$ (164)	\$ 16,233	\$ 13,997	\$ —	\$ 30,066
Cash flows from investing activities:					
Cash invested in seismic data	—	(13,713)	(13,358)	—	(27,071)
Cash paid to acquire property, equipment and other	—	(951)	(32)	—	(983)
Advances to Seitel Holdings, Inc.	—	(3)	—	—	(3)
Net cash used in investing activities	—	(14,667)	(13,390)	—	(28,057)
Cash flows from financing activities:					
Principal payments on capital lease obligations	—	(8)	(53)	—	(61)
Intercompany transfers	164	(164)	—	—	—
Net cash provided by (used in) financing activities	164	(172)	(53)	—	(61)
Effect of exchange rate changes	—	—	(155)	—	(155)
Net increase in cash and cash equivalents	—	1,394	399	—	1,793
Cash and cash equivalents at beginning of period	—	24,859	6,494	—	31,353
Cash and cash equivalents at end of period	\$ —	\$ 26,253	\$ 6,893	\$ —	\$ 33,146

CONSOLIDATING CONDENSED STATEMENT OF CASH FLOWS
For the Three Months Ended March 31, 2013
(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	\$ (17,861)	\$ 42,050	\$ 11,223	\$ —	\$ 35,412
Cash flows from investing activities:					
Cash invested in seismic data	—	(27,629)	(12,503)	—	(40,132)
Cash paid to acquire property, equipment and other	—	(192)	(144)	—	(336)
Advances to Seitel Holdings, Inc.	—	(246)	—	—	(246)
Net cash used in investing activities	—	(28,067)	(12,647)	—	(40,714)
Cash flows from financing activities:					
Issuance of 9½% Senior Notes	250,000	—	—	—	250,000
Repayment of 9.75% Senior Notes	(275,000)	—	—	—	(275,000)
Principal payments on notes payable	(17)	—	—	—	(17)
Principal payments on capital lease obligations	—	(8)	(54)	—	(62)
Costs of debt transactions	(5,822)	—	—	—	(5,822)
Intercompany transfers	48,700	(49,200)	500	—	—
Net cash provided by (used in) financing activities	17,861	(49,208)	446	—	(30,901)
Effect of exchange rate changes	—	—	(144)	—	(144)
Net decrease in cash and cash equivalents	—	(35,225)	(1,122)	—	(36,347)
Cash and cash equivalents at beginning of period	—	60,533	1,358	—	61,891
Cash and cash equivalents at end of period	\$ —	\$ 25,308	\$ 236	\$ —	\$ 25,544

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

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

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q (this “Quarterly Report”) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Statements contained in this report about our future outlook, prospects, strategies and plans, and about industry conditions, demand for seismic services and the future economic life of our seismic data are forward-looking, among others. All statements that express belief, expectation, estimates or intentions, as well as those that are not statements of historical fact, are forward-looking. The words “believe,” “expect,” “anticipate,” “estimate,” “project,” “propose,” “plan,” “target,” “foresee,” “should,” “intend,” “may,” “will,” “would,” “could,” “potential” and similar expressions are intended to identify forward-looking statements. Forward-looking statements represent our present belief and are based on our current expectations and assumptions with respect to future events and their potential effect on us. While we believe our expectations and assumptions are reasonable, they involve risks and uncertainties beyond our control that could cause the actual results or outcome to differ materially from the expected results or outcome reflected in our forward-looking statements. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this Quarterly Report may not occur. Such risks and uncertainties include, without limitation, actual customer demand for our seismic data and related services, the timing and extent of changes in commodity prices for natural gas, crude oil and condensate and natural gas liquids, conditions in the capital markets during the periods covered by the forward-looking statements, the effect of economic conditions, our ability to obtain financing on satisfactory terms if internally generated funds and our current credit facility are insufficient to fund our capital needs, the impact on our financial condition as a result of our debt and our debt service, our ability to obtain and maintain normal terms with our vendors and service providers, our ability to maintain contracts that are critical to our operations, changes in the oil and gas industry or the economy generally and changes in the exploration budgets of our customers, as well as the risk factors identified in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the Securities and Exchange Commission (“SEC”).

The forward-looking statements contained in this report speak only as of the date hereof and readers are cautioned not to place undue reliance on such forward-looking statements. Except as required by federal and state securities laws, we undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or any other reason. All forward-looking statements attributable to Seitel, Inc. or any person acting on its behalf are expressly qualified in their entirety by the cautionary statements contained or referred to herein, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 filed with the SEC and in our future periodic reports filed with the SEC.

Overview

General

We are a leading provider of onshore seismic data to the oil and gas industry in North America. We own an extensive library of onshore and offshore seismic data that we have accumulated since our inception in 1982 that we offer for license to exploration and production (“E&P”) companies. We believe our data library is the largest onshore three-dimensional (“3D”) database available for licensing in North America and includes leading positions in oil and liquids-rich unconventional plays.

Our products and services are used by E&P companies in oil and gas exploration and development efforts to increase the probability of drilling success, to better delineate existing oil and gas fields and to augment their reservoir completion and management techniques. In unconventional plays, E&P companies use seismic data as a development tool to better identify efficient drilling plans and maximize production by identifying and understanding a series of critical characteristics of the targeted resource. We generate revenue primarily by licensing data from our data library and from new data creation projects, which are substantially underwritten or paid for by our clients. By participating in underwritten, nonexclusive surveys or purchasing licenses to existing data, E&P companies can obtain access to surveys at reduced costs as compared to acquiring seismic data on a proprietary basis.

Our primary areas of focus are onshore United States and Canada and, to a lesser extent, offshore U.S. Gulf of Mexico. Major integrated oil and gas companies and national oil companies have become more active in the North American market in recent years, primarily in the unconventional plays, through joint ventures, asset purchases and corporate transactions. The larger independent oil and gas companies continue to be responsible for a significant portion of current U.S. drilling activity. Our

offshore seismic data is primarily located in the shallow waters of the U.S. Gulf of Mexico and generates a small percentage of our revenue.

Principal Factors Affecting Our Business

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

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

Merger and Acquisition/Joint Venture 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.

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

North America Drilling Activity: Drilling activity remains focused on areas with oil and liquids-rich hydrocarbons, while activity in dry gas areas continues to be depressed.

Availability of Capital for Our Customers: Some of our customers are independent E&P companies and private prospect-generating companies that rely primarily on private capital markets to fund their exploration, production, development and field management activities. Reductions in cash flows resulting from lower commodity prices, along with the reduced availability of credit and increased costs of borrowing, could have a material impact on the ability of such companies to obtain funding necessary to purchase our seismic data.

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

Key Performance Measures

Management considers 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 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, including data currently in progress, payable in cash. We believe this measure is important in assessing overall industry and client activity. Cash resales are likely to fluctuate quarter to quarter as they do not require the longer planning and lead times necessary for new data creation.

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 March 31,	
	2014	2013
Cash resales	\$ 32,277	\$ 22,445
Other revenue components:		
Acquisition underwriting revenue	16,837	25,089
Non-monetary exchanges	177	324
Revenue recognition adjustments	6,577	2,072
Solutions and other	1,185	1,421
Total revenue	<u>\$ 57,053</u>	<u>\$ 51,351</u>

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

The following is a quantitative reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, net income (in thousands):

	Three Months Ended March 31,	
	2014	2013
Cash EBITDA	\$ 26,118	\$ 16,656
Add (subtract) other revenue components not included in cash EBITDA:		
Acquisition underwriting revenue	16,837	25,089
Non-monetary exchanges	177	324
Revenue recognition adjustments	6,577	2,072
Add (subtract) other items included in net income:		
Depreciation and amortization	(37,858)	(29,338)
Non-cash operating expenses	(178)	(226)
Non-recurring corporate expenses	(29)	10
Interest expense, net	(6,207)	(9,315)
Foreign currency losses	(1,274)	(647)
Loss on early extinguishment of debt	—	(1,504)
Other income (loss)	(14)	1
Provision for income taxes	(2,257)	(1,384)
Net income	<u>\$ 1,892</u>	<u>\$ 1,738</u>

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, 2014 to May 8, 2014, we completed the addition of approximately 800 square miles of seismic data to our library. As of May 8, 2014, we had approximately 450 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, 2013.

Results of Operations

Revenue

The following table summarizes the components of our revenue for the three months ended March 31, 2014 and 2013 (in thousands):

	Three Months Ended March 31,	
	2014	2013
Acquisition underwriting revenue:		
Cash underwriting	\$ 16,837	\$ 25,032
Underwriting from non-monetary exchanges	—	57
Total acquisition underwriting revenue	16,837	25,089
Resale licensing revenue:		
Cash resales	32,277	22,445
Non-monetary exchanges	177	324
Revenue recognition adjustments	6,577	2,072
Total resale licensing revenue	39,031	24,841
Total seismic revenue	55,868	49,930
Solutions and other	1,185	1,421
Total revenue	<u>\$ 57,053</u>	<u>\$ 51,351</u>

Total revenue was \$57.1 million in the first quarter of 2014 compared to \$51.4 million in the first quarter of 2013. Acquisition underwriting revenue was \$16.8 million in the first quarter of 2014 compared to \$25.1 million in the first quarter of 2013. Fewer data acquisition projects were ongoing in the first quarter of 2014 compared to 2013 as a result of our strategic decision to focus on cash generation by reducing our level of capital expenditures on new data acquisition projects beginning in 2013 and continuing in 2014 as compared to the levels incurred in 2012 and 2011. This reduction directly impacts acquisition underwriting revenue. We continue to focus our data acquisition activity on areas with oil and liquids-rich hydrocarbons, with the majority of our activity in the first quarter of 2014 occurring in the Eagle Ford/Woodbine, Utica/Marcellus, Permian and Montney areas. Total resale licensing revenue was \$39.0 million in the first quarter of 2014 compared to \$24.8 million in the first quarter of 2013. Cash resales were \$32.3 million, an increase of \$9.8 million, or 44%, in the first quarter of 2014 compared to cash resales of \$22.4 million in the first quarter of 2013. Cash resale activity can vary significantly quarter to quarter and, in the first quarter of 2014, we experienced an increase in activity as compared to the first quarter of 2013, primarily related to licenses of data located in conventional areas. Revenue recognition adjustments are non-cash adjustments to revenue and reflect the net amount of (i) revenue deferred as a result of all of the revenue recognition criteria not being met and (ii) the subsequent revenue recognition once the criteria are met. The change in revenue recognition adjustments between 2013 and 2014 was primarily due to an increase in the recognition of revenue previously deferred, including data becoming available in the first quarter of 2014 and selections of data from open library card contracts, partially offset by an increase in the deferral of cash resales in the first quarter of 2014. Solutions and other revenue was \$1.2 million in the first quarter of 2014 compared to \$1.4 million in the first quarter of 2013.

At March 31, 2014, we had a deferred revenue balance of \$31.9 million, compared to the December 31, 2013 balance of \$41.7 million. The deferred revenue balance 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

The table below sets forth the components of depreciation and amortization and presents seismic data amortization as a percentage of total seismic revenue for the three months ended March 31, 2014 and 2013 (dollars in thousands):

	Three Months Ended March 31,			
	2014		2013	
Amortization of seismic data:				
Income forecast	\$ 31,153	55.8%	\$ 22,708	45.5%
Straight-line	5,248	9.4%	4,936	9.9%
Total amortization of seismic data	36,401	65.2%	27,644	55.4%
Depreciation of property and equipment	223		256	
Amortization of acquired intangibles	1,234		1,438	
Total	<u>\$ 37,858</u>		<u>\$ 29,338</u>	

The percentage of income forecast amortization to total seismic revenue increased between the quarterly periods primarily due to the mix of data being licensed. In both periods, we had resale revenue recognized from data whose costs were fully amortized. In the first quarter of 2014, the percentage of resale revenue recognized from data whose costs were fully amortized was 29% as compared to 70% in the first quarter of 2013. In addition, we had less amortization expense related to new data acquisition in the first quarter of 2014 due to the lower level of acquisition revenue. Straight-line amortization represents the expense required under our accounting policy to ensure the book value of our data is fully amortized within four years of when the data becomes available for sale. The amount of straight-line amortization increased \$0.3 million between the first quarters of 2013 and 2014 due to the distribution of revenue among the various seismic surveys.

Selling, General and Administrative Expenses

Selling, general and administrative (“SG&A”) expenses were \$7.4 million both in the first quarter of 2014 and the first quarter of 2013. SG&A expenses are made up of the following cash and non-cash expenses (in thousands):

	Three Months Ended March 31,	
	2014	2013
Cash SG&A expenses	\$ 7,247	\$ 7,161
Non-cash compensation expense	178	226
Total	<u>\$ 7,425</u>	<u>\$ 7,387</u>

Overall, cash SG&A expenses were consistent between quarters. Variable expenses, including commissions and annual incentive compensation, were higher in the first quarter of 2014 due to the increase in revenue and Cash EBITDA. This increase was offset by a benefit resulting from the reduction in our allowance for doubtful accounts primarily due to the collection of a previously reserved receivable.

Interest Expense, Net

Interest expense, net, was \$6.2 million in the first quarter of 2014 compared to \$9.3 million in the first quarter of 2013. The decrease in interest expense was due to the refinancing of our 9.75% senior notes due 2014 (“9.75% Senior Notes”) in March 2013.

Loss on Early Extinguishment of Debt

In connection with the early extinguishment of our 9.75% Senior Notes in March 2013, we recorded a \$1.5 million non-cash charge which included the write-off of unamortized issue expenses in the first quarter of 2013.

Income Taxes

Income tax expense was \$2.3 million in the first quarter of 2014 compared to \$1.4 million in the first quarter of 2013. As a result of the release of the valuation allowance on our U.S. deferred tax assets at December 31, 2013, we are now recording federal tax expense on our U.S. operations. Income tax expense in the first quarter of 2014 was comprised of (i) U.S. federal tax expense of \$1.9 million, (ii) U.S. state tax expense of \$0.5 million and (iii) a benefit of \$0.1 million related to our Canadian operations. The expense in the first quarter of 2013 was comprised of (i) \$0.9 million related to our Canadian operations, (ii)

\$0.1 million in U.S. Federal taxes related to our estimated alternative minimum tax liability and (iii) \$0.4 million in U.S. state taxes.

Net Income

Net income was \$1.9 million in the first quarter of 2014 compared to \$1.7 million in the first quarter of 2013. The \$0.2 million increase in net income between quarters was primarily due to higher revenue and lower interest expense, partially offset by higher amortization of seismic data. In addition, in the first quarter of 2013, we recorded a \$1.5 million charge related to the early extinguishment of our debt.

Liquidity and Capital Resources

As of March 31, 2014, we had \$33.1 million in consolidated cash, cash equivalents and short-term investments, including \$0.8 million of restricted cash. Our foreign subsidiary regularly holds cash which is used to reinvest in our Canadian operations. If we decide at a later date to repatriate those funds to the U.S., we may be required to provide taxes on certain of those funds based on applicable U.S. tax rates net of foreign taxes. Cash held by our foreign subsidiary fluctuates throughout the year and at March 31, 2014, was \$6.9 million.

In addition to the cash on our balance sheet, other sources of liquidity, including our Credit Facility, are described below. For additional information regarding the Credit Facility and the 9½% Senior Notes, See “Note D - Debt” in the Notes to Condensed Consolidated Interim Financial Statements herein.

Credit Facility: On May 25, 2011, we entered into a credit agreement which provides us with the ability to borrow up to \$30.0 million. The Credit Facility provides a \$30.0 million revolving credit facility with a Canadian sublimit of \$5.0 million, subject to borrowing base limitations based on our seismic data assets and eligible accounts receivable, each as defined in the Credit Facility, calculated on a monthly basis. U.S. borrowings under the Credit Facility accrue interest based on, at our option, either the London InterBank Offered Rate (LIBOR) plus an applicable margin, or the base rate, as defined in the agreement, plus an applicable margin. Canadian borrowings under the Credit Facility accrue interest based on a Canadian base rate, as defined in the agreement. In addition, we are required to pay an unused line fee of 0.50% per annum in respect of any unutilized commitments under the Credit Facility. The Credit Facility expires on May 25, 2016. As of March 31, 2014, no amounts were outstanding under the Credit Facility and there was \$30.0 million of availability. To the best of our knowledge, we were in compliance with all covenants contained in the Credit Facility at March 31, 2014.

9½% Senior Unsecured Notes: On March 20, 2013, we issued in a private placement \$250.0 million aggregate principal amount of our 9½% Senior Notes. Interest is payable in cash, semi-annually on April 15 and October 15 of each year. The notes mature on April 15, 2019.

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

Cash Flows from Operating Activities: Cash flows provided by operating activities were \$30.1 million and \$35.4 million for the three months ended March 31, 2014 and 2013, respectively. Operating cash flows for 2014 decreased from 2013 primarily due to lower collections on cash resales partially offset by lower income taxes paid and lower interest payments during the first quarter of 2014.

Cash Flows from Investing Activities: Cash flows used in investing activities were \$28.1 million and \$40.7 million for the three months ended March 31, 2014 and 2013, respectively. Cash expenditures for seismic data were \$27.1 million and \$40.1 million for the three months ended March 31, 2014 and 2013, respectively. The decrease in cash invested in seismic data for 2014 compared to 2013 was primarily due to decreased data acquisition activity in the U.S.

Cash Flows from Financing Activities: Cash flows used in financing activities were \$0.1 million and \$30.9 million for the three months ended March 31, 2014 and 2013, respectively. This decrease was due to the 2013 refinancing of our 9.75% Senior Notes whereby we used \$25.0 million cash on hand to pay down principal and paid \$5.8 million in fees and expenses in connection with the issuance of our 9½% Senior Notes.

Anticipated Liquidity: Our ability to cover our operating and capital expenses, make required debt service payments on our 9½% Senior Notes, incur additional indebtedness and comply with our various debt covenants will depend primarily on our ability to generate substantial operating cash flows. Over the next 12 months, we expect to obtain the funds necessary to pay our operating, capital and other expenses, as well as interest on our 9½% Senior Notes and principal and interest on our other indebtedness, from our operating cash flows, cash and cash equivalents on hand and, if required, from additional borrowings (to the extent available under our Credit Facility subject to the borrowing base). 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. 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 March 31, 2014, we had a net deferred tax liability of \$6.4 million attributable to our Canadian operations. In the United States, we had a federal deferred tax asset of \$89.2 million and a state deferred tax asset of \$1.8 million.

Off-Balance Sheet Transactions

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

Capital Expenditures

During the three months ended March 31, 2014, capital expenditures for seismic data and other property and equipment amounted to \$24.0 million. Our capital expenditures for the remainder of 2014 are presently estimated to be \$94.2 million. The first three months of 2014 actual and 2014 estimated remaining capital expenditures are comprised of the following (in thousands):

	Three Months Ended March 31, 2014	Estimate for Remainder of 2014	Total Estimate for 2014
New data acquisition	\$ 23,147	\$ 86,753	\$ 109,900
Cash purchases and data processing	539	1,361	1,900
Non-monetary exchanges	177	4,523	4,700
Property and equipment and other	183	1,517	1,700
Total capital expenditures	24,046	94,154	118,200
Less: Non-monetary exchanges	(177)	(4,523)	(4,700)
Changes in working capital	4,185	—	4,185
Cash investment per statement of cash flows	<u>\$ 28,054</u>	<u>\$ 89,631</u>	<u>\$ 117,685</u>

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

	Three Months Ended March 31, 2014	Estimate for Remainder of 2014	Total Estimate for 2014
Total capital expenditures	\$ 24,046	\$ 94,154	\$ 118,200
Less: Non-cash additions	(177)	(4,523)	(4,700)
Cash underwriting	(16,837)	(61,663)	(78,500)
Net cash capital expenditures	<u>\$ 7,032</u>	<u>\$ 27,968</u>	<u>\$ 35,000</u>

As of May 8, 2014, we had capital expenditure commitments related to data acquisition projects of approximately \$28.0 million, of which we have obtained approximately \$17.9 million of cash underwriting. We expect the majority of our \$10.1 million committed net cash capital expenditures to be incurred in 2014. See discussion of our sources of liquidity under “Liquidity and Capital Resources” beginning on page 28 of this Quarterly Report.

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. Historically, we have not entered into financial instruments to mitigate these risks. We do not enter into derivative or other financial instruments for speculative or trading purposes.

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

The following information about our market-sensitive financial instruments constitutes a “forward-looking statement.”

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 March 31, 2014, 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 long-term debt with fixed interest rates and our short-term debt with floating interest rates if we were to borrow under our Credit Facility. See also our “Interest Rate Risk” disclosure under Item 7A. in our 2013 Annual Report on Form 10-K.

Foreign Currency Exchange Rate Risk

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

Additionally, certain intercompany balances between our U.S. and Canadian subsidiaries are denominated in U.S. dollars. Since this is not the functional currency of our Canadian subsidiary, the changes in these balances are translated in our Consolidated Statements of Income. As a result, we are exposed to foreign exchange risk as it relates to these intercompany balances. A sensitivity analysis indicates that, based on the intercompany balance as of March 31, 2014, if the U.S. dollar strengthened or weakened 3% (determined using an average of the last three years' historical exchange rates) against the Canadian dollar, the effect upon our Consolidated Statements of Income would be approximately \$1.0 million.

We have not had any significant changes in our market risk exposures during the quarter ended March 31, 2014.

Item 4. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, our management carried out an evaluation, under the supervision and with the participation of our President and Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), pursuant to Exchange Act Rule 13a-15. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based upon that evaluation, our President and Chief Executive Officer along with our Chief Financial Officer concluded that the Company’s disclosure controls and procedures as of March 31, 2014 were effective at the reasonable assurance level.

b) Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

For a discussion of our potential risks and uncertainties, see the information under the heading “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2013, as amended, initially filed with the SEC on February 21, 2014, and the other information set forth elsewhere in this Quarterly Report on Form 10-Q. There have been no material changes to the risk factors disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013. You should be aware that these risk factors and other information may not describe every risk we face. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may materially adversely affect our business, financial condition and/or results of operations.

Item 6. EXHIBITS

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

SIGNATURES

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

SEITEL, INC.

Date: May 13, 2014

/s/ Robert D. Monson

Robert D. Monson

Chief Executive Officer and President

(Duly Authorized Officer and Principal Executive Officer)

Date: May 13, 2014

/s/ Marcia H. Kendrick

Marcia H. Kendrick

Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

EXHIBIT
INDEX

<u>Exhibit</u>	<u>Title</u>
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 *	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.
31.2 *	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.
32.1 **	Section 1350 Certification of Chief Executive Officer.
32.2 **	Section 1350 Certification of Chief Financial Officer.
101.INS *	XBRL Instance Document.
101.SCH *	XBRL Taxonomy Extension Schema Document.
101.CAL *	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB *	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE *	XBRL Taxonomy Extension Presentation Linkbase Document.

* Filed herewith.

** Furnished, not filed.