UNIVERSAL TECHNICAL INSTITUTE INC
Form DEF 14A
January 15, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934
Filed by the Registrant ý
Filed by a Party other than the Registrant ¨
Check the appropriate box:
¨ Preliminary Proxy Statement
¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý Definitive Proxy Statement
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to §240-14a-12
UNIVERSAL TECHNICAL INSTITUTE, INC.

(Name of Registrant as Specified in its Charter)
N/A

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)
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(3) Filing Party:

(4) Date Filed:

UNIVERSAL TECHNICAL INSTITUTE, INC.
16220 North Scottsdale Road
Suite 100
Scottsdale, Arizona 85254
(623) 445-9500

Dear Fellow Stockholder:

You are cordially invited to attend the 2016 Annual Meeting of Stockholders of Universal Technical Institute, Inc. (the "Company," "UTI," "we," "us" or "our"), to be held at 8:00 a.m. local time on Wednesday, March 2, 2016, at our offices located at 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254.

We have attached a notice of meeting and a proxy statement that contain details of the business to be conducted at the Annual Meeting.

Whether or not you attend the Annual Meeting, it is important that your shares be represented and voted at the meeting. Therefore, I urge you to promptly vote and submit your proxy before the meeting so that your shares will be represented and voted at the meeting even if you cannot attend in person.

On behalf of the Board of Directors, I would like to express our appreciation for your continued interest in the affairs of UTI. We look forward to seeing you at the Annual Meeting.

Sincerely,

/s/ Kimberly J. McWaters
Kimberly J. McWaters
Chairman of the Board of Directors and Chief Executive Officer

January 15, 2016

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16220 North Scottsdale Road
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NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
AND
NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS

To the holders of common stock of Universal Technical Institute, Inc.:

The 2016 Annual Meeting of Stockholders of Universal Technical Institute, Inc. (the “Company”) will be held at our offices located at 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254 on Wednesday, March 2, 2016 at 8:00 a.m. local time for the following purposes:

1. To elect three directors to the Board of Directors to serve for a term of three years or until their respective successors are elected and qualified.
2. To ratify the appointment of Deloitte & Touche LLP as the Company’s independent registered public accounting firm for the year ending September 30, 2016.
3. To consider and act upon such other business as may properly come before the meeting.

Only stockholders of record at the close of business on January 4, 2016 are entitled to receive notice of and to vote at the meeting. A list of stockholders entitled to vote will be available for examination at the meeting by any stockholder for any purpose germane to the meeting. The list will also be available for the same purpose for ten days prior to the meeting at our principal executive offices at 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254.

To obtain directions to attend the Annual Meeting and vote in person, please call Investor Relations at (623) 445-9500.

Important Notice Regarding the Availability of Proxy Materials for the Stockholder Meeting to Be Held on March 2, 2016. The Proxy Statement and UTI’s Annual Report on Form 10-K for fiscal year 2015 are available electronically at http://www.envisionreports.com/uti.

WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, YOU ARE REQUESTED TO SIGN, DATE AND RETURN THE PROXY AS PROMPTLY AS POSSIBLE. YOUR PROXY IS BEING SOLICITED BY THE COMPANY’S BOARD OF DIRECTORS.

By Order of the Board of Directors,

/s/ Chad A. Freed
Chad A. Freed
General Counsel, Executive Vice President of Corporate Development

Scottsdale, Arizona
January 15, 2016

UNIVERSAL TECHNICAL INSTITUTE, INC.
16220 North Scottsdale Road
Suite 100
Scottsdale, Arizona 85254
(623) 445-9500

PROXY STATEMENT
ANNUAL MEETING OF STOCKHOLDERS
March 2, 2016

General Information

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the “Board”) of Universal Technical Institute, Inc. (the “Company,” “UTI,” “we,” “us” or “our”), of proxies for use in voting at the 2016 Annu Meeting of Stockholders (the “Annual Meeting”) to be held at 8:00 a.m. local time on March 2, 2016 at our offices located at 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254, and any adjournment or postponement thereof. On or about January 21, 2016, proxy materials for the Annual Meeting, including this Proxy Statement and the Company’s Annual Report on Form 10-K for the fiscal year ended September 30, 2015 (the “2015 Annual Report”), are being made available to stockholders entitled to vote at the annual meeting. The date of this Proxy Statement is January 15, 2016.

In accordance with rules adopted by the Securities and Exchange Commission (the “SEC”), except for stockholders who have requested otherwise, we have generally mailed to our stockholders a Notice of Internet Availability of Proxy Materials (the “Notice of Internet Availability”). The Notice of Internet Availability provides instructions either for accessing our proxy materials, including this Proxy Statement and the 2015 Annual Report, at the website address referred to in the Notice of Internet Availability, or for requesting printed copies of the proxy materials by mail or electronically by e-mail. If a stockholder would like to receive a paper or e-mail copy of our proxy materials either for this Annual Meeting or for all future meetings, such stockholder should follow the instructions for requesting such materials included in the Notice of Internet Availability we mailed to our stockholders.

We will bear the cost of soliciting proxies. Copies of solicitation material may be furnished to brokers, custodians, nominees and other fiduciaries for forwarding to beneficial owners of shares of common stock, and normal handling charges may be paid for such forwarding service. We may solicit proxies by mail or by personal interview, telephone and other electronic communication by our officers and other management employees, who will receive no additional compensation for their services.

Any stockholder giving a proxy pursuant to this solicitation may revoke it at any time prior to exercise of the proxy by giving written notice of such revocation to our Secretary at our executive offices at 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254, or by attending the Annual Meeting and voting in person.

At the close of business on January 4, 2016, there were 24,445,112 shares of our common stock outstanding and entitled to vote at the Annual Meeting. Only common stockholders of record on January 4, 2016 will be entitled to vote at the Annual Meeting. Each share is entitled to one vote on each matter voted upon. Votes may not be cumulated.

Voting Information

The presence, in person or by proxy relating to any matter to be acted upon at the Annual Meeting, of the holders of a majority of the outstanding shares of common stock will constitute a quorum for purposes of the

Annual Meeting. For purposes of the quorum requirement and the discussion below regarding the vote necessary to take stockholder action, stockholders of record who are present at the Annual Meeting in person or by proxy and who abstain are considered stockholders who are present and entitled to vote and they count toward the quorum.

Voting without attending the Annual Meeting can be done in the following ways:

- Internet. A proxy can be submitted over the Internet to vote shares at the Annual Meeting by following the instructions provided either in the Notice of Internet Availability or on the proxy card or voting instruction form if a printed set of proxy materials were requested and received.
- Telephone. If a printed set of proxy materials were requested and received, a proxy can be submitted over the telephone to vote shares at the Annual Meeting by following the instructions provided on the proxy card or voting instruction form enclosed with the proxy materials received. If only a Notice of Internet Availability was received, a proxy can be submitted over the telephone to vote shares by following the instructions at the Internet website address referred to in the Notice of Internet Availability.
- Mail. If a printed set of proxy materials were requested and received, a proxy can be submitted by mail to vote shares at the Annual Meeting by completing, signing and returning the proxy card or voting instruction form enclosed with the proxy materials received.

Submissions of proxy via telephone or internet must be received by 11:59 p.m. Eastern Time on March 1, 2016 in order for the shares to be voted at the Annual Meeting. However, a stockholder of record who received a printed copy of the proxy materials may instead mark, sign, date and return the proxy card so that it is received by the Company before the polls close at the Annual Meeting in order for shares to be voted at the Annual Meeting. Stockholders of shares held in street name must comply with the deadlines included in the voting instructions provided by the bank, broker or other nominee that holds the shares.

Brokers, banks or other nominees that hold shares of common stock in "street name" for a beneficial owner of those shares typically have the authority to vote in their discretion if permitted by the stock exchange or other organization of which they are members. Brokers, banks and other nominees are permitted to vote the beneficial owner's proxy in their own discretion as to certain "routine" proposals when they have not received instructions from the beneficial owners, such as the ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2016. If a broker, bank or other nominee votes such "uninstructed" shares for or against a "routine" proposal, those shares will be counted towards determining whether or not a quorum is present and are considered entitled to vote on the "routine" proposals. However, where a proposal is not "routine," a broker, bank or other nominee is not permitted to exercise its voting discretion on that proposal without specific instructions from the beneficial owner. These non-voted shares are referred to as "broker non-votes" when the nominee has voted on other non-routine matters with authorization or voted on routine matters. These shares will be counted towards determining whether or not a quorum is present, but will not be considered entitled to vote on the "non-routine" proposals.

Broker non-votes will not affect the outcome of any matter being voted on at the meeting, assuming that a quorum is obtained. Abstentions, on the other hand, have the same effect as votes against the matter, although abstentions will have no effect on the election of directors because approval of a percentage of shares present or outstanding is not required for that proposal.

Election of Directors. Our Bylaws provide that in a non-contested election, each director nominee must be elected by the affirmative vote of the majority of the votes cast with respect to that director's election. A "majority of the votes cast" means that the number of votes "FOR" a director nominee must exceed the number of votes "AGAINST" that director nominee. Accordingly, abstentions will have no effect on the election of a director. Pursuant to our Corporate Governance Guidelines, the Board of Directors expects any director nominee who is an incumbent director and is not re-elected to promptly tender his or her resignation, and the Board of Directors, excluding the director who tenders his or her resignation, must promptly decide whether to accept or reject the resignation. Uninstructed shares are not entitled to vote on the election of directors.

Ratification of the Appointment of the Independent Registered Public Accounting Firm. The affirmative vote of a majority of the shares of common stock present or represented at the Annual Meeting and entitled to vote is required to approve the proposal to ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2016. Uninstructed shares are entitled to vote on this matter. Abstentions will have the same effect as a vote against ratification of the appointment of our independent registered public accounting firm.

Any stockholder entitled to vote on any matter may vote part of such stockholder's shares in favor of the proposal and refrain from voting the remaining shares or, except with respect to the election of directors, may vote the remaining shares against the proposal; but if the stockholder fails to specify the number of shares which the stockholder is voting affirmatively or otherwise indicates how the number of shares to be voted affirmatively is to be determined, it will be conclusively presumed that the stockholder's approving vote is with respect to all shares which the stockholder is entitled to vote.

If any other matters are properly presented at the Annual Meeting for consideration, including, among other things, consideration of a motion to adjourn the meeting to another time or place, the individuals named as proxies and acting thereunder will have discretion to vote on those matters according to their best judgment to the same extent as the person delivering the proxy would be entitled to vote. If the Annual Meeting is postponed or adjourned, a stockholder's proxy will remain valid and may be voted at the postponed or adjourned meeting. A stockholder still will be able to revoke the stockholder's proxy until it is voted. As of the date of this Proxy Statement, the Board of Directors did not know of any matters other than those described in this Proxy Statement to be presented at the Annual Meeting.

Proxies properly executed and received by the Company prior to the Annual Meeting and not revoked will be voted as directed therein on all matters presented at the Annual Meeting. If you submit a proxy or voting instruction form by Internet, telephone or mail without giving specific voting instructions on one or more matters listed in the notice for the meeting, your shares will be voted as recommended by our Board on such matters, and as the proxyholders may determine in their discretion with respect to any other matters properly presented for a vote at the meeting.

PROPOSAL 1

ELECTION OF DIRECTORS

Board of Directors Structure. Our Board of Directors currently has ten members, the majority of whom are independent directors. The Board of Directors is divided into three classes. Directors in each class serve three-year terms. At each annual meeting, the term of one class expires. Currently, Messrs. Blaszkiewicz and Conrad and Ms. McWaters serve as Class I Directors, Messrs. Lennox, Penske and White and Ms. Srere serve as Class II Directors and Messrs. Cabito, Paige and Trammell serve as Class III Directors.

Nominees for Election at this Annual Meeting. The Board of Directors, acting on the recommendation of the Nominating and Corporate Governance Committee, has nominated Alan E. Cabito, Dr. Roderick R. Paige and Kenneth R. Trammell for re-election as Class III Directors, each to serve a three-year term ending in 2019, or until the director's successor is duly elected. It is intended that the votes represented by the proxies at the Annual Meeting will be cast for the election of Messrs. Cabito, Paige and Trammell as directors.

The following table and text presents information as of the date of this Proxy Statement concerning the nominees for election as directors, including in each case their current membership on committees of the Board of Directors, year first elected a director and principal occupations or affiliations during the last five years, other directorships currently held or held during the past five years and the experiences, qualifications, attributes or skills that each nominee and director brings to our Board of Directors. We believe that each of the director nominees possesses an ability, as demonstrated by recognized success in his or her field, to make meaningful contributions to the Board's oversight of the business and affairs of the Company.

Director Nominees

Name/Title	Age	Board Committees	Elected to UTI Board
Alan E. Cabito	67	Audit Committee; Nominating and Corporate Governance Committee	2008
Dr. Roderick R. Paige	82	Nominating and Corporate Governance Committee; Government Affairs and Public Policy Committee	2010
Kenneth R. Trammell	55	Audit Committee	2011

Alan E. Cabito	Alan E. Cabito has served as a director on our Board of Directors since 2008. Mr. Cabito began his career with Toyota Motor Sales, U.S.A., Inc. in 1971. Over the course of his 36-year tenure at Toyota, Mr. Cabito served in a variety of functional areas, including sales, marketing, research, pricing, distribution, logistics, production control and dealer market representation. Most recently, he was Group Vice President, Sales Administration, and an officer of Toyota Motor Sales. Mr. Cabito also served as the President of AirFlite, Toyota's fixed-base operation located at the Long Beach, California airport. Mr. Cabito retired from Toyota Motor Sales in December 2007. Mr. Cabito also served as a director on the board of New United Motor Manufacturing, Inc. through September 2013. Mr. Cabito received an MBA in Finance from the University of Southern California. Along with his executive management experience, Mr. Cabito brings to the Board of Directors extensive experience in and knowledge of the automotive manufacturing industry.
Dr. Roderick R. Paige	Dr. Roderick R. Paige has served as a director on our Board of Directors since September 2010. Dr. Paige was a founder of the Chartwell Education Group, LLC, an education consulting firm, and served as its Chairman from 2005 to 2009. Dr. Paige has also served as Senior Advisor to Higher Ed Holdings, LLC since 2005. Dr. Paige served as the United States Secretary of Education from 2001 to 2005 and was a Public Policy Scholar at the Woodrow Wilson International Center for Scholars in 2005. Dr. Paige also served as a director of News Corporation during the last five years and was a member of its compensation committee. Dr. Paige also has significant experience in the education industry, including 10 years as the dean of a college of education, four years as trustee of a 200,000 student school district and approximately seven years as the Superintendent of Schools of the Houston Independent School District. Dr. Paige received his doctorate and masters in health and physical education from Indiana University and his BS from Jackson State University. Dr. Paige brings to the Board of Directors governmental regulatory and leadership experience and contacts in the education industry.

Kenneth R. Trammell	Kenneth R. Trammell has served as a director on our Board of Directors since June 2011. Mr. Trammell has served as the Chief Financial Officer of Tenneco Inc., a publicly traded manufacturer of vehicle components and systems, since September 2003, and Controller from 1997 through 2003. Prior to joining Tenneco in 1996, Mr. Trammell spent 12 years with the international public accounting firm of Arthur Andersen LLP. Mr. Trammell received a BBA in accounting from the University of Houston. Mr. Trammell has significant business experience in the original equipment and aftermarket automotive parts industry for more than 15 years. He also has considerable experience in financial reporting, accounting, internal controls, capital markets transactions, investor relations and operations finance. Mr. Trammell qualifies as an audit committee financial expert under SEC guidelines.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU
VOTE "FOR" EACH OF THESE NOMINEES

Continuing Directors. The terms of Messrs. Blaszkiewicz and Conrad and Ms. McWaters are scheduled to end in 2017, and the terms of Messrs. Lennox, Penske and White and Ms. Srere are scheduled to end in 2018.

David A. Blaszkiewicz, age 47, has served as a director on our Board of Directors since December 2011. Mr. Blaszkiewicz has served as the Chief Executive Officer of Invest Detroit, a leading economic development organization, and its predecessor companies since November 2014 and as President of Invest Detroit since 2001. Mr. Blaszkiewicz served as President and Chief Executive Officer of Downtown Detroit Partnership, Inc., a private/public partnership of corporate and civic leaders engaged in key community revitalization efforts, from February 2011 to June 2014. In addition, Mr. Blaszkiewicz currently serves on the board of a number of non-profit organizations, including the national New Markets Tax Credit Coalition, Detroit's Downtown Development Authority, M-1 RAIL, New Detroit, Detroit Economic Growth Corporation and Detroit Community Loan Fund. Mr. Blaszkiewicz also served as Director of Finance and Secretary/Treasurer of Detroit Renaissance, Inc., an organization of CEOs now known as Business Leaders for Michigan, from 1994 through 2001. Mr. Blaszkiewicz received a BS in Business from Wayne State University and received his MBA in 1998 from Michigan State University. Mr. Blaszkiewicz brings to the Board significant financial, commercial real estate and development expertise as well as municipal and private investment experience.

Conrad A. Conrad, age 69, has served as a director on our Board of Directors since February 2004 and as our Lead Director since December 2013, also serving as the Chairman of the Audit Committee from 2004 to 2012 and as a member of the Compensation Committee from 2004 to 2015. Mr. Conrad served as a director of Rural/Metro Corporation until June 2011 and as a director of Fender Musical Instruments Corporation until April 2014. Mr. Conrad was employed with The Dial Corporation from August 2000 to October 2005, where he served as Executive Vice President and Chief Financial Officer. Prior to this, Mr. Conrad worked for 25 years with Quaker State Corporation, a leading manufacturer of branded automotive and consumer products and services, where he held multiple positions, most recently Vice Chairman and Chief Financial Officer. Mr. Conrad received an AB in Accounting from The College of William & Mary. As a former chief financial officer for a public company, Mr. Conrad has experience in finance and accounting, particularly as it applies to public companies such as UTI. His prior positions with Quaker State gave him insight into the automotive products and services market. Mr. Conrad also served as the chairman of the board of Rural/Metro Corporation, which experience aids his service to our Board of Directors. Mr. Conrad qualifies as an audit committee financial expert under SEC guidelines.

Lieutenant General William J. Lennox, Jr. (USA Ret.), age 66, has served as a director on our Board of Directors since January 2014. Mr. Lennox has served as Chief Executive Officer of Lennox Strategies, LLC, a consulting company and personal business venture, since 2012. From 2006 to 2012, Mr. Lennox served as Senior Vice President, Washington, D.C., for Goodrich Corporation, a Fortune 500 aerospace firm. Prior to his position at Goodrich Corporation, Mr. Lennox served approximately 35 years in the United States Army, culminating as

Superintendent of the United States Military Academy at West Point. Mr. Lennox currently serves on the Board of Princeton Power Systems, a privately held manufacturer of advanced power conversion products and alternative energy systems. Mr. Lennox received a bachelor’s degree in international affairs from the United States Military Academy at West Point, as well as a master’s degree and Ph.D. in literature from Princeton University. Mr. Lennox’s exceptional military career and his expertise in developing and managing strategic relationships between the private sector and government entities brings a unique set of experiences and capabilities to the Board.

Kimberly J. McWaters, age 51, has served as our Chief Executive Officer since October 2003, as the Chairman of our Board of Directors since December 2013 and as a director on our Board of Directors since 2005. Ms. McWaters served as our President from 2000 to March 2011 and previously served on our Board of Directors from 2002 to 2003. From 1984 to 2000, Ms. McWaters held several positions with UTI, including Vice President of Marketing and Vice President of Sales and Marketing. Ms. McWaters has also served as a director Mobile Mini, Inc. since August 2014 and as a director of Penske Automotive Group, Inc. since December 2004. Ms. McWaters received a BS in Business Administration from the University of Phoenix. As a long-time employee of UTI, Ms. McWaters brings to the Board of Directors an understanding of the organization and experience in the post-secondary technical education services industry.

Roger S. Penske, age 78, has served as a director on our Board of Directors since 2002. Mr. Penske has served as Chairman of the Board of Directors and Chief Executive Officer of Penske Automotive Group, Inc., a publicly-traded automotive retailer, since 1999. Mr. Penske has also been Chairman of the Board of Directors and Chief Executive Officer of Penske Corporation since 1969. Mr. Penske also serves as a director of Business Leaders for Michigan and Downtown Detroit Partnership. Mr. Penske has also served as a director of General Electric Company and as a trustee of the Detroit Medical Center during the last five years. Mr. Penske has executive management experience in the automotive industry and experience as a public company director. Mr. Penske brings to the Board of Directors high-level connections to various automotive companies and extensive experience in and understanding of the automotive retail industry.

Linda J. Srere, age 60, has served as a director on our Board of Directors since 2005. Ms. Srere is a marketing and advertising consultant. From January 2000 to November 2001, she served as President of Young & Rubicam Advertising, a worldwide advertising network. From September 1998 to January 2000, Ms. Srere served as Vice Chairman and Chief Client Officer of Young & Rubicam Inc. (“Y&R”). From January 1997 to September 1998, she served as President and CEO of Y&R’s New York office. Ms. Srere joined Y&R in September 1994 as Executive Vice President and Director of Business Development. Ms. Srere served as the Chairman of advertising agency Earle Palmer Brown New York from 1992 to 1994, and served as President of advertising agency Rosenfeld, Sirowitz, Humphrey & Strauss from 1990 to 1992. For 11 years, until July 2012, Ms. Srere was a director of Electronic Arts Inc. During her tenure, she served on its compensation and its nominating and governance committees. Ms. Srere also served as a director of aQuantive, Inc., which was sold to Microsoft in 2007. She currently sits on the Investor and Executive Council of DCubed Group, a private market investment firm. Ms. Srere brings to the Board of Directors marketing, strategic and business leadership skills from her career in marketing and advertising.

John C. White, age 67, has served as a director on our Board of Directors since 1997. Mr. White served as Chairman of our Board of Directors from October 2005 until December 2013. From October 2003 to September 2005, Mr. White served as our Chief Strategic Planning Officer and Vice Chairman. From April 2002 to September 2003, Mr. White served as our Chief Strategic Planning Officer and Co-Chairman of our Board of Directors. From 1997 to March 2002, Mr. White served as our Chief Strategic Planning Officer and Chairman of our Board of Directors. Mr. White served as the President of Clinton Harley Corporation (which operated under the name Motorcycle Mechanics Institute and Marine Mechanics Institute) from 1977 until it was acquired by UTI in 1998. Prior to 1977, Mr. White was a marketing representative with International Business Machines Corporation. Mr. White was appointed by the Arizona Senate to serve as a member of the Joint Legislative Committee on Private Regionally Accredited Degree Granting Colleges and Universities and Private Nationally Accredited Degree Granting and Vocational Institutions in 1990. He was appointed by the Governor of Arizona to the Arizona State

Board for Private Post-secondary Education, where he was a member and Complaint Committee Chairman from 1993-2001. Mr. White received a BS in Engineering from the University of Illinois. Mr. White has experience in the post-secondary technical education services industry and has experience involving accreditation issues. Mr. White has assisted with our strategic planning, both as a director and as an employee.

There are no family relationships among any of our directors and executive officers.

Corporate Governance and Related Matters

Corporate governance is typically defined as the system that allocates duties and authority among a company's stockholders, board of directors and management. The stockholders elect the board and vote on extraordinary matters; the board is the company's governing body, responsible for hiring, overseeing and evaluating management; management runs the company's day-to-day operations. Our Board of Directors currently consists of ten directors.

Board Leadership Structure. Our Corporate Governance Guidelines provide that our Board of Directors is free to choose the Chairman of the Board in any manner that is in the best interests of UTI. In making leadership structure determinations, our Board of Directors considers many factors, including the specific characteristics and circumstances existing at that time, whether the role of Chairman should be separate from that of the Chief Executive Officer and, if the roles are separate, whether the Chairman should be selected from the independent directors or from management. The Board believes that no single board leadership model is universally or permanently appropriate and will periodically review its Chair selection and whether or not that selection should remain in effect.

At this time, our Chief Executive Officer (Ms. McWaters) also serves as the Chairman of the Board of Directors, and the Board also has an independent Lead Director (Mr. Conrad). The Board believes that combining the positions of Chairman and Chief Executive Officer provides an efficient and effective leadership model, including clarity of leadership, effective decision-making and a firm link between management and the Board. The Board also believes that the Chief Executive Officer's extensive understanding of UTI's business and operations and her years of experience with UTI and in the industry make her well-positioned to lead Board discussions of important matters affecting our business. In addition, as part of considering the successor to the Chairman, the Board determined that it would be appropriate to establish an independent Lead Director position. The Board believes that this will help facilitate a smooth leadership transition and the ongoing balance of the independent director perspective. The Board believes that Mr. Conrad's leadership experience and 11 years of experience with our company make him well-qualified to serve in the Lead Director role.

Under the current Corporate Governance Guidelines, an independent Lead Director will be appointed when the Chairman position is not held by an independent director. The role of the Lead Director is to assist the Chairman and the remainder of the Board in assuring effective governance in overseeing the direction and management of the Company. The Lead Director serves at the pleasure of the Board, and his appointment and responsibilities will be reviewed at least annually. The Lead Director's responsibilities include the following: (i) organizing, setting the agenda for, leading and presiding over non-management/executive sessions of the Board; (ii) providing feedback to and engaging with the Chief Executive Officer on non-management/executive sessions; (iii) authority to call meetings of the independent directors; (iv) facilitating communication among directors, and between the Board and the senior management team, serving when needed as a liaison between the Chief Executive Officer and the directors; (v) coordinating the activities of the independent directors; (vi) working with the Chairman of the Board to set and approve the Board schedule and agenda; (vii) presiding over any meeting of the Board in the absence of the Chairman of the Board/CEO and any vice chairman appointed by the Board, unless otherwise determined by the Board; (viii) presiding over any meeting of the stockholders in the absence of the Chairman of the Board/CEO and any vice chairman appointed by the Board, unless otherwise determined by the Board; (ix) supporting the Board's review of the Corporate Governance Guidelines; and (x) such other functions and responsibilities as set forth in the Corporate Governance Guidelines or as requested by the Board from time to time. Our Corporate Governance Guidelines call for regular executive sessions of the non-management directors (those not employed by us). The Board of Directors believes that these regular executive sessions outside of the presence and influence of management ensure that non-management directors have sufficient opportunity to fully and candidly discuss ideas and issues regarding the Company, management's performance and whether Board operations are satisfactory. As discussed above, the Lead Director will lead and preside over these non-management sessions, and will organize and establish the agenda for these sessions. If the Lead Director is absent or that position is vacant, the independent directors will select from among them who will preside over any private sessions.

"Independent" Directors. Our Board of Directors has determined that Messrs. Blaszkiewicz, Cabito, Conrad, Lennox, Paige, Penske and Trammell and Ms. Srere qualify as "independent" in accordance with the published listing requirements of the New York Stock Exchange (the "NYSE"). The NYSE's independence definition includes a series of objective tests, such as that the director is not an employee of the Company, has no material relationships with the Company and has not engaged in various types of business dealings with the Company. An explanation of the independence standard used by our Board of Directors, which standard incorporates the NYSE independence definition, is set forth in the Corporate Governance Guidelines adopted by the Board of Directors and discussed elsewhere in this Proxy Statement. The Board of Directors considers all relevant facts and circumstances in evaluating the independence of its members from management. Non-material business transactions conducted in the ordinary course of business are not determinative of the issue of independence. As required by the NYSE rules, the Board of Directors has made an affirmative determination as to each independent director that no relationships exist which, in the opinion of the Board of Directors, would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and has affirmatively determined that each independent director meets the independence standard used by the Board of Directors. In making these determinations, the Board of Directors reviewed and discussed information provided by the directors and our management with regard to each director's business and personal activities as they may relate to us and our management, including Ms. McWaters' service on the board of directors of another entity for which one of the directors serves as chairman and chief executive officer. The Board of Directors also considered each director's other relationships that do not involve us or our management such as the employment of UTI graduates in the service departments of automotive dealerships owned by an entity of which one of our directors is an affiliate and the service on the UTI Foundation board by the spouse of one of the independent directors.

"Independence" for Audit Committee and Compensation Committee Members and Audit Committee Financial Expert. As required by the NYSE rules, the members of our Audit Committee each qualify as "independent" under special standards established by the SEC for members of audit committees, and the members of our Compensation Committee each qualify as "independent" under special standards established by the NYSE for members of compensation committees. Our Audit Committee also includes at least one independent member who is determined by the Board of Directors to meet the qualifications of an "audit committee financial expert" in accordance with SEC rules, including that the person meets the relevant definition of an "independent director." Mr. Conrad and Mr. Trammell have been determined to be audit committee financial experts. Stockholders should understand that this designation is a disclosure requirement of the SEC related to Mr. Conrad's and Mr. Trammell's experience and understanding with respect to certain accounting and auditing matters. The designation does not impose upon Mr. Conrad or Mr. Trammell any duties, obligations or liabilities that are greater than those generally imposed on members of the Audit Committee and the Board of Directors, and the designation as an audit committee financial expert pursuant to this SEC requirement does not affect the duties, obligations or liabilities of any other member of our Audit Committee or the Board of Directors.

Board's Role in Risk Oversight. The Board of Directors as a whole is responsible for risk management oversight of the Company and in ensuring that management develops sound business strategies. The involvement of the full Board of Directors in setting the Company's business strategy and objectives is integral to the Board's assessment of our risk and also a determination of what constitutes an appropriate level of risk and how best to

manage any such risk. This involves receiving reports and/or presentations from applicable members of management and the committees of the Board. The full Board of Directors continually evaluates Company risks such as financial risk, legal/compliance risk, operational/strategic risk and fraud risk and addresses individual risk issues with management throughout the year as necessary.

While the Board of Directors has the ultimate oversight responsibility for the risk management process, the Board delegates responsibility for certain aspects of risk management to its committees, which are comprised of only independent directors. In particular, the Audit Committee focuses on enterprise risks and related controls and procedures, including financial reporting, fraud and regulatory risks. The Compensation Committee strives to create compensation practices that do not encourage excessive levels of risk taking that would be inconsistent with the Company’s strategy and objectives. The Nominating and Corporate Governance Committee is responsible for overseeing the Company’s corporate governance and corporate governance principles.

Board Meetings

Our Board of Directors and its committees meet throughout the year on a set schedule and also hold special meetings and act by written consent from time to time as appropriate. The Board of Directors has delegated various responsibilities and authority to different Board committees as described elsewhere in this Proxy Statement. Committees regularly report on their activities and actions to the full Board of Directors. In addition, the Corporate Governance Guidelines that have been adopted by the Board of Directors and which are discussed elsewhere in this Proxy Statement call for regular executive sessions of the non-management directors.

In fiscal 2015, the Board of Directors held seven meetings. Each director attended at least 75% of the aggregate of the Board of Director meetings and meetings of committees on which such director served during the director’s tenure as a director and committee member.

Board Committees and Charters

We currently have four standing Board committees: Audit, Compensation, Nominating and Corporate Governance and Government Affairs and Public Policy. Each member of the Audit, Compensation, Nominating and Corporate Governance and Government Affairs and Public Policy Committees is an independent director in accordance with NYSE standards. Each of the Board committees has a written charter approved by the Board of Directors. Copies of each charter are posted on our website at www.uti.edu under the “Investors - Corporate Governance” captions. We will provide copies of our Board committee charters upon request made by writing to us at our principal executive offices at 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254.

The current committee membership is as follows:

Director	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee	Government Affairs and Public Policy Committee
David A. Blaszkiewicz		Chair		
Alan E. Cabito	ü		ü	
Conrad A. Conrad	ü			
LTG (R) William J. Lennox, Jr.		ü		Chair
Roderick R. Paige			ü	ü
Roger S. Penske			ü	ü
Linda J. Srere		ü	Chair	
Kenneth R. Trammell	Chair			

Audit Committee. Messrs. Cabito, Conrad and Trammell served as members of our Audit Committee during fiscal 2015. The Board of Directors has determined that Mr. Cabito is financially literate and that Messrs. Conrad and Trammell are financial experts and that each satisfies the independence requirements of the NYSE and the SEC. The Audit Committee has the responsibility for overseeing, among other things, our accounting and financial reporting processes, the reliability of our financial statements, the effective evaluation and management of our financial risks, our compliance with laws and regulations, and the effective and efficient audit of our financial statements by a qualified independent registered public accounting firm. The Audit Committee met 10 times during fiscal 2015. The Audit Committee is required by SEC rules to publish a report to stockholders concerning the Audit Committee's activities during the prior fiscal year. The Audit Committee's report is set forth elsewhere in this Proxy Statement.

Compensation Committee. Messrs. Blaszkiewicz, Conrad and Lennox and Ms. Srere served as members of our Compensation Committee during fiscal 2015. The Board of Directors has determined that each of Messrs. Blaszkiewicz, Conrad and Lennox and Ms. Srere satisfies the independence requirements of the NYSE. The primary responsibility of the Compensation Committee is to develop and oversee the implementation of the Company's philosophy with respect to the compensation of our officers. In that regard, the Compensation Committee has the responsibility for, among other things, developing and maintaining a compensation policy and strategy that creates a direct relationship between pay levels and corporate performance and returns to stockholders; recommending compensation and benefit plans to the Board of Directors for approval; reviewing and approving annual corporate and personal goals and objectives to serve as the basis for the Chief Executive Officer's compensation, evaluating the Chief Executive Officer's performance in light of the goals and, based on such evaluation, determining the Chief Executive Officer's compensation; determining the annual total compensation for our Named Executive Officers; approving the grants of equity-based incentives as permitted under our equity-based compensation plans; reviewing and recommending to the Board of Directors compensation for our non-management directors; and reviewing and recommending employment agreements, severance arrangements and change in control plans that provide for benefits upon a change in control, or other provisions for our executive officers and directors, to the Board of Directors. The Compensation Committee met five times during fiscal 2015.

Our Board of Directors has adopted a charter for the Compensation Committee that provides, among other things, that the Compensation Committee may, at its discretion, utilize consultants, counsel or other advisers to assist the Compensation Committee in fulfilling its duties. Pursuant to its written charter, the Compensation Committee has the sole authority to retain, obtain the advice of or terminate any such consultant, counsel or other adviser, including sole authority to approve the fees and other retention terms. The Compensation Committee retained Compensia, Inc. ("Compensia") to assist as independent compensation consultants. For additional information on the role of compensation consultants, please see "Compensation Discussion and Analysis - Role of Compensation Consultants," which is included elsewhere in this Proxy Statement. Other than their review and analysis of officer and director compensation or as otherwise discussed in this Proxy Statement, Compensia did not provide any additional services to us during the 2015 fiscal year.

Nominating and Corporate Governance Committee. Messrs. Cabito, Paige and Penske and Ms. Srere served as members of our Nominating and Corporate Governance Committee during fiscal 2015. The Board of Directors has determined that each member of the Nominating and Corporate Governance Committee satisfies the independence requirements of the NYSE. The Nominating and Corporate Governance Committee has the responsibility for, among other things, identifying individuals qualified to serve as directors of UTI; recommending qualified individuals for election to the Board of Directors at the annual meeting of stockholders; recommending to the Board of Directors those directors to serve on each of the Board committees; recommending a set of corporate governance guidelines to the Board of Directors; reviewing periodically our Corporate Governance Guidelines and recommending governance issues that should be considered by the Board of Directors; reviewing periodically the Board of Director's committee structure and operations and the working relationship between each committee and the Board of Directors; and considering, discussing and recommending ways to improve the Board of Director's effectiveness. The Nominating and Corporate Governance Committee also reviews and makes recommendations

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to the Board of Directors regarding the size and the composition of the Board of Directors. In addition, the Nominating and Corporate Governance Committee will review and consider properly submitted stockholder recommendations on candidates for membership on the Board of Directors as described below. In evaluating such recommendations, the Nominating and Corporate Governance Committee will use the same review criteria discussed below under "Director Qualifications and Review of Director Nominees." Any stockholder recommendations proposed for consideration by the Nominating and Corporate Governance Committee must include the candidate's name, accompanied by relevant biographical information, and must be submitted in accordance with our Bylaws to the attention of our Corporate Secretary at Universal Technical Institute, Inc., 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254. The Nominating and Corporate Governance Committee met four times during fiscal 2015.

Government Affairs and Public Policy Committee. In December 2014, our Board of Directors established our Government Affairs and Public Policy Committee and appointed Messrs. Lennox, Penske and Paige to serve as members of the committee. The Board of Directors has determined that each member of the Government Affairs and Public Policy Committee satisfies the independence requirements of the NYSE. The Government Affairs and Public Policy Committee has the responsibility for, among other things, identifying, evaluating and reviewing legislative, regulatory, governmental and public policy matters and trends that may impact our strategic business goals, activities and performance; evaluating and reviewing our strategic governmental affairs and public policy mission and objectives and developing recommendations to allow our company to effectively achieve strategic business goals; providing tactical assistance to manage and to support our governmental affairs and public policy mission and objectives and achievement of strategic business goals; and reviewing the policies, practices and priorities of our political action committee. The Government Affairs and Public Policy Committee met three times during fiscal 2015.

Director Qualifications and Review of Director Nominees

The Nominating and Corporate Governance Committee makes recommendations to the Board of Directors regarding the size and composition of the Board of Directors. The Committee reviews annually with the Board of Directors the composition of the Board of Directors as a whole and recommends, if necessary, measures to be taken so that the Board of Directors reflects the appropriate balance of knowledge, experience, skills, expertise and diversity required for the Board of Directors as a whole and contains at least the minimum number of independent directors required by the NYSE and other applicable laws and regulations. The Committee is responsible for ensuring that the composition of the Board of Directors accurately reflects the needs of our business and, in accordance with the foregoing, proposing the addition of members and the necessary resignation of members for purposes of obtaining the appropriate members and skills.

To fulfill its responsibility to recruit and recommend to the full Board of Directors nominees for election as directors, the Committee reviews the composition of the Board of Directors to determine the qualifications and areas of expertise needed to further enhance the composition of the Board of Directors and works to attract candidates with those qualifications. In evaluating a director candidate, the Committee considers factors that are in the best interests of the Company and its stockholders, including the knowledge, experience and integrity of each candidate; the potential contribution of each candidate to the diversity of backgrounds, experience and competencies which the Board of Directors desires to have represented; each candidate's ability to devote sufficient time and effort to his or her duties as a director; and any other criteria established by the Board of Directors and any core competencies or technical expertise necessary to staff committees of the Board of Directors. Directors should have a background and experience in areas important to the operations of the Company, such as business, education, marketing, finance, government or law, and should be individuals of high integrity and independence with substantial accomplishments. The Committee does not assign specific weights to any particular criteria. Rather, the Board of Directors believes that the backgrounds and qualifications of the directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the Board of Directors to fulfill its responsibilities. In connection with each director nomination recommendation, the Committee considers the issue of continuing director tenure and whether the Board of Directors will be exposed to new ideas and viewpoints and will maintain willingness to critically examine the status quo.

In connection with director nominations, the Committee also considers the nominees' roles in (i) assisting with our business strategy, (ii) overseeing our efforts in complying with the disclosure requirements of the SEC and the NYSE, (iii) assisting in improving our internal controls and disclosure controls and (iv) overseeing our corporate governance and leadership structure.

The Committee shall consider nominees recommended by stockholders for election to the Board, provided the names of such nominees, accompanied by relevant biographical information, are submitted in accordance with the Company's Bylaws. Pursuant to the Company's Bylaws, a stockholder may nominate a person for election to the Board by making timely notice in proper written form to the Secretary of the Company. To be timely, a stockholder's notice must be delivered to or mailed to and received by the Secretary at the principal executive offices of the Company at 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254, not less than 90 days nor more than 120 days in advance of the first anniversary of the preceding year's annual meeting; provided, however, that in the event that (i) no annual meeting was held in the previous year or (ii) the date of the annual meeting has been changed by more than 30 days from the date of the previous year's meeting, or in the event of a special meeting of stockholders called for the purpose of electing directors, not later than the close of business on the 10th day following the day on which notice of the date of the meeting was mailed or public disclosure of the date of the meeting was made, whichever occurs first. To be in proper written form, such stockholder's notice to the Secretary shall set forth in writing (a) as to each person whom such stockholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), including, without limitation, such person's written consent to being named in the proxy statement as a nominee and to serving as director if elected as well as (i) such person's name, age, business address and residence address, (ii) his or her principal occupation or employment, (iii) the class and number of shares of the Company that are beneficially owned by such person, (iv) a statement as to whether such person, if elected, intends to tender, promptly following such person's failure to receive the required vote for re-election at the next meeting which such person would face re-election, an irrevocable resignation effective upon acceptance of such resignation by the Board, in accordance with the Company's Corporate Governance Guidelines, and (v) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder; and (b) as to such stockholder (i) the name and address, as they appear on the Company's books, of such stockholder and the beneficial owner, if any, on whose behalf the nomination is made, (ii) the class and number of shares of the Company which are beneficially owned by such stockholder and the beneficial owner, if any, on whose behalf the nomination is made, and any material interest of such stockholder and owner and (iii) a description of any agreement, arrangement or understanding (including any derivative or short positions, profit interests, options, hedging transactions, and borrowed or loaned shares) that has been entered into as of the date of the stockholder's notice to the Secretary by, or on behalf of, the stockholder or any of its affiliates or associates, the effect or intent of which is to mitigate loss to, manage risk or benefit of share price changes for, or increase or decrease the voting power of the stockholder or any of its affiliates or associates with respect to shares of stock of the Company, and a representation that the stockholder will notify the Company in writing within five business days after the record date for such meeting of any such agreement, arrangement or understanding in effect as of the record date for the meeting.

Board Attendance at Annual Stockholder Meetings

While all directors are encouraged to attend our annual stockholder meetings, the Board of Directors does not have a formal policy with respect to such attendance. All directors attended last year's annual meeting of stockholders.

Communication with the Board of Directors

Stockholders and other interested parties may communicate with the Chairman of the Board of Directors, the directors as a group, the non-management directors as a group or an individual director directly by submitting a letter in a sealed envelope labeled accordingly. This letter should be placed in a larger envelope and mailed to Universal Technical Institute, Inc., 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254.

Code of Conduct; Corporate Governance Guidelines

We have a Code of Conduct (including a Supplemental Code of Ethics for the Chief Executive Officer and Senior Financial Officers) (the “Code of Conduct”) that applies to all of our employees, including our principal executive officer, principal financial officer and principal accounting officer. This Code of Conduct is posted on our website at www.uti.edu under the “Investors - Corporate Governance” captions.

We will provide a copy of the Code of Conduct upon request made by writing to us at our principal executive offices at 16220 North Scottsdale Road, Suite 100, Scottsdale, Arizona 85254.

As indicated elsewhere in this Proxy Statement, the Board of Directors has adopted Corporate Governance Guidelines. These Corporate Governance Guidelines are posted on our website at www.uti.edu under the “Investors - Corporate Governance - Board of Directors” captions. We will provide a copy of the Corporate Governance Guidelines upon request made by writing to us at our principal executive offices at the address indicated above and on the first page of this Proxy Statement.

Compensation of Non-Management Directors

In fiscal 2015, our non-management directors received a $35,000 annual retainer. Each non-management director also received an annual award under our 2003 Incentive Compensation Plan (the “2003 Plan”) of shares of the Company’s common stock equal to approximately $50,000 on the date of grant. In addition, each non-management director received reimbursement for out-of-pocket expenses, including travel expense on commercial flights or the equivalent cost of advance purchase first class commercial travel for non-management directors utilizing private aircraft. Upon election or appointment to the Board of Directors, our new non-management directors receive a one-time grant of restricted stock units with a value of $75,000, which are subject to a three-year vesting period.

The Lead Director receives an additional annual retainer of $20,000. The chairperson of the Nominating and Corporate Governance Committee receives an additional annual retainer of $12,000, the chairperson of the Compensation Committee receives an additional annual retainer of $15,000, the chairperson of the Audit Committee receives an additional annual retainer of $20,000 and the chairperson of the Government Affairs and Public Policy

Committee receives an additional annual retainer of $25,000. The non-chairperson directors serving on the Compensation Committee and the Nominating and Corporate Governance Committee each receive an additional annual retainer of $6,000. The non-chairperson directors serving on the Audit Committee each receive an additional annual retainer of $8,000. The non-chairperson directors serving on the Government Affairs and Public Policy Committee each receive an additional annual retainer of $8,000. No director receives additional compensation for meeting attendance. Directors who are also officers do not receive any separate compensation for serving as directors. Our non-management directors are also eligible to participate in a non-qualified deferred compensation plan. The Company offers this non-qualified deferred compensation plan to allow the directors to set aside a portion of their income for retirement on a pre-tax basis. A non-management director may defer up to 100% of cash Board compensation earned in the calendar year. The non-qualified deferred compensation plan is more fully discussed in the Compensation Discussion and Analysis section included elsewhere in this Proxy Statement.

The following table sets forth a summary of the compensation we paid to our non-management directors in fiscal 2015.

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($) (1)	All Other Compensation ($)	Total ($)
David A. Blaszkiewicz	50,000	50,004	—	100,004
Alan E. Cabito	52,000	50,004	—	102,004
Conrad A. Conrad	66,000	50,004	—	116,004
LTG (R) William J. Lennox, Jr.	85,792 (2)	50,004	—	135,796
Roderick R. Paige	47,333	50,004	—	97,337
Roger S. Penske	47,333 (3)	50,004	—	97,337
Linda J. Srere	51,500	50,004	—	101,504
Kenneth R. Trammell	55,000	50,004	—	105,004
John C. White	35,000	50,004	588,589 (4)	673,593

(1) Represents the aggregate grant date fair value of awards issued under the 2003 Plan computed in accordance with Accounting Standards Codification issued by the Financial Accounting Standards Board, Topic 718 (“Topic 718”). The annual grant was based on 5,453 shares at the closing price on February 18, 2015 of $9.17. Directors listed in this table who held unvested restricted stock awards or units at the end of fiscal year 2015 (and the number of unvested shares of restricted stock held by such directors at September 30, 2015) were as follows: Mr. Lennox (4,130 shares). In addition, as of September 30, 2015, Mr. White held 5,831 shares of restricted stock, subject to the terms of his severance and transition agreement discussed below.

(2) Mr. Lennox received a one-time payment of $25,000 for additional past services related to the Government Affairs and Public Policy Committee.

(3) Mr. Penske elected to defer $47,333 of fees into the Universal Technical Institute Deferred Compensation Plan.

(4) All Other Compensation for Mr. White includes $579,375 in severance, $8,145 in medical premiums and $1,069 in dental premiums. See below for additional information regarding Mr. White’s compensation.

Indemnification. We indemnify our directors and officers to the fullest extent permitted by law so that they will be free from undue concern about personal liability in connection with their service to the Company. We have also entered into agreements with our directors, contractually obligating us to provide this indemnification to them.

Mr. White’s Compensation. We entered into a severance and transition agreement with Mr. White in connection with his retirement from his duties as an executive officer and Chairman of the Board. Pursuant to that arrangement, Mr. White’s employment with us ended on December 9, 2013, and he continues to serve as a non-employee, non-management member of the Board. For that continued service, he receives the same compensation paid to our Board members generally. Mr. White also received certain severance amounts and benefits under the severance and transition agreement, which generally included the amounts and benefits provided for under his previous employment agreement for terminations without cause or resignations for good reason, with certain modifications. Accordingly, Mr. White received cash severance at the rate of $551,655 per year, payable for 24 months in bi-weekly installments in accordance with his previous employment agreement. We were also required to pay medical, dental and vision COBRA premiums for periods of up to approximately nine months for Mr. White and 18 months for his spouse if they were eligible for and elected to receive COBRA continuation coverage. After the expiration of the COBRA continuation period, we are continuing to provide Mr. White’s spouse with health insurance benefits until October 31, 2019, on terms comparable to the medical benefits provided to the spouses of senior executives of the Company. Mr. White also received an additional cash severance amount of $51,000, paid in bi-weekly installments for 24 months in accordance with the payment terms applicable to his severance payments under his previous employment agreement.

While Mr. White remains a Board member, restricted stock awards granted to him before he retired will continue to vest and restrictions thereon will continue to lapse in accordance with the award terms. If Mr. White resigns from the Board or his Board service otherwise terminates, and any restricted stock awards granted before his retirement date remain subject to any restrictions at that time, we will pay Mr. White a cash amount equal to the fair value of those unvested restricted shares within 30 days of his departure from the Board. The previous award agreements relating to Mr. White's outstanding restricted stock awards otherwise remain applicable and are not superseded. The estimated fair market value of Mr. White's outstanding restricted stock as of the end of fiscal year 2015 was $20,467. Except as described above or as provided by law, his participation in or coverage under all Company benefit plans ceased as of December 15, 2013.

Mr. White remains subject to the confidentiality provisions of his employment agreement. The severance and transition agreement also includes a standard release and waiver of claims by Mr. White.

PROPOSAL 2
RATIFICATION OF APPOINTMENT OF
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected Deloitte & Touche LLP as our independent registered public accounting firm to perform an integrated audit of our financial statements for the year ending September 30, 2016 and of our internal control over financial reporting as of September 30, 2016. In taking this action, the Audit Committee considered Deloitte & Touche LLP's independence with respect to the services to be performed and other factors that the Audit Committee and the Board of Directors believe are advisable and in the best interest of the stockholders. As a matter of good corporate governance, the Audit Committee has decided to submit its selection to stockholders for ratification. In the event that this selection of independent registered public accounting firm is not ratified by a majority vote of the shares of common stock present or represented at the Annual Meeting, it will be considered as a direction to the Audit Committee to consider the selection of a different firm.

PricewaterhouseCoopers LLP served as our independent registered public accounting firm for fiscal years 1999 through 2014. On December 10, 2014, the Audit Committee commenced a comprehensive, competitive process to select an independent registered public accounting firm to audit our financial statements for the fiscal year ending September 30, 2015 ("request for proposal"). On December 19, 2014, PricewaterhouseCoopers LLP declined to stand for re-election and informed us that it would not respond to our request for proposal. The termination of the relationship become effective upon completion by PricewaterhouseCoopers LLP of its procedures on our unaudited interim financial statements as of and for the quarter ended December 31, 2014 and the filing of the related Form 10-Q. On February 3, 2015, the Audit Committee approved the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ended September 30, 2015 and interim quarterly periods beginning with the three months ended March 31, 2015.

The audit reports of PricewaterhouseCoopers LLP on our consolidated financial statements as of and for the fiscal years ended September 30, 2014 and 2013 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principles.

During the fiscal years ended September 30, 2014 and 2013, and the subsequent interim period through December 19, 2014, there were (i) no disagreements between us and PricewaterhouseCoopers LLP on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to PricewaterhouseCoopers LLP's satisfaction, would have caused PricewaterhouseCoopers LLP to make reference to the subject matter of the disagreement in connection with its reports and (ii) no reportable events (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions).

The Company requested that PwC furnish a letter addressed to the SEC stating whether it agrees with the statements made above. A copy of PwC's letter, dated December 23, 2014, was filed as an exhibit to our Current Report on Form 8-K, dated December 19, 2014, which was filed with the SEC on December 23, 2014.

THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP.

Audit Fees and Audit-Related Fees

As more fully described below, all services provided by our independent registered public accounting firm are pre-approved by the Audit Committee, including audit services, audit-related services, tax services and certain other services.

The following table shows fees that were accrued for audit and other services provided by Deloitte & Touche LLP for fiscal 2015 and interim quarterly periods beginning with the three months ended March 31, 2015 and by PricewaterhouseCoopers LLP for fiscal 2014 and the three months ended December 31, 2014:

	2015	2014
Audit Fees	$918,193	$1,256,988
Audit-Related Fees	—	—
Tax Fees	25,000	20,000
All Other Fees	2,000	1,800
Total	$945,193	$1,278,788

Audit Fees. Audit fees for the years ended September 30, 2015 and 2014 related primarily to services rendered for the integrated audit of the consolidated financial statements and internal control over financial reporting included in our Annual Report on Form 10-K and for the limited reviews of the financial information included in our Quarterly Reports on Form 10-Q. For 2015, we were billed $758,248 by Deloitte & Touche LLP for audit fees for the period. For 2015, we paid $69,583 to PricewaterhouseCoopers LLP in connection with the review of our financial statements for the first quarter of 2015. We paid an additional $90,362 to PricewaterhouseCoopers LLP for transition type services (e.g. consent, review of workpapers, etc.) in connection with our change to Deloitte & Touche LLP.

Tax Fees. Tax fees for the years ended September 30, 2015 and 2014 related primarily to income tax compliance services, including technical and tax advice related to the review of tax returns. Fees for the year ended September 30, 2015 were paid to Deloitte & Touche LLP and fees for the year ended September 30, 2014 were paid to PricewaterhouseCoopers LLP.

All Other Fees. This amount represents an annual subscription for access to Deloitte & Touche LLP's and PricewaterhouseCoopers LLP's online databases of accounting guidance issued by various standard-setting bodies in 2015 and 2014, respectively.

It is expected that representatives of Deloitte & Touche LLP will be present at the Annual Meeting, will have the opportunity to make a statement if they desire and will be available to respond to any appropriate questions from stockholders.

Audit Committee Pre-Approval Procedures for Services Provided by the Independent Registered Public Accounting Firm

Pre-Approval of Audit Services. The Audit Committee meets with the independent registered public accounting firm prior to the audit to review the planning and staffing of the audit and approve the services to be provided by the independent registered public accounting firm in connection with the audit.

Pre-Approval of Non-Audit Services. The Audit Committee reviews and approves in advance the retention of the independent registered public accounting firm for any non-audit service that is not prohibited by the Sarbanes-Oxley Act of 2002 (the "Act"), provided, however, that:

(a) permitted non-audit services that account for less than $10,000 shall be deemed to be pre-approved, and

(b) as permitted by Section 302 of the Act, such pre-approval is waived and shall not be required with respect to non-audit services:

(i) that account, in the aggregate, for less than 5% of the total fees paid by us to our independent registered public accounting firm during the fiscal year in which such non-audit services are provided;

(ii) that we did not recognize as “non-audit” services at the time of the engagement; and
(iii) that are promptly brought to the attention of, and approved by, the Committee before the completion of the audit (and such approval may be given by the Audit Committee or any member of the Audit Committee).

The Audit Committee may delegate to any one of its members the authority to grant pre-approval of any permitted non-audit services that account for between $10,000 and $20,000 (and except as otherwise provided in a resolution of the Audit Committee adopted hereafter, the Audit Committee shall be deemed to have delegated such authority, such that any one member of the Audit Committee shall have the authority to grant pre-approval of any permitted non-audit services within such dollar limits). The pre-approval of any non-audit services pursuant to delegated authority or deemed approval shall be reported to the full Audit Committee at its next scheduled meeting. Approval of non-audit services to be performed by the independent registered public accounting firm pursuant to clause (b) above will be disclosed by us as required pursuant to Section 202 of the Act in the applicable reports filed with the SEC.

AUDIT COMMITTEE REPORT FOR THE YEAR ENDED SEPTEMBER 30, 2015

The Audit Committee reviews the Company's financial reporting process on behalf of the Board of Directors. The Audit Committee is currently composed of three independent directors. The Audit Committee operates under a written charter adopted by the Board of Directors that is available on the Company's website at www.uti.edu under the "Investors - Corporate Governance" captions. The Audit Committee met 10 times during fiscal 2015. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal control over financial reporting.

In fulfilling its responsibilities, the Audit Committee meets with management and the independent registered public accounting firm to review and discuss the Company's annual and quarterly financial statements, including the disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K, any material changes in accounting policies used in preparing the financial statements prior to the filing of a report on Form 10-K or Form 10-Q with the SEC, and the items required to be discussed by AU Section 380, Communication with Audit Committees ("AU 380"), with respect to annual financial statements, and AU Section 722, Interim Financial Information, with respect to quarterly financial statements.

The Audit Committee met and held discussions with management and the independent registered public accounting firm regarding the fair and complete presentation of the Company's financial statements, management's assessment of the Company's internal control over financial reporting and the significant accounting policies applied by management in the preparation of the Company's financial statements, as well as any alternative accounting policies. Management represented to the Audit Committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the Audit Committee has reviewed and discussed the consolidated financial statements with management and the independent registered public accounting firm. The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by AU 380.

In addition, the Audit Committee received the written disclosures and the letter from the independent registered public accounting firm required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accounting firm's communications with the Audit Committee concerning independence, and discussed with the independent registered public accounting firm such firm's independence from the Company and its management. The Audit Committee also has considered whether the independent registered public accounting firm's provision of permitted non-audit services to the Company is compatible with its independence. The Audit Committee has concluded that the independent registered public accounting firm is independent from the Company and its management.

The Audit Committee discussed with the independent registered public accounting firm the overall scope and plans for its audit. The Audit Committee met with the independent registered public accounting firm, with and without management present, to discuss the results of its audit, the evaluation of the Company's internal controls, the overall quality of the Company's financial reporting and other matters required to be discussed by AU 380.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors, and the Board of Directors approved, the inclusion of the audited financial statements in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2015, for filing with the SEC.

The Audit Committee:

Kenneth R. Trammell (Chair)
Alan E. Cabito
Conrad A. Conrad

EQUITY COMPENSATION PLAN INFORMATION

We maintain the Management 2002 Stock Option Program (the “2002 Plan”) and the 2003 Plan pursuant to which we may grant equity awards to eligible persons.

Management 2002 Stock Option Program. The 2002 Plan was adopted by our Board of Directors and became effective in April 2002. A maximum of 783,000 shares of common stock may be issued under the 2002 Plan, which is administered by our Compensation Committee.

The 2002 Plan provides for the grant of incentive and non-qualified stock options to our employees and employees of related companies, including officers and management directors, and non-statutory options to other persons providing material services to us or related companies. A non-management director is not eligible to receive an award.

As of September 30, 2015, we had issued 690,152 shares of common stock upon the exercise of options granted under the 2002 Plan. We will not make any further grants under the 2002 Plan.

2003 Incentive Compensation Plan. The 2003 Plan was adopted by our Board of Directors and approved by holders of the majority voting power of our voting stock and became effective in December 2003. The 2003 Plan was amended by holders of the majority voting power of our voting stock at the 2012 Annual Meeting of Stockholders. The 2003 Plan was amended to, among other things, increase the number of shares issuable under the 2003 Plan to 5,280,972 shares of our common stock, subject to proportional adjustment to reflect stock splits, stock dividends and other similar events. The 2003 Plan provides for the issuance of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, stock units, performance shares, performance units, performance-based awards and cash bonuses.

Awards under the 2003 Plan may be granted to employees, directors, consultants and advisors to the Company or any of our subsidiaries. However, only employees (including officers and directors who are also employees) of the Company or any of our subsidiaries may receive incentive stock options under the 2003 Plan. The 2003 Plan is administered by our Compensation Committee.

As of September 30, 2015, we had issued 412,293 shares of common stock upon the exercise of options granted under the 2003 Plan, at a weighted average exercise price of $19.15 per share. In addition, 157,051 shares of common stock are issuable pursuant to currently exercisable options granted under the 2003 Plan, at a weighted average exercise price of $23.23 per share.

As of September 30, 2015, we had granted 2,971,705 shares of restricted stock awards under the 2003 Plan, of which 1,161,502 shares have been forfeited and 217,565 shares are still subject to restrictions. During the year ended September 30, 2015, restrictions lapsed with respect to 145,701 shares, of which 51,917 shares were withheld to settle individual participant tax obligations.

As of September 30, 2015, we had awarded 1,399,202 restricted stock units under the 2003 Plan, of which 193,684 shares have been forfeited and 995,185 shares remain unvested. During the year ended September 30, 2015, 188,017 restricted stock units vested, of which 71,145 shares were withheld to settle individual participant tax obligations.

The following table summarizes our equity compensation plan information as of September 30, 2015. Information is included for both equity compensation plans approved by the stockholders and equity plans not approved by the stockholders.

Plan Category	Common Shares to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Common Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)
Equity compensation plans approved by UTI stockholders	157,051	$23.23	1,463,725
Equity compensation plans not approved by UTI stockholders	—	—	—
Totals	157,051	$23.23	1,463,725

COMPENSATION DISCUSSION AND ANALYSIS

In this Compensation Discussion and Analysis, we describe the material components of our executive compensation program for our principal executive officer, principal financial officer, the three other most-highly compensated individuals who were serving as executive officers of the Company as of the end of fiscal 2015 and one additional individual who served as an executive officer of the Company during fiscal 2015 but was not serving as an executive officer on September 30, 2015.

- Kimberly J. McWaters, our Chairman of the Board and Chief Executive Officer (our "Chairman/CEO");
- Eugene S. Putnam, Jr., our President and Chief Financial Officer;
- Sherrell E. Smith, our Executive Vice President of Admissions and Operations;
- Chad A. Freed, our General Counsel and Executive Vice President of Corporate Development;
- Jeffry B. May, our Senior Vice President of Marketing; and
- Kenneth J. Cranston, our former Senior Vice President of Admissions.

These individuals are referred to in this Compensation Discussion and Analysis as the "Named Executive Officers" or "NEOs."

Specifically, this Compensation Discussion and Analysis provides an overview of our executive compensation philosophy, the overall objectives of our executive compensation program, and each compensation component that we provide. In addition, we explain how and why our Compensation Committee arrived at the specific compensation decisions for our executive officers during fiscal 2015.

The compensation of the NEOs for fiscal 2015 is set forth in the Fiscal 2015 Summary Compensation Table and other tables contained in this Proxy Statement.

Executive Summary

We are the leading provider of post-secondary education for students seeking careers as professional automotive, diesel, collision repair, motorcycle and marine technicians as measured by total average undergraduate enrollment and graduates.

Fiscal 2015 Business Highlights

Lower student population levels as we began fiscal 2015, combined with lower new student starts throughout the year, resulted in an 8.3% decline in our average undergraduate full-time student enrollment to approximately 13,200 students for the year ended September 30, 2015. The decline in our average undergraduate full-time student enrollment resulted in a decline in revenues and net income for fiscal 2015. Our revenues for fiscal 2015 were $362.7 million, a decrease of $15.7 million, or 4.2%, from fiscal 2014. Our net loss for fiscal 2015 was $9.1 million, a decrease of $11.1 million from the prior year. Our results of operations for fiscal 2015 were impacted by a goodwill impairment expense of $12.4 million.

Despite these financial challenges and continued uncertainties surrounding our industry, our business continues to be fundamentally strong:

- Our graduate employment rate remained consistent with the prior year, with 88% of our fiscal 2014 graduates finding employment within one year of their graduation date. We continue to invest in our graduate employment teams and processes in order to more effectively assist our graduates in finding employment.[1]

- In August 2015, we opened a new campus location in Long Beach, California.
- We completed the integration of our Automotive Technology and Diesel Technology II curricula at our Orlando, Florida campus in 2015, bringing the total number of campuses teaching this curricula to five, including our new Long Beach, California campus.
- We returned $13.9 million to shareholders during the year ended September 30, 2015 through share repurchases and the payment of quarterly cash dividends in December 2014, March 2015 and June 2015 of $0.10 per share.
- We continue to have a debt free balance sheet with the exception of the financing obligations for our Lisle, Illinois and Long Beach, California campuses.

In response to the ongoing economic uncertainties, we continue to manage discretionary operating costs, develop our strong industry relationships and provide alternative solutions to help students achieve their educational goals.

Key Management Changes in Fiscal 2015

In September 2014, the Compensation Committee approved the promotion of Mr. May from Vice President Marketing and Analytics to Senior Vice President of Marketing, effective September 3, 2014.

In April 2015, Mr. Cranston, our former Senior Vice President of Admissions, left the company, and the Compensation Committee approved his eligibility for severance under our Severance Plan, as amended December 2014. For a detailed explanation of the severance benefits provided to Mr. Cranston under the Company’s Severance Plan, see “Executive Compensation - Potential Payments upon Termination or Change in Control.”

In June 2015, the Compensation Committee approved the promotions of Mr. Smith from Senior Vice President of Operations to Executive Vice President of Admissions and Operations and Mr. Freed from General Counsel and Senior Vice President of Business Development to General Counsel and Executive Vice President of Corporate Development.

1 The employment calculation is based on all graduates, including those that completed manufacturer specific advanced training programs, from October 1, 2013 to September 30, 2014, excluding graduates not available for employment because of continuing education, military service, health, incarceration, death or international student status. Graduates are counted as employed based on a verified understanding of the graduate’s job duties to assess and confirm that the graduate’s primary job responsibilities are in his or her field of study. For 2014, we had approximately 9,900 total graduates, of which approximately 9,200 were available for employment. Of those graduates available for employment, approximately 8,100 were employed within one year of their graduation date, for a total of 88%.

What We Pay and Why

The primary elements of NEO compensation is comprised of base salary, annual incentive awards and long-term incentive compensation, or, "total direct compensation."

For fiscal 2015, the overall mix of the aggregate target total direct compensation for the Chairman/CEO was 33% base salary, 30% annual incentive award opportunity and 37% long-term incentive compensation opportunity. The mix for NEOs was approximately 40% base salary, 27% annual incentive award opportunity and 33% long-term incentive compensation opportunity. Because his compensation for fiscal 2015 consisted primarily of severance, Mr. Cranston was not included in the NEO compensation mix calculation.

Chairman/CEO Compensation

We believe that the success of our business and resulting value for our stockholders is largely dependent on a stable management team led by an individual with the vision to identify our long-term challenges and craft effective responses to enable us to navigate the ongoing challenges of the economic and regulatory environments. Accordingly, the compensation package of our Chairman/CEO has been designed to support this belief while, at the same time, fulfilling our overall compensation objectives, including rewarding sustainable growth as reflected by favorable student outcomes and our financial performance, effective cost management and consistent operational excellence. To achieve these objectives, the fiscal 2015 compensation actions and decisions for our Chairman/CEO emphasized the following:

- Supported our belief that compensation should track corporate performance by paying an annual cash incentive award at approximately 41% of its target level; consistent with our financial results and student metrics in fiscal 2015 as measured by EBIT (our consolidated earnings before interest and taxes) - the key measure by which we gauge our ability to generate sustainable stockholder value, graduate placement and completion rate of our students; and
- Reinforced the alignment of her interests with those of our stockholders by linking her long-term incentive compensation opportunity to stockholder value through the grant of restricted stock unit(RSU) awards.

Impact of Company Performance on Compensation - Reported and Realized Pay

As the Company experienced lower average student enrollments resulting in a decline in revenues, the Chairman/CEO’s actual compensation levels have also declined. The graphic below provides a more complete view of total direct compensation by providing “reported” and “realized” pay of the Chairman/CEO for fiscal years 2013, 2014 and 2015. While “reported” pay is useful, it is only part of the story in terms of pay alignment with performance. Target pay includes (i) base salary, (ii) target annual incentive awards and (iii) the grant date fair value of long-term incentive compensation granted during the fiscal year.

Reported pay includes (i) base salary, (ii) actual annual incentive awards earned and (iii) the grant date fair value of long-term incentive compensation, each as reported in the 2015 Summary Compensation Table for the applicable year.

Realized pay includes (i) base salary, (ii) actual annual incentive awards earned and (iii) the value of stock options exercised or stock awards vested in the applicable year, if any.

2015 Executive Compensation Policies and Practices

We endeavor to maintain sound governance standards consistent with our executive compensation policies and practices. The Compensation Committee evaluates our executive compensation program on an ongoing basis to ensure that it is consistent with our short-term and long-term goals given the dynamic nature of our business and the market in which we compete for executive talent. The following policies and practices were in effect during fiscal 2015:

What We Do		How We Do It
We Have an Independent Compensation Committee	ð	The Compensation Committee is comprised solely of independent directors who have established effective means for communicating with stockholders regarding their executive compensation ideas and concerns.
We Conduct an Annual Executive Compensation Review	ð	The Compensation Committee conducts an annual review and approval of our compensation strategy, including a review of our compensation peer group used for comparative purposes and a review of our compensation-related risk profile to ensure that our compensation-related risks are not reasonably likely to have a material adverse effect on our company.
We Utilize an Independent Compensation Consulting Firm	ð	The Compensation Committee has engaged Compensia, Inc., a national compensation consulting firm, to assist it in fulfilling its responsibilities and duties.
We Pay for Performance and Place Compensation At-Risk	ð	A significant portion of each NEO’s annual pay is based on objective performance metrics. Our executive compensation program is designed so that a significant portion of compensation is “at-risk” based on corporate performance, as well as equity-based to align the interests of our executive officers and stockholders.
We Target Pay Competitively	ð	Using an appropriately selected peer group of companies, we target total direct compensation within a competitive range.
We Use Multi-Year Vesting Requirements	ð	The equity awards granted to our executive officers vest or are earned over multi-year periods, consistent with current market practice and our retention objectives;
We Enforce Executive Stock Ownership Guidelines	ð	To further align the interests of our executive officers with the interests of our stockholders, and after evaluation of best practices and consultation by the Compensation Committee with Compensia, its compensation consultant, effective September 1, 2012, our Board of Directors implemented stock ownership guidelines applicable to our executive officers. Each executive officer is expected to hold shares of our common stock with an aggregate value greater than or equal to a multiple of his or her base salary as set forth below: • Chairman/CEO- four times base salary; • President & Chief Financial Officer - three times base salary; • Executive and Senior Vice Presidents - two times base salary. Under these guidelines, shares of our common stock held directly or indirectly, as well as shares of our common stock subject to outstanding restricted stock awards and restricted stock unit awards, count towards satisfaction of the stock ownership requirements. Compliance with these guidelines is measured annually in September. Our executive officers are expected to be in compliance with these guidelines within three years of the later of September 1, 2012 or the

date the executive officer first became subject to the guidelines. Currently, each of the Named Executive Officers is in compliance with the guidelines.

What We Do		How We Do It
We Have a Cap on Annual Incentive Award Compensation	ð	The aggregate maximum annual incentive award that can be earned by each of our NEOs is capped at 150% of their target.
What We Don't Do		How We Avoid It
We Don’t Permit Hedging	ð	Our Insider Trading Policy provides that no employee, officer, or director may acquire, sell, or trade in any interest or position relating to the future price of Company securities, such as a put option, a call option or a short sale (including a short sale “against the box”), or engage in hedging transactions (including “cashless collars”).
We Don’t Provide Tax Gross-Up Provisions	ð	We do not plan to provide for tax gross-up payments for a change in control in any new or existing employment agreements.
We Don’t Offer Single Trigger Change in Control Severance Benefits	ð	Our executives will only be eligible to receive severance benefits if they experience an involuntary termination of employment within the one-year period following a change in control.

Compensation Philosophy and Objectives

Our executive compensation program is driven by our business environment, objectives and outcomes. Consequently, we evaluate the performance of our executive officers, including the NEOs, based on their management of the Company in the context of current business and economic conditions and our performance relative to our peers. Because the NEOs have broad policy-making authority, the Compensation Committee holds them responsible for our financial performance and for upholding our values in a competitive marketplace.

We believe that, in this highly competitive market for top executive talent, it is critical that we provide our executive officers with incentives to excel, be internally and externally equitable and promote a culture of innovation and results-oriented service for our students and customers while, at the same time, not encouraging undue risk-taking. We also believe an effective executive compensation program rewards the achievement of short-term, long-term and strategic objectives that are closely aligned with the soundness of the Company and the interests of our stockholders and encourages appropriate decision-making regarding the long-term value of the Company.

Therefore, we believe that a meaningful portion of each executive officer’s total direct compensation opportunity should be at risk and payable only if his or her performance benefits the interests of our stockholders.

Oversight of the Executive Compensation Program

Role of Compensation Committee

The Compensation Committee has responsibility for overseeing the administration and development of our executive compensation program. In fulfilling this responsibility, the Compensation Committee formulates recommendations for the total direct compensation, and each individual element of compensation, for our executive officers, including the NEOs, for consideration by and approval of our Board of Directors.

In developing these recommendations, the Compensation Committee evaluates the financial and operational performance of the Company and conducts performance reviews of our Chairman/CEO, taking into consideration the goals and objectives of our short-term and long-term incentive compensation plans. The Compensation Committee also uses the annual performance of our other executive officers, as presented by our Chairman/CEO or our President and Chief Financial Officer, as a significant factor in developing the compensation recommendations for these individuals.

The Compensation Committee also conducts an annual assessment of the competitiveness of our executive compensation program, with the assistance of its compensation consultant, reviewing our executive officers' total direct compensation opportunities, while, at the same time, analyzing the competitiveness of each compensation element. The Compensation Committee monitors the overall compensation mix of our executive officers' pay by comparing each element to peer group practices to ensure appropriate pay leverage is maintained in the overall compensation package and in equity-based incentives that emphasize the creation of long-term stockholder value.

In the summer of 2014, the Compensation Committee conducted its review of compensation for fiscal 2015, examining the base salary, annual cash incentive award opportunity and long-term incentive compensation opportunity of each executive officer, including each NEO. The Compensation Committee also reviewed the value of outstanding long-term incentive compensation awards previously granted to our executive officers again in September 2015 as part of its review and approval of annual equity awards.

Role of Executive Officers

Our Chairman/CEO, in consultation with our President and Chief Financial Officer, makes recommendations to the Compensation Committee as to the base salaries, target annual cash incentive award opportunities and long-term incentive compensation opportunities of our executive officers, including the NEOs (other than themselves). These recommendations are based on an analysis of relevant market data (derived from a review of peer company and survey data), as well as his or her evaluation of each executive officer's performance.

Role of Compensation Consultants

The Compensation Committee has engaged Compensia, Inc., a national compensation consulting firm, to assist it in fulfilling its responsibilities and duties. Specifically, Compensia's engagement encompasses advisory services such as periodic review of our executive compensation philosophy, a competitive assessment of executive compensation levels and "pay-for-performance" linkage, executive cash and broad-based equity incentive program design, the review of executive officer employment and other agreements and other ad hoc support. In fiscal 2015, Compensia:

- reviewed the compensation peer group that the Compensation Committee used to assess the competitive market for its executive positions; and
- provided advice and analysis with respect to the propriety and competitive value of all elements of compensation, including base salary, annual cash incentive award opportunities and long-term incentive compensation opportunities for our executive officers.

Compensia works at the direction of, and reports directly to, the Compensation Committee. A representative of Compensia attends all Compensation Committee meetings. Compensia does not perform any services for the Company unless directed to do so by the Compensation Committee. Other than the work described above, there are no other material relationships between Compensia and the Company or its executive officers or members of our Board of Directors.

The Compensation Committee has analyzed whether the work of Compensia as a compensation consultant has raised any conflicts of interest, taking into consideration the following factors: (i) the provision of other services to the Company by Compensia; (ii) the amount of fees paid by the Company to Compensia as a percentage of Compensia's total revenue; (iii) the policies and procedures of Compensia that are designed to prevent conflicts of interest; (iv) any business or personal relationship of Compensia or any individual compensation consultant employed by Compensia and involved in providing us services with any of our executive officers; (v) any business or personal relationship of Compensia or any individual compensation consultant employed by Compensia and involved in providing us services with any member of the Compensation Committee; and (vi) any stock of the Company owned by Compensia or the individual compensation consultants employed by Compensia and involved in providing services to us. The Compensation Committee has determined, based on its analysis in light of the factors listed above, that the work of Compensia and any individual compensation consultant employed by Compensia and involved in providing us services on behalf of the Compensation Committee has not created any conflicts of interest.

Competitive Positioning

To evaluate the competitiveness of our executive compensation program, the Compensation Committee compares each compensation element, as well as the total direct compensation of our executive officers, including the NEOs, against the compensation practices of a group of peer companies. In selecting the peer group companies, the Compensation Committee considers the following criteria: (i) focus on the education services industry, headquartered in the United States and traded on a major U.S. stock exchange; and (ii) revenue, market capitalization and headcount within a reasonable range of the Company. In fiscal 2015, the Compensation Committee added ITT Technical Institute to the group because it meets our criteria and there was proxy data available for the most recent period. The Compensation Committee decided to remove Corinthian Colleges from the group because of that company's current business condition.

American Public Education, Inc.	Grand Canyon Education, Inc.
Bridgepoint Education Inc.	ITT Educational Services, Inc.
Cambium Learning Group, Inc.	K12 Inc.
Capella Education Corporation	Lincoln Educational Services Corporation
Career Education Corporation	National American University Holdings, Inc.
GP Strategies Corporation	Strayer Education, Inc.

In addition to peer group data, we also compile and analyze job-specific compensation survey data prepared from general industry organizations for companies with similar revenue levels. For fiscal 2015, the compensation surveys used were Mercer's Benchmark Database and the PayFactors Survey Database. The data drawn from these surveys was combined with the data derived from the companies in the compensation peer group to create a composite comparison group (the "Competitive Market Data"). In the case of executive officers where compensation data was publicly available from SEC filings, the data derived from the companies in the compensation peer group was weighted more heavily than the compensation survey data in developing the Competitive Market Data for their positions.

We use the Competitive Market Data as a guide when making decisions about target total direct compensation, as well as individual elements of compensation, for our executive officers, including the NEOs. Generally, using the data from the 50th and 75th percentiles of target total direct compensation as reference points, the Compensation Committee determines the amount of each individual element of compensation for each executive officer. Generally, we target pay above the midpoint because we believe that the Company's continued status as the industry's choice for technical training requires a level of leadership talent that commands a premium in the current environment. Additionally, the attraction and retention of talent in the for-profit education sector has been negatively impacted by regulatory and economic pressures therefore creating a need to pay above the median for top talent. Since the Competitive Market Data is simply a starting point for the Compensation Committee's deliberations, which are influenced by several additional factors as described below, the target total direct compensation opportunities for our executive officers, as well as the amounts of each individual compensation element, may vary from the 50th and 75th percentiles of such data.

We compare the positioning of our employee benefits annually against the Towers Watson Employer Survey on Purchasing Value in Health Care, which covers approximately 11.3 million U.S. employees. Retirement benefits are evaluated annually against general industry standards, using data from our plan administrators (T. Rowe Price and The Newport Group). Typically, we target the median of this data to maintain competitive levels with respect to each of our benefits programs.

Compensation Mix

Our executive compensation program is designed around the concept of total direct compensation - that is, the combination of base salary, annual incentive awards and long-term incentive compensation. In setting the appropriate level of target total direct compensation, the Compensation Committee seeks to establish each compensation element at a level that is competitive and that will attract and motivate top talent, while keeping the overall pay levels aligned with stockholder interests and job responsibilities.

The Compensation Committee believes that the mix of annual incentive awards and long-term incentive compensation was well-balanced and consistent with our executive compensation objectives as impacted by the current business environment. In addition, the Compensation Committee has determined that the relationship between performance and incentive plan payouts are within the range of competitive practices as measured each year against the performance of our compensation peer group and the corresponding compensation paid by the companies in the compensation peer group to their executive officers.

Compensation Elements

Base Salary

Each year, the Compensation Committee reviews the base salaries of our executive officers, including the NEOs, using the deliberative process described above. In making base salary adjustment recommendations, the Compensation Committee considers our current business environment, the Competitive Market Data and each executive officer’s past performance, anticipated future contributions, role, responsibilities, skills and experience. Effective December 2014, the Compensation Committee increased base salaries of all NEOs by 2% in recognition of the results of these leaders attained during fiscal 2014 such as increased graduate employment rate, integration of our Automotive Technology and Diesel Technology II curricula at our Sacramento, California campus, and the successful progress toward the opening of our new campus location in Long Beach, California.

The base salaries of the NEOs during fiscal 2014 and 2015 and the salaries approved for fiscal 2016 are as follows:

Named Executive Officer	Fiscal 2014 Base Salary	Fiscal 2015 Base Salary	Fiscal 2016 Base Salary
Ms. McWaters	$709,000	$723,180	$737,644
Mr. Putnam	$459,000	$468,180	$477,544
Mr. Smith	$329,000	$335,180*	$408,000
Mr. Freed	$359,000	$366,180*	$382,500
Mr. May	$258,000	$263,160	$268,423
Mr. Cranston	$329,000	$335,580	N/A

* In April 2015, the base salary of Mr. Smith was further increased to $400,000, and in June 2015, the base salary of Mr. Freed was further increased to $375,000 in connection with their Executive Vice President promotions.

The fiscal 2015 base salaries of the Named Executive Officers are included in the “Fiscal 2015 Summary Compensation Table” below.

Annual Cash Incentive Awards

During fiscal 2015, our executive officers, including the NEOs, were eligible to earn annual cash incentive awards based on the achievement of specific performance goals for the fiscal year under the 2003 Plan (in the case of Ms. McWaters and Mr. Putnam) and our Management Incentive Plan (in the case of Messrs. Smith, Freed, May and Cranston).

Target Annual Cash Incentive Award Opportunities

The Compensation Committee considered (i) the desired target total cash compensation opportunity and target total direct compensation opportunity that it believed were reasonable and appropriate for each executive officer, (ii) each executive's prior annual cash incentive awards, (iii) our current business environment, (iv) the Competitive Market Data and (v) each executive's past performance, anticipated future contributions, role, responsibilities, skills and experience when establishing their target annual cash incentive award opportunities. The Compensation Committee recommended, and the independent members of our Board of Directors approved, the following target annual cash incentive award opportunities for the NEOs for fiscal 2015:

Named Executive Officer	Target Annual Cash Incentive Award Opportunity
Ms. McWaters	90%
Mr. Putnam	78%
Mr. Smith	60%*
Mr. Freed	60%*
Mr. May	60%
Mr. Cranston	60%

* The targets for Messrs. Smith and Freed were subsequently increased from 60% to 65%, effective April 29, 2015 for Mr. Smith and June 9, 2015 for Mr. Freed, commensurate with the compensation changes associated with their Executive Vice President promotions.

Corporate Performance Measure

The annual cash incentive awards of the NEOs were to be based on our financial performance as measured by the Company’s EBIT as well as the success of student metrics, graduate placement and completion rates during fiscal 2015. The Compensation Committee recommended, and the independent members of our Board of Directors selected, these performance measures for the annual cash incentive awards because it believed that it effectively captured our need to reward performance and contain costs during fiscal 2015, as well as provided incentives for meeting key student metrics. The bonus metric components were weighted as follows:

Corporate Performance Measure	Weighting
1. EBIT (Greater of Annual or Sum or Weighted Quarters)[1]	50%
2. Graduate Placement	25%
3. Completion Rate	25%

[1] The EBIT Payout is calculated as the greater of the annual result or the total of the weighted quarterly results. Each quarter was weighted as follows: Q1 = 43%, Q2 = 14%, Q3 = 5%, Q4 =38%.

Any payment of the student metrics, graduate placement and completion rate, were “modified” based on the achievement of consolidated EBIT for 2015. The threshold, target and maximum performance levels for these measures, as well as the related award payment levels, for the annual cash incentive awards were as follows:

	Threshold	Target	Maximum
EBIT performance level	$9,000,000	$19,000,000	$23,500,000
Award payment level	2.5%	52.5%	75%
Student metric modifier	60%	100%	100%
	Threshold	Target	Maximum
Graduate placement	81.5%	86.5%	91.5%
Award payment level*	13%	25%	38%
	Threshold	Target	Maximum
Completion rate	65%	70%	75%
Award payment level*	13%	25%	38%

Multiple award payment levels exist between the threshold, target and maximum amounts described above.
*Subject to EBIT student metric modifier.

The goals for consolidated EBIT targets were lowered from fiscal 2014 to fiscal 2015 due to the current business environment of fewer students in school and lower revenues balanced with investments for growth and initiatives to improve education quality and student success. For purposes of the fiscal 2015 annual cash incentive awards, consolidated EBIT was adjusted to exclude the expense associated with the annual cash incentive awards and the financial impact associated with the opening of our Long Beach, California campus. The payment calculation for the EBIT component was based on the greater of the annual result or the total of the quarterly results so that it was possible to recover from poor performance during a specific fiscal quarter and retain an incentive for the subsequent fiscal quarters, thereby enhancing the motivational aspects of the awards. However, the portion of the payment attributable to the student metrics was based on the annual fiscal year result.

Award Decisions and Analysis

In October 2015, the Compensation Committee determined that the Company's adjusted consolidated EBIT for fiscal 2015 was a loss before interest and taxes of $1.1 million. The results of the consolidated annual student metrics were 88% for the graduate placement rate, resulting in a 60% payout as modified by EBIT, and 65% for the completion rate, resulting in a 0% payout. The combined outcomes resulted in an award payment equal to approximately 41.3% of each NEO's target annual cash incentive award opportunity. The bonus payout calculation is as follows:

	Results	% of Plan	Total
EBIT Component			
Full Year Achievement	0 %		
Sum - Weighted Quarters	52.6 %		
Greater of:	52.6 %	50 %	26.3 %
Graduate Placement Achievement	100 %		
Modifier*	60 %		
	60.0 %	25 %	15.0 %
Completion Rate Achievement	0 %		
Modifier*	60 %		
	0.0 %	25 %	0.0 %
Final Payout Percentage			41.3 %

*Student Metrics are downwardly modified to 60% of actual result if target annual EBIT goal is not met.

Accordingly, the independent members of our Board of Directors approved the following annual cash incentive awards for fiscal 2015:

Named Executive Officer	Target Fiscal 2015 Annual Cash Incentive Award Opportunity	Actual Fiscal 2015 Annual Cash Incentive Award
Ms. McWaters	$650,900	$267,428
Mr. Putnam	$365,200	$150,046
Mr. Smith	$260,000	$93,040
Mr. Freed	$243,800	$94,690
Mr. May	$157,900	$64,876
Mr. Cranston	$201,300	$49,807

Long-Term Incentive Compensation

In September 2015, the Compensation Committee recommended, and the independent members of our Board of Directors approved, RSU awards for the NEOs using the deliberative process described above. In determining the size of these awards, the Compensation Committee considered our current challenging business environment, as well as the fiscal concerns of the Company, and, as a result, the size of these awards was maintained at levels equal to the prior three fiscal year awards which continue to be considerably below competitive practice in terms of value. The Compensation Committee continued to issue time-based equity to our NEOs in order to emphasize retention of key talent in an industry in turmoil and to offset the below-market grant levels. These RSU awards vest in four equal annual installments, on each anniversary of the date of grant. The RSU awards were granted to the NEOs in the following amounts:

Named Executive Officer	Number of Shares of Common Stock Underlying Restricted Stock Unit Award	Grant Date Fair Value of Restricted Stock Unit Award
Ms. McWaters	180,587	$800,000
Mr. Putnam	108,353	$480,004
Mr. Smith	56,434	$250,003
Mr. Freed	56,434	$250,003
Mr. May	45,147	$200,001
Mr. Cranston	—	—

The RSU awards are subject to transfer restrictions and the NEOs will not have voting, dividend or other stockholder rights until the shares of our common stock subject to the awards are issued upon vesting. Vesting of each installment of the RSU awards is subject to continued employment with or service to the Company or a subsidiary through the applicable vesting date, except that the awards vest upon death, disability and terminations of employment or service without cause or for good reason within one year after a change in control of the Company (as defined in the 2003 Plan and award agreements) and except as determined pursuant to the 2003 Plan.

For more information about the RSU awards granted to the NEOs during fiscal 2015, see “Fiscal 2015 Summary Compensation Table” and “Fiscal 2015 Grants of Plan-Based Awards” below.

Retirement Benefits

We maintain a defined contribution plan, intended to qualify under Section 401(k) of the Internal Revenue Code, which is generally available to all employees, including the NEOs, to assist them in saving for retirement. Under this plan, a participant may contribute a maximum of 50% of his or her pre-tax base salary (up to the statutorily-prescribed annual limit). The Board of Directors may approve discretionary matching and/or profit-sharing contributions into the plan for eligible employees. During fiscal 2014 and the first quarter of fiscal 2015, we matched 25 cents on each dollar saved up to the first 6% of eligible compensation contributed to the plan after the first year of employment. A five-year vesting schedule applies to all of our matching contributions. Effective January 1, 2015, all company matching amounts were suspended until January 2016, when these amounts reinstated at 2014 levels. A participant is considered fully vested in our matching contributions after he or she has completed five years of service with the Company.

Our executive officers, including the NEOs, are also eligible to participate in our Nonqualified Deferred Compensation Plan. We offer this plan to allow participants to set aside a portion of their income for retirement on a pre-tax basis, in addition to the amounts allowed under the Section 401(k) plan. We view these retirement benefits as a key component of our executive compensation program because they are intended to encourage long-term service by our executive officers. In view of the recent reduction and subsequent elimination of our matching contribution to our defined contribution plan, however, we recognize that these retirement benefits do not currently meet the competitive positioning objectives of our compensation philosophy.

Severance and Change in Control Benefits

Each of the NEOs is eligible to receive certain payments and benefits in connection with his or her termination of employment under various circumstances, including following a change in control of the Company, under his or her employment agreement or other applicable agreements, such as the Company’s Severance Plan, and under the terms that apply to our outstanding restricted stock and restricted stock unit awards. We believe that these benefits were necessary to attract our executives and that the change in control benefits are in the best interests of our company and our stockholders because they help assure us that we will have the continued dedication and objectivity of our executive officers, notwithstanding the possibility or occurrence of a change in control. Specifically, these arrangements are intended to mitigate a potential disincentive for the NEOs when they are evaluating a potential acquisition of the Company, particularly when their services may not be required by the acquiring entity. In such a situation, we believe that these arrangements are necessary to encourage retention of the NEOs through the conclusion of the transaction and to ensure a smooth management transition. For further details, see “Executive Compensation - Potential Payments upon Termination or Change in Control” below.

Perquisites and Other Personal Benefits

We provide limited perquisites, such as Company-paid premiums for disability, a self-funded executive disability benefit enhancement, accidental death and dismemberment coverage, executive physicals, additional term-life insurance and the Executive Medical Plan (ArmadaCare), to certain of our executive officers, including the Named Executive Officers. Given the rigorous demands placed on the Named Executive Officers, we have a vested interest in their proactive focus on their health and security. Based on its review of the Competitive Market Data, the Compensation Committee believes that perquisite levels provided to our executive officers are less than those provided by comparable companies.

Tax and Accounting Considerations

Deduction Limit

Section 162(m) of the Internal Revenue Code limits our ability to deduct non-performance based compensation in excess of $1 million that we pay to certain of our executive officers. The Compensation Committee seeks to have the incentive compensation paid to the Named Executive Officers be deductible for federal income tax purposes to the greatest extent possible and if it determines that such result is in the best interests of the Company and our stockholders. In certain situations, however, the Compensation Committee may determine that the amount of any foregone income tax deduction is less important than appropriate design and delivery of compensation to our executive officers.

The 2003 Plan, which was approved by our stockholders, permits the grant of options to purchase shares of our common stock, performance shares, performance units, stock appreciation rights, performance-based awards and cash bonuses that qualify as “performance-based compensation” and which, therefore, should be fully deductible under Section 162(m).

“Golden Parachute” Compensation

Sections 280G and 4999 of the Internal Revenue Code provide that our executive officers and directors who hold significant equity interests and certain other service providers may be subject to an excise tax if they receive payments or benefits that exceeds certain prescribed limits in connection with a change in control of the Company, and that we, or a successor, may forfeit an income tax deduction on the amounts subject to this additional tax. We did not provide any executive officer, including any Named Executive Officer, with a “gross-up” or other reimbursement payment for any tax liability that he or she might owe as a result of the application of Sections 280G or 4999 of the Internal Revenue Code during fiscal 2015 and we have not agreed and are not otherwise obligated to provide any Named Executive Officer with such a “gross-up” or other reimbursement in connection with the payments or benefits in connection with a change in control of the Company. Amounts payable to our Named Executive Officers as a result of terminations in connection with a change in control may be reduced pursuant to provisions of the applicable agreements if they would be subject to taxes as a result of Sections 280G or 4999 of the Internal Revenue Code.

Accounting for Stock-Based Compensation

We follow Financial Accounting Standard Board Accounting Standards Codification Topic 718 (ASC Topic 718) for our stock-based compensation awards. ASC Topic 718 requires companies to measure the compensation expense for all share-based payment awards made to employees and directors, including stock options, based on the grant date “fair value” of these awards. This calculation is performed for accounting purposes and reported in the compensation tables below, even though our executive officers may never realize any value from their awards. ASC Topic 718 also requires companies to recognize the compensation cost of their stock-based compensation awards in their income statements over the period that an executive officer is required to render service in exchange for the option or other award.

In granting equity awards to the Named Executive Officers during fiscal 2015, the Compensation Committee generally considered the potential expense of those awards under generally accepted accounting principles and their impact on our earnings per share. The Compensation Committee concluded that the award levels were in the best interests of our stockholders given competitive compensation practices among the companies in our compensation peer group, the awards’ potential compensation expense, our performance and the impact of the awards on employee motivation and retention.

Other Compensation Policies

Compensation Recovery Policy

Currently, we have not implemented a policy regarding retroactive adjustments to any cash or equity-based incentive compensation paid to our executive officers and other employees where the payments were predicated upon the achievement of financial results that were subsequently the subject of a financial restatement. We intend to adopt a general compensation recovery (“clawback”) policy covering our annual and long-term incentive compensation plans and arrangements once the SEC adopts final rules implementing the requirement of Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Equity Award Policy

Pursuant to our equity award grant policy, we grant equity awards upon the recommendation of the Compensation Committee and with the approval from the independent members of our Board of Directors. Awards to newly-hired or promoted executive officers who are eligible to receive stock awards are proposed for approval at our Board of Directors’ next regularly-scheduled meeting following the executive officer’s hire or promotion. Award timing is applied consistently. Typically, our annual equity awards are granted in September. Equity award levels are based on the grant date fair value of the shares of our common stock, reduced by the present value of the expected future dividends (which restricted stock awards and restricted stock unit awards do not receive) and vary among participants based on their positions within the Company.

For fiscal 2015, the equity awards were granted at the Board of Directors’ meeting held in September.

Compensation-Related Risk

The Compensation Committee of our Board of Directors believes that our compensation policies and practices as generally applicable to the Company’s employees do not encourage excessive and unnecessary risk-taking and that the level of risk that the policies and practices do encourage is not reasonably likely to have a material adverse effect on the Company.

Compensation Committee Interlocks

Ms. Srere and Messrs. Blaszkiewicz and Lennox served as members of the Compensation Committee of our Board of Directors during fiscal 2015. None of these directors was an executive officer or otherwise an employee of the Company before or during such service. Ms. McWaters serves on the compensation committee of the Board of Mobile Mini and Mr. Putnam serves on the compensation committee of the Board of the Community Bankers Trust Corporation.

EXECUTIVE COMPENSATION

Fiscal 2015 Summary Compensation Table

The following table summarizes the compensation during the last three fiscal years (as applicable) to our Chairman/CEO, our President and Chief Financial Officer and the three other most highly compensated individuals who were serving as executive officers of the Company as of the end of fiscal 2015 and one additional individual who served as an executive officer of the Company during fiscal 2015 but was not serving as an executive officer on September 30, 2015.

Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Stock Awards ($) (2)	Non-Equity Incentive Plan Compensation ($) (3)	All Other Compensation ($)		Total ($)
Kimberly J. McWaters	2015	723,071	—	800,000	267,428	44,608	(4)	1,835,107
Chairman and Chief	2014	695,183	—	800,007	250,797	41,050		1,787,037
Executive Officer	2013	631,673	80,000	1,200,006	233,400	56,074		2,201,153
Eugene S. Putnam, Jr.	2015	468,109	—	480,004	150,046	40,676	(5)	1,138,835
President and Chief	2014	454,223	—	480,002	142,173	42,768		1,119,166
Financial Officer	2013	429,144	162,500	680,000	137,400	55,084		1,464,128
Sherrell E. Smith (10)	2015	363,032	—	288,006	93,040	39,074	(6)	783,152
Executive Vice President	2014	328,396	—	160,007	79,148	43,624		611,175
of Admissions and Operations	2013	321,231	30,000	210,003	79,100	50,265		690,599
Chad A. Freed (11)	2015	368,771	—	273,007	94,690	38,026	(7)	774,494
General Counsel and	2014	352,281	—	160,007	84,735	39,793		636,816
Executive Vice President of Corporate Development	2013	321,231	130,000	210,003	79,100	51,341		791,675
Jeffry B. May	2015	256,174	—	200,001	64,876	42,117	(8)	563,168
Senior Vice President of	2014	219,230	20,000	160,007	31,952	21,545		452,734
Marketing	2013	198,515	49,400	90,000	22,466	29,047		389,428
Kenneth J. Cranston	2015	192,263	—	—	—	472,338	(9)	664,601
Former Senior Vice	2014	328,396	—	160,007	79,148	39,740		607,291
President Admissions	2013	321,231	30,000	210,003	79,100	148,597		788,931

(1) The amounts reported in the Bonus column include recognition and retention bonuses.

(2) The amounts reported in this Stock Awards column for 2015 and 2014 represent the aggregate grant date fair value of the restricted stock unit awards granted during fiscal 2015 and 2014, respectively. Amounts reported in this Stock Awards column for 2013 represent the aggregate grant date fair value of the restricted stock unit awards granted during fiscal 2013 and the aggregate grant date fair value of the SMIP award opportunities for fiscal 2013. Amounts in this column do not reflect whether the recipient has actually realized a financial benefit from the award. The assumptions used in the calculations of these amounts are included in Note 14 to our Consolidated Financial Statements contained in our Annual Report on Form 10-K for fiscal 2015. The SMIP was an annual plan and did not achieve payout.

(3) The amounts reported in the Non-Equity Incentive Plan Compensation column represent, with respect to Ms. McWaters and Mr. Putnam, amounts earned under the 2003 Plan. With respect to the other NEOs, the amounts reported represent amounts earned under our Management Incentive Plan.

(4) The amount reported in this All Other Compensation column for fiscal 2015 represents $15,593 in medical premiums, $482 in dental premiums, $917 in disability premiums and $742 in life insurance premiums. This amount also includes $2,078 imputed income from group-term life insurance, $19,057 in ArmadaCare medical reimbursement benefits and premiums, $3,037 for an executive physical, and $2,702 in service awards.

(5) The amount reported in this All Other Compensation column for fiscal 2015 represents $15,593 in medical premiums, $482 in dental premiums, $917 in disability premiums and $742 in life insurance premiums. This amount also includes $3,885 imputed income from group-term life insurance and $19,057 in ArmadaCare medical reimbursement benefits and premiums.

(6) The amount reported in this All Other Compensation column for fiscal 2015 represents $15,593 in medical premiums, $482 in dental premiums, $917 in disability premiums and $742 in life insurance premiums. This amount also includes $2,078 imputed income from group-term life insurance, $19,057 in ArmadaCare medical reimbursement benefits and premiums and $205 contributed on a matching basis pursuant to the terms of the Section 401(k) plan.

(7) The amount reported in this All Other Compensation column for fiscal 2015 represents $15,593 in medical premiums, $482 in dental premiums, $917 in disability premiums and $742 in life insurance premiums. This amount also includes $904 imputed income from group-term life insurance, $19,057 in ArmadaCare medical reimbursement benefits and premiums, $56 contributed on a matching basis pursuant to the terms of the Section 401(k) plan and $275 in service awards.

(8) The amount reported in this All Other Compensation column for fiscal 2015 represents $15,593 in medical premiums, $481 in dental premiums, $917 in disability premiums and $742 in life insurance premiums. This amount also includes $1,239 imputed income from group-term life insurance, $19,057 in ArmadaCare medical reimbursement benefits and premiums, $616 contributed on a matching basis pursuant to the terms of the Section 401(k) plan, $3,233 for an executive physical and $239 in service awards.

(9) The amount reported in this All Other Compensation column for fiscal 2015 represents $12,710 in medical premiums, $392 in dental premiums, $535 in disability premiums and $435 in life insurance premiums. This amount also includes $1,139 imputed income from group-term life insurance, $11,171in ArmadaCare medical reimbursement benefits and premiums, $660 for an executive physical and $290 in service awards. This amount also includes the following items pursuant to the terms of his Separation Agreement: $335,580 severance; $49,807 earned under the 2003 Incentive Compensation Plan; a $49,619 COBRA subsidy and $10,000 for outplacement services. For further information, see “Potential Payments upon Termination or Change in Control” below.

(10) Mr. Smith was promoted to the position of Executive Vice President of Admissions and Operations on June 9, 2015.

(11) Mr. Freed was promoted to the position of General Counsel and Executive Vice President of Corporate Development on June 9, 2015.

Fiscal 2015 Grants of Plan-Based Awards

The following table sets forth information regarding the grant of plan-based awards to the NEOs in fiscal 2015 except for Mr. Cranston, our former Senior Vice President of Admissions, who left the Company in April 2015 and did not receive a grant of plan-based awards in fiscal 2015.

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)	All Other Option Awards: Number of Securities Underlying Options (#)	Grant Date Fair Value of Stock and Option Awards ($)
		Threshold ($)	Target ($)	Maximum ($)	Threshold ($)	Target ($)	Maximum ($)			
Kimberly J. McWaters										
ACIA (1)		16,300	650,900	976,300						
Stock Award (2)	Sep 16, 2015							180,587		800,000
Eugene S. Putnam, Jr.										
ACIA (1)		9,100	365,200	547,800						
Stock Award (2)	Sep 16, 2015							108,353		480,004
Sherrell E. Smith										
ACIA (1)		6,500	260,000	390,000						
Stock Award (2)	Sep 16, 2015							56,434		250,003
Stock Award (3)	Jun 9, 2015							5,293		38,004
Chad A. Freed										
ACIA (1)		6,100	243,800	365,600						
Stock Award (2)	Sep 16, 2015							56,434		250,003
Stock Award (3)	Jun 9, 2015							3,204		23,005
Jeffry B. May										
ACIA (1)		3,900	157,900	236,800						
Stock Award (2)	Sep 16, 2015							45,147		200,001

(1) The "Annual Cash Incentive Awards (ACIA)" amounts reported represent the dollar value of the estimated possible payout upon satisfaction of the conditions subject to the non-equity incentive plan awards granted to the Named Executive Officers in fiscal 2015. The ACIA Payout was based on the greater of the annual result or the total of the weighted quarterly results. Therefore, the threshold amount is based on the potential of earning the EBIT portion of the lowest-weighted quarter for the period. Please note that each quarter was weighted as follows: Q1 = 43%, Q2 =

14%, Q3 = 5%, Q4 =38%.

(2) The Stock Awards amounts reported represent the aggregate grant date fair value of the restricted stock unit awards granted to the Named Executive Officers in fiscal 2015 and do not reflect whether the recipient will actually realize a financial benefit from the award. The assumptions used in the calculations of these amounts are included in Note 14 to our Consolidated Financial Statements contained in our Annual Report on Form 10-K for fiscal 2015.

(3) The Stock Awards amounts reported represent the aggregate grant date fair value of the restricted stock unit awards granted to Messrs. Smith and Freed commensurate with their Executive Vice President promotions effective June 9, 2015 and do not reflect whether the recipient will actually realize a financial benefit from the

award. The assumptions used in the calculations of these amounts are included in Note 14 to our Consolidated Financial Statements contained in our Annual Report on Form 10-K for fiscal 2015.

In fiscal 2015, each of the NEOs received his or her long-term incentive compensation in the form of a restricted stock unit award for shares of our common stock. These awards are subject to service-based restrictions which lapse at a rate of 25% of the shares of our common stock subject to the award on the first four anniversaries of the date of grant. The NEOs have no voting, dividend or other stockholder rights with respect to the shares of our common stock underlying the restricted stock unit awards until the awards vest and the shares subject to the awards are issued. Further, the NEOs may not sell or transfer the awards (or the shares of our common stock subject to the awards) until the awards vest.

The restricted stock unit awards vest upon a NEO's death, disability, or termination of employment without "cause" or termination of employment by the NEO for "good reason" within one year following a change in control of the Company. The employment agreements with Ms. McWaters and Mr. Putnam, provide for any restricted stock or stock units scheduled to vest within 12 months of a qualified retirement (the point at which age and service total 65) to continue to vest as scheduled post-retirement. Only Ms. McWaters currently meets the required age and service requirements to be eligible for qualified retirement at this time.

For purposes of these restricted stock unit awards:

"Cause" includes, but is not limited to, the following: (i) conviction of, or plea of guilty or nolo contendere to, a felony or a crime involving embezzlement, conversion of property or moral turpitude; (ii) a finding by a majority of our Board of Directors of fraud, embezzlement or conversion of the Company's property; (iii) conviction of, or plea of guilty or nolo contendere to, a crime involving the acquisition, use or expenditure of federal, state or local government funds or the unlawful use, possession or sale of illegal substances; (iv) an administrative or judicial determination of fraud or any other violation of law involving federal, state or local government funds; and (v) a finding by a majority of our Board of Directors of a knowing breach of any fiduciary duties to the Company or our stockholders or making of a misrepresentation or omission which breach, misrepresentation or omission would reasonably be expected to materially adversely affect the business, properties, assets, condition (financial or other) or prospects of the Company.

> "Good reason" means a material reduction in a Named Executive Officer's authority, perquisites, position or responsibilities (other than such a reduction that affects all of our senior executives on a substantially equal or proportionate basis), or a requirement that the Named Executive Officer relocate greater than 50 miles from his or her current primary work location.

Fiscal 2015 Outstanding Equity Awards at Fiscal Year-End

The following table sets forth certain information regarding all outstanding equity awards held by each of the NEOs as of September 30, 2015 except for Mr. Cranston, our former Senior Vice President of Admissions, who left the Company in April 2015 and no longer holds outstanding equity. The values reported in the table have not been, and may never be, realized. The options to purchase shares of our common stock reported in the table may never be exercised and the value, if any, will depend on the market price of our common stock on the exercise date. In addition, the restricted stock and restricted stock unit awards are subject to forfeiture restrictions, unless an eligible NEO (currently only Ms. McWaters and Mr. Putnam), experiences a qualified retirement as described above. The value realized, if any, will depend on the market price of our common stock on the date a NEO eventually sells such shares once the restrictions have lapsed.

Name	Award Date	Option Awards Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price ($)	Option Expiration Date	Stock Awards Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)	Equity Incentive Plan Awards: Number of Unearned Shares, Units, or Other Rights That Have Not Vested (#)	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units, or Other Rights Held That Have Not Vested ($)
Kimberly J. McWaters								
	Jun 15, 2006	52,500	$ 23.25	Jun 15, 2016				
	Feb 28, 2007	9,300	$ 23.63	Feb 28, 2017				
	Sep 20, 2011				14,578 (1)	$ 51,169		
	Sep 20, 2012				25,317 (1)	$ 88,863		
	Sep 05, 2013				41,667 (2)	$ 146,251		
	Sep 04, 2014				60,242 (2)	$ 211,449		
	Sep 16, 2015				80,587 (2)	$ 633,860		
Eugene S. Putnam, Jr.								
	Sep 20, 2011				8,747 (1)	$)		

Net income (loss)	$ .39	$ (.10)	$ (.60)	$ (8.40)	$ (1.50)	$ (.08)	$ (.05)

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Selected Historical Consolidated Financial Data

	Year Ended December 31,					Three Months Ended March 31,	
	1999	2000	2001	2002	2003	2003	2004
						(unaudited)	(unaudited)
Diluted:							
Income (loss) from continuing operations	$ .32	$ .34	$ .37	$ (5.48)	$ (1.54)	$ (.07)	$ (.05)
Income (loss) from discontinued operations	.07	.15	(.95)	(2.48)	.04	(.01)	
Cumulative effect of accounting changes		(.59)		(.44)			
Net income (loss)	$ .39	$ (.10)	$ (.58)	$ (8.40)	$ (1.50)	$ (.08)	$ (.05)
Weighted average shares (in thousands):							
Basic	23,863	23,909	24,986	25,300	25,376	25,376	25,376
Diluted	24,063	24,090	25,692	25,300	25,376	25,376	25,376
Other Financial Data (in thousands):							
Cash operating income(2)(3)	$ 76,664	$ 86,808	$ 63,842	$ 19,968	$ 89,536	$ 18,909	$ 28,153
EBITDA(3)	75,301	78,063	79,237	76,803	95,669	21,277	28,504
Cash flows provided by operating activities of continuing operations	60,564	69,534	30,767	21,716	80,314	12,366	29,538
Cash flows used in investing activities of continuing operations(4)	(129,466)	(57,553)	(79,565)	(49,358)	(48,668)	(11,488)	(25,955)
Cash flows provided by (used in) financing activities of continuing operations	76,530	(12,207)	61,255	(2,630)	(5,646)	(2,166)	(708)
Financial Ratios:							
Cash Operating Income(2)/Interest Expense, net	6.7	7.0	4.7	1.0	4.5	3.7	5.7
EBITDA(3)/Interest Expense, net	6.5	6.3	5.9	3.7	4.8	4.2	5.8
Net Debt(5)/Cash Operating Income(2)	2.9	2.3	3.8	12.5	2.5	na	na
Net Debt(5)/EBITDA(3)	2.9	2.5	3.1	3.3	2.3	na	na
Net Debt(5)/Total Net Book Capitalization	47.5%	43.6%	50.0%	87.1%	98.4%	87.4%	99.1%

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

	Year Ended December 31,		
	1999	2000	2001
Income from continuing operations before cumulative effect of changes in accounting principles	$ 4,119	$ 3,765	$ 5,178
Income from continuing operations before cumulative effect of changes in accounting principles per share:			
Basic	$ .17	$ .16	$ .21
Diluted	.17	.16	.20

Net income (loss)	$ 5,842	$ (6,852)	$ (19,395)
Net income (loss) per share:			
Basic	$ .24	$ (.29)	$ (.78)
Diluted	.24	(.28)	(.75)

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	As of December 31,					As of March 31,	
	1999	2000	2001	2002	2003	2003	2004
						(unaudited)	(unaudited)
Balance Sheet Data:							
(in thousands, except per share amounts)							
Cash and cash equivalents	$ 5,188	$ 10,216	$ 25,223	$ 21,517	$ 44,362	$ 18,769	$ 48,588
Seismic data library, net	329,885	362,603	455,845	284,396	247,541	286,552	253,874
Total assets	555,919	599,131	661,469	398,136	367,089	392,325	373,115
Total debt(6)	225,223	206,598	268,350	272,061	267,434	270,102	267,122
Stockholders equity	243,024	253,590	243,587	37,036	3,722	36,221	2,041
Book value per common share outstanding	$ 10.30	$ 10.28	$ 9.71	$ 1.46	$ .15	$ 1.43	$ .08
Common shares outstanding	23,605	24,671	25,075	25,376	25,376	25,376	25,376

(1) In the fourth quarter of 2002, we reevaluated our estimate of the useful life of our seismic data library and reduced the estimated useful life of offshore data from ten to five years and onshore data from ten to seven years. The effect from this change on reported results was a reduction in net income of $58.8 million or $2.32 per share for the year ended December 31, 2002.

(2) Cash operating income is defined as cash revenue (derived primarily from seismic data acquisition revenue, cash library licensing revenue, and Solutions revenue) less cost of sales and SG&A. Cash operating income is a non-GAAP financial measure which should not be construed, however, as an alternative to operating income (loss) (as determined in accordance with GAAP) as an indication of our operating performance, or to cash flow from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Included in cash operating income are a number of special items that are not necessarily indicative of our core operations or our future prospects, and impact comparability between years. Cash operating income for the year ended December 31, 2000 included a restructuring charge of $4.4 million related to reduction of management incentive bonus compensation. Cash operating income for the year ended December 13, 2001 included $1.3 for charges related to former executives. Cash operating income for the year ended December 31, 2002 included $28.5 million of costs and expenses related to our restructuring efforts, various litigation, severance costs, the acceleration of certain lease obligations, allowances for doubtful accounts and certain other accruals. Cash operating income for the year ended December 31, 2003 included $5.5 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings and various litigation, not of reduction in litigation accruals. Cash operating income for the three months ended March 31, 2003 included $2.8 million of costs and expenses related to our restructuring efforts and various litigation. Cash operating income for the three months ended March 31, 2004 included $0.7 million of costs and expenses related to various litigation and severance costs. We believe that cash operating income is a useful measure in evaluating our performance because of our revenue recognition policies. We believe that, in addition to operating income (loss), cash flows from operating activities and EBITDA, cash operating income is a useful financial performance measurement reflecting our ability to incur and service debt and to fund capital expenditures.

(3) EBITDA is defined as earnings from continuing operations before income taxes (benefit), interest expense, net, impairment of seismic data, and depreciation and amortization. EBITDA is a non-GAAP financial measure, which should not be construed as an alternative to operating income (loss) (as determined in accordance with GAAP) as an indicator of our operating performance or to cash flows from operating activities (as determined in accordance with GAAP) as a measure of liquidity. Our method of calculating EBITDA may differ from methods used by other companies and, as a result, EBITDA measures disclosed herein might not be comparable to other similarly titled measures used by other companies. Included in earnings (loss) and EBITDA are a number of special items that are not necessarily indicative of our core operations or our future prospects, and impact comparability between years. EBITDA for the year ended December 31, 1999 included $7.8 million related to impairment due to dividend distribution of affiliate stock. EBITDA for the year ended December 31, 2000 included a restructuring charge of $4.4 million related to reduction of management incentive bonus compensation. EBITDA for the year ended December 31, 2001 included $1.3 million for charges related to former executives. EBITDA for the year ended December 31, 2002 included $28.5 million of costs and expenses related to our restructuring efforts, various litigation, severance costs, the acceleration of certain lease obligations, allowances for doubtful accounts and certain other accruals. EBITDA for the year ended December 31, 2003 included $11.4 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings and various litigation, net of reduction in litigation accruals. EBITDA for the three months ended March 31, 2003 included $2.8 million of costs and expenses related to our restructuring efforts and various litigation. EBITDA for the three months ended March 31, 2004 included $4.8 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings, various litigation and severance costs. We believe that, in addition to cash flows from operating activities and net earnings (loss), EBITDA is a useful financial performance measurement for assessing operating performance since it provides an additional basis to evaluate our ability to incur and service debt and to fund capital expenditures. To evaluate EBITDA, the components of EBITDA such as revenue and SG&A and the variability of such components over time also should be considered.

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

	Year Ended December 31,					Three Months Ended March 31,	
	1999	2000	2001	2002	2003	2003	2004
						(unaudited)	(unaudited)
Cash operating income	$ 76,664	$ 86,808	$ 63,842	$ 19,968	$ 89,536	$ 18,909	$ 28,153
Add (subtract) other revenue components not included in cash operating income:							
Acquisition underwriting from non-monetary exchanges					624		1,812
Non-monetary exchanges	6,522	12,435	57,045	13,551	10,630	3,109	3,080
Deferral of revenue		(44,324)	(89,764)	(38,366)	(51,421)	(12,372)	(14,355)
Selections of data		23,144	48,114	81,982	51,603	11,631	13,961
Less:							
Equity in earnings (loss) of affiliate	(91)						
Impairment due to dividend distribution of affiliate stock	(7,794)						
Loss on sale of marketable securities				(332)			
Gain on extinguishment of liabilities					681		
Reorganization items					(5,984)		(4,147)
EBITDA	75,301	78,063	79,237	76,803	95,669	21,277	28,504
Less:							
Interest expense, net	(11,504)	(12,389)	(13,461)	(20,856)	(19,950)	(5,078)	(4,948)
Taxes	(6,211)	(5,639)	(6,748)	18,304	(2,199)	(35)	(706)
Impairment of seismic data library				(82,964)	(29,959)		
Depreciation and amortization	(49,929)	(51,927)	(49,448)	(129,856)	(82,638)	(18,075)	(24,083)
Income (loss) from continuing operations before cumulative effect of changes in accounting principles	$ 7,657	$ 8,108	$ 9,580	$ (138,569)	$ (39,077)	$ (1,911)	$ (1,233)

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

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

(6) Total debt includes capital lease obligations.

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UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL DATA

The following unaudited pro forma consolidated financial data was prepared to illustrate the estimated effects of the Plan and related financings and the application of the proceeds thereof. The unaudited pro forma consolidated balance sheet assumes the Plan and the related financings and the application of the proceeds thereof took place on March 31, 2004, and the unaudited pro forma consolidated statements of income assume the Plan and related financings and the application of the proceeds thereof took place on January 1, 2003.

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

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Unaudited Pro Forma Consolidated Balance Sheet

As of March 31, 2004

(In thousands)

	Historical	Pro Forma Adjustments	Pro Forma
ASSETS			
Cash and equivalents	$ 48,588	$ 72,277 (A)	$ 16,768
		183,375 (B)	
		(237)(C)	
		(4,000)(D)	
		(283,235)(E)	
Restricted cash	161		161
Receivables			
Trade	36,399		36,399
Notes and other	11,308		11,308
Net seismic data library	253,874		253,874
Net property and equipment	14,091		14,091
Prepaid expenses, deferred charges and other assets	8,118	(871)(A)	13,989
		6,625 (B)	
		237 (C)	
		(120)(F)	
Investment in marketable securities	32		32
Oil and gas operations held for sale	544		544
TOTAL ASSETS	$ 373,115	$ (25,949)	$ 347,166
LIABILITIES AND STOCKHOLDERS EQUITY			
Liabilities not subject to compromises:			
Accounts payable and accrued liabilities	$ 20,679	$ (660)(A)	$ 18,692
		(625)(D)	
		(702)(E)	
Oil and gas operations held for sale	13		13
Notes payable	5,417	(5,417)(E)	
Obligations under capital leases	6,267		6,267
Notes offered hereby		190,000 (B)	190,000
Deferred income taxes	2,509		2,509
Deferred revenue	58,635		58,635
Liabilities subject to compromise	277,554	(277,116)(E)	438
TOTAL LIABILITIES	371,074	(94,520)	276,554
STOCKHOLDERS EQUITY			
Common stock	258	1,250 (A)	1,508
Additional paid in-capital	166,630	65,443 (A)	232,073
Retained deficit	(160,929)	(3,375)(D)	(164,424)
		(120)(F)	
Treasury stock	(5,373)	5,373 (A)	
Notes receivable from employees	(89)		(89)
Accumulated other comprehensive income	1,544		1,544

TOTAL STOCKHOLDERS EQUITY	2,041	68,571	70,612
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 373,115	$ (25,949)	$ 347,166

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Unaudited Pro Forma Consolidated Income Statement

For the Three Months Ended March 31, 2004

(In thousands, except per share amounts)

	Historical	Pro Forma Adjustments	Pro Forma
Revenue	$ 41,264	$	$ 41,264
Costs and Expenses			
Depreciation and amortization	24,083		24,083
Cost of sales	74		74
Selling, general and administrative expenses	8,539		8,539
	32,696		32,696
Income from operations	8,568		8,568
Interest expense, net	(4,948)	4,861 (AA)	(5,086)
		(4,957)(BB)	
		(42)(CC)	
Reorganization items	(4,147)		(4,147)
Loss from continuing operations before income taxes	(527)	(138)	(665)
Provision for income taxes	706		706
Loss from continuing operations	$ (1,233)	$ (138)(EE)	$ (1,371)
Basic and diluted loss from continuing operations per share	$ (.05)		$ (.01)
Weighted average number of common and common equivalent shares basic and diluted	25,376	125,000 (DD)	150,376

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Unaudited Pro Forma Consolidated Income Statement

For the Three Months Ended March 31, 2003

(In thousands, except per share amounts)

	Historical	Pro Forma Adjustments	Pro Forma
Revenue	$ 30,324	$	$ 30,324
Costs and Expenses			
Depreciation and amortization	18,075		18,075
Cost of sales	154		154
Selling, general and administrative expenses	8,893		8,893
	27,122		27,122
Income from operations	3,202		3,202
Interest expense, net	(5,078)	4,928 (AA)	(5,149)
		(4,957)(BB)	
		(42)(CC)	
Loss from continuing operations before income taxes	(1,876)	(71)	(1,947)
Provision for income taxes	35		35
Loss from continuing operations	$ (1,911)	$ (71)(EE)	$ (1,982)
Basic and diluted loss from continuing operations per share	$ (.07)		$ (.01)
Weighted average number of common and common equivalent shares basic and diluted	25,376	125,000 (DD)	150,376

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Unaudited Pro Forma Consolidated Income Statement

For the Year Ended December 31, 2003

(In thousands, except per share amounts)

	Historical	Pro Forma Adjustments	Pro Forma
Revenue	$ 131,465	$	$ 131,465
Costs and Expenses			
Depreciation and amortization	82,638		82,638
Cost of sales	815		815
Selling, general and administrative expenses	29,678		29,678
Impairment of seismic data library	29,959		29,959
	143,090		143,090
Loss from operations	(11,625)		(11,625)
Interest expense, net	(19,950)	19,512 (AA)	(20,433)
		(19,828)(BB)	
		(167)(CC)	
Gain on extinguishment of liabilities	681		681
Reorganization items	(5,984)		(5,984)
Loss from continuing operations before income taxes	(36,878)	(483)	(37,361)
Provision for income taxes	2,199		2,199
Loss from continuing operations	$ (39,077)	$ (483)(EE)	$ (39,560)
Basic and diluted loss from continuing operations per share	$ (1.54)		$ (.26)
Weighted average number of common and common equivalent shares basic and diluted	25,376	125,000 (DD)	150,376

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Notes to Unaudited Pro Forma Consolidated Financial Data

Basis of Presentation

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

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

Pro Forma Adjustments

The following is a summary of pro forma adjustments:

Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2004

(A) Reflects the sale of 125,000,000 shares of our reorganized common stock, $.01 par value, from the combination of (x) the exercise of the Stockholder Warrants at an exercise price of 60 cents per share and (y) to the extent the Stockholder Warrants are not exercised, in full, before they expire on July [ ], 2004, our sale to the Standby Purchasers on the Guaranty Performance Date, at 60 cents per share, of all shares of our reorganized common stock not sold upon such exercise, net of estimated offering costs totaling $2.9 million to be paid by us. Of the estimated offering costs, $0.9 million had been incurred as of March 31, 2004, of which $0.2 million had been paid, and $2.2 million was estimated to be incurred after March 31, 2004. Also reflects retirement of treasury stock.

Under the terms of the Plan, the Standby Purchasers will receive on the Guaranty Performance Date Standby Purchaser Warrants to purchase up to 15,037,568 shares of reorganized common stock. The fair value of these Standby Purchaser Warrants would be reflected as an equal increase and decrease to additional paid-in capital.

(B) Reflects private placement of new senior notes totaling $190 million in aggregate principal amount, net of estimated debt issuance costs of $6.6 million.

(C) Reflects payment of $500,000 of estimated costs associated with obtaining our new revolving credit facility providing a revolving loan commitment of $30 million, subject to borrowing base limitations, with a 3-year term, of which costs $0.3 million had been paid at March 31, 2004 and an estimated $0.2 million remained to be paid at March 31, 2004.

(D) Reflects payment of financial advisor fees totaling $4.0 million that are required to be paid upon completion of the Plan, of which $0.6 million had been expensed as of March 31, 2004. No tax benefit was recorded for this adjustment as a full valuation allowance was established at March 31, 2004.

(E) Reflects payment of (a) the outstanding principal of Harney Secured Claim of $5.4 million and related interest of $181,000, (b) the outstanding principal of our existing senior unsecured notes of $255 million and related interest of $16.9 million, (c) priority tax claims of $521,000 and (d) all other allowed unsecured claims in accordance with the Plan of $5.2 million. Amounts remaining in liabilities subject to compromise

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consist of a note payable to Mr. Pearlman of $438,000 which is reinstated in accordance with the Plan.

(F) Reflects write-off of the remaining deferred issuance costs associated with (a) note payable to Harney Investment Trust of $4,000 and (b) DIP Facility with WFF of $116,000.

Unaudited Pro Forma Consolidated Income Statement for the Three Months Ended March 31, 2004

(AA) Reflects elimination of interest expense and amortization of deferred issuance costs associated with (a) $255 million of our existing senior unsecured notes ($4.7 million), (b) $5.4 million note payable to Harney Investment Trust ($56,000), and (c) DIP Facility with WFF ($116,000).

(BB) Reflects interest expense associated with $190 million aggregate principal amount of new senior notes assuming eight-year notes with a 10% interest rate and amortization of estimated deferred issuance costs of $6.6 million.

(CC) Reflects amortization of estimated deferred issuance costs of $500,000 associated with our new revolving credit facility, with a 3-year term.

(DD) Reflects the sale of 125,000,000 shares of reorganized common stock from the combination of (x) the exercise of the Stockholder Warrants at an exercise price of 60 cents per share and (y) to the extent the Stockholder Warrants are not exercised, in full, before they expire on July [ ], 2004, our sale to the Standby Purchasers on the Guaranty Performance Date, at 60 cents per share, of all shares of our reorganized common stock not sold upon such exercise. The Standby Purchaser Warrants to be issued to the Standby Purchasers on the Guaranty Performance Date are not considered in the diluted share calculation as the effect of the issuance would be antidilutive.

(EE) Does not include adjustments related to the payment of financial advisor fees totaling $4.0 million that are required to be paid upon completion of the Plan.

Unaudited Pro Forma Consolidated Income Statement for the Three Months Ended March 31, 2003

(AA) Reflects elimination of interest expense and amortization of deferred issuance costs associated with (a) $255 million of our existing senior unsecured notes ($4.9 million) and (b) $5.4 million note payable to Harney Investment Trust ($71,000).

(BB) Reflects interest expense associated with $190 million aggregate principal amount of new senior notes assuming eight-year notes with a 10% interest rate and amortization of estimated deferred issuance costs of $6.6 million.

(CC) Reflects amortization of estimated deferred issuance costs of $500,000 associated with our new revolving credit facility, with a 3-year term.

(DD) Reflects the sale of 125,000,000 shares of reorganized common stock from the combination of (x) the exercise of the Stockholder Warrants at an exercise price of 60 cents per share and (y) to the extent the Stockholder Warrants are not exercised, in full, before they expire on July [ ], 2004, our sale to the Standby Purchasers on the Guaranty Performance Date, at 60 cents per share, of all shares of our reorganized common stock not sold upon such exercise. The Standby Purchaser Warrants to be issued to the Standby Purchasers on the Guaranty Performance Date are not considered in the diluted share calculation as the effect of the issuance would be antidilutive.

(EE) Does not include adjustments related to the payment of financial advisor fees totaling $4.0 million that are required to be paid upon completion of the Plan.

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

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

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(BB) Reflects interest expense associated with $190 million aggregate principal amount of new senior notes assuming eight-year notes with a 10% interest rate and amortization of estimated deferred issuance costs of $6.6 million.

(CC) Reflects amortization of estimated deferred issuance costs of $500,000 associated with our new revolving credit facility, with a 3-year term.

(DD) Reflects the sale of 125,000,000 shares of reorganized common stock from the combination of (x) the exercise of the Stockholder Warrants at an exercise price of 60 cents per share and (y) to the extent the Stockholder Warrants are not exercised, in full, before they expire on July [ ], 2004, our sale to the Standby Purchasers on the Guaranty Performance Date, at 60 cents per share, of all shares of our reorganized common stock not sold upon such exercise. The Standby Purchaser Warrants to be issued to the Standby Purchasers on the Guaranty Performance Date are not considered in the diluted share calculation as the effect of the issuance would be antidilutive.

(EE) Does not include adjustments related to the payment of financial advisor fees totaling $4.0 million that are required to be paid upon completion of the Plan.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

The following Management s Discussion and Analysis of Financial Condition and Results of Operations has been prepared by our management in accordance with the rules and regulations of the SEC, as well as the SEC s December 2003 interpretive guidance regarding Management s Discussion and Analysis of Financial Condition and Results of Operations in Release Nos. 33-8350, 34-48960 and FR-72.

Overview

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

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

Demand for our products and services is cyclical due to the nature of the energy industry. In particular, demand for our seismic data services depends on the level of exploration and development activity within the markets we serve and is subject to significant volatility for a variety of reasons, including the price of oil and gas and the level of capital available to our primary clients for exploration and development activities.

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

While the industry is experiencing these market changes, we have taken steps to eliminate non-core business activities, improve our capital discipline, and reduce operating costs. As a result, our cost structure is now aligned with our current level of business and we believe we are well positioned for the future.

Since we filed bankruptcy in mid 2003, we have not experienced a material loss of customers or reduction in revenue. Despite the potential for volatility inherent in seismic data library sales, our cash resales have remained relatively consistent quarter-to-quarter ranging from $18.2 million to $22.2 million since the second quarter of 2002. Currently, barring unforeseen or unanticipated circumstances, we believe that cash resales will continue at these levels for the remainder of 2004. Although a few customers exhibited reluctance to execute long-term contracts for new data acquisition with us while in bankruptcy, we have been able to continue the growth of our library with attractive projects and under terms beneficial to us. We have found that this reluctance was short-lived, and the level of acquisition activity has strengthened during this period. The uncertainty surrounding our financial stability arising out of our chapter 11 filing caused certain customers to question whether their rights to select data might be compromised and resulted in such customers accelerating selections of data. This is evidenced by the increase of selections of data in the third quarter of 2003. This concern, too, was short-lived and the level of selections has returned to a more normal level in the last two quarters. The cost reduction measures implemented by us over the last 18 months have been successful in reducing our recurring/normal selling, general and administrative expenses. However, costs and expenses associated with our restructuring efforts and bankruptcy have been significant. Once we emerge from bankruptcy, such fees and expense will be substantially reduced. Additionally, after the Guaranty Performance Date, the principal amount of our indebtedness will be reduced. However, our annual interest expense will be higher than it was prior to the effective date of the Plan and our total annual debt service requirements will continue to be substantial.

While there will likely be continued variability in revenues from one quarter to the next, due to seasonal factors as well as overall industry uncertainty, we are optimistic that our core businesses will see a modest improvement over 2003 and that margins will improve.

Recent Developments

In connection with its post-audit review procedures with respect to the registration statement of which this prospectus is a part, Ernst & Young LLP (Ernst & Young), Seitel s independent auditors, advised the Audit Committee and management of an item that Ernst & Young considered to be a reportable condition and material weakness in Seitel s internal controls under standards established by the American Institute of Certified Public Accountants. Ernst & Young reported that during the first quarter of 2004, AICPA Statement of Position No. 90-7, Financial Reporting by Entities in Reorganization Under the Bankruptcy Code , required an adjustment of $1 million of deferred issue costs in respect of Seitel s $255 million outstanding principal amount of senior unsecured notes. Specifically, Seitel concluded and Ernst & Young concurred that such deferred issue costs should have been accelerated and expensed at the time the senior notes became a claim allowed by the bankruptcy court on March 30, 2004. Additionally, certain pre-petition claims totaling $426,000 which Seitel disputes and that are not probable of resulting in allowed claims should have been correspondingly reduced at March 31, 2004. Seitel has amended its Form 10-Q for the quarter ended March 31, 2004 to reflect these adjustments. The requirement to adjust the financial statements for the quarter ended March 31, 2004 was viewed by Ernst & Young as requiring the issuance of a Report on Reportable Conditions and therefore classified, with respect solely to that issue, as a material weakness in Seitel s internal controls. Seitel believes it has implemented appropriate procedures to address any such weakness that existed in the past.

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. Our seismic business depends upon exploration, production, development and field management spending by oil and gas companies. Capital expenditures by oil and gas companies depend upon several factors, including actual and forecasted petroleum commodity prices and the companies own short-term and strategic plans. These capital expenditures may also be affected by worldwide economic conditions. Demand for our seismic data is more likely to be influenced by natural gas prices rather than crude oil prices due to the geographic location of our seismic data.

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

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

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

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

Non-GAAP Key Performance Measures Considered by Management and Reconciliation to GAAP

Management considers a variety of performance measures in evaluating our financial condition and operating performance at various times and from time to time. Certain of these performance measures are non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company s performance, financial position or cash flows that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with United States generally accepted accounting principles, or GAAP. These non-GAAP measures are not in accordance with, nor are they a substitute for, GAAP measures. Management uses the non-GAAP measures presented to evaluate and manage our operations internally. 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 result from invoicing customers for purchases of licenses to data from our library. We expect cash resales to generally follow a consistent trend from quarter to quarter while considering our normal seasonality. The volatility in this trend could indicate changing market conditions. Cash resales for the three months ended March 31, 2004 and 2003 were $18.2 million and $18.3 million, respectively, and for the years ended December 31, 2003, 2002 and 2001 were $79.8 million, $66.2 million and $72.0 million, respectively. The following is a quantitative reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, total revenue (in thousands):

	Three Months Ended	Year Ended December 31,

	March 31,				
	2004	2003	2003	2002	2001
Cash resales	$ 18,229	$ 18,295	$ 79,776	$ 66,231	$ 71,989
Other revenue components:					
Acquisition revenue	19,173	8,491	36,201	23,549	25,778
Non-monetary exchanges	3,080	3,109	10,630	13,551	57,045
Deferral of revenue	(14,355)	(12,372)	(51,421)	(38,366)	(89,764)
Selections of data	13,961	11,631	51,603	81,982	48,114
Solutions and other	1,176	1,170	4,676	2,848	2,076
Total revenue, as reported	$ 41,264	$ 30,324	$ 131,465	$ 149,795	$ 115,238

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Cash Operating Income. We define cash operating income as cash revenue (derived primarily from seismic data acquisitions, cash licensing resales and Solutions) less cost of sales and SG&A. We believe that this measure is helpful in determining the level of cash flow we have available for debt service, funding of capital expenditures and payment of taxes. Cash operating income for the three months ended March 31, 2004 and 2003 was $28.2 million and $18.9 million, respectively, and for the years ended December 31, 2003, 2002 and 2001 was $89.5 million, $20.0 million and $63.8 million, respectively. The following is a quantitative reconciliation of this non-GAAP financial measure to the most directly comparable GAAP financial measure, operating income (in thousands):

	Three Months Ended March 31,		Year Ended December 31,		
	2004	**2003**	**2003**	**2002**	**2001**
Cash operating income	$ 28,153	$ 18,909	$ 89,536	$ 19,968	$ 63,842
Add (subtract) other revenue components not included in cash operating income:					
Acquisition underwriting from non-monetary exchanges	1,812		624		
Non-monetary exchanges	3,080	3,109	10,630	13,551	57,045
Deferral of revenue	(14,355)	(12,372)	(51,421)	(38,366)	(89,764)
Selections of data	13,961	11,631	51,603	81,982	48,114
Less:					
Depreciation and amortization	(24,083)	(18,075)	(82,638)	(129,856)	(49,448)
Impairment of seismic data library			(29,959)	(82,964)	
Operating income (loss), as reported	$ 8,568	$ 3,202	$ (11,625)	$ (135,685)	$ 29,789

Growth of Our Seismic Data Library. We regularly add to our seismic data library through four different methods: (1) recording new data; (2) creating new value-added products from existing data within our library; (3) buying ownership of existing data for cash; and (4) obtaining ownership of existing data sets through non-monetary exchanges. For the year-to-date period to May 25, 2004, and for the years ended December 31, 2003, 2002 and 2001, we completed the addition of approximately 1,200 square miles, 1,800 square miles, 3,700 square miles and 6,900 square miles, respectively, of seismic data to our library. The large number of additions to our seismic data library in 2001 resulted from the high level of non-monetary exchanges we completed during that year. As of May 25, 2004, we had approximately 400 square miles of seismic data in progress.

Income (Loss) from Continuing Operations Before Cumulative Effect of Change in Accounting Principle. Income (loss) from continuing operations before cumulative effect of change in accounting principle was $(1.2) million and $(1.9) million for the three months ended March 31, 2004 and 2003, respectively, and $(39.1) million, $(138.6) million and $9.6 million for the years ended December 31, 2003, 2002 and 2001, respectively. Our results for each of the periods have been affected by a number of special items that are not necessarily indicative of our core operations or our future prospects, and impact comparability between years. The loss from continuing operations for the three months ended March 31, 2004 included $4.8 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings, various litigation and severance costs. The loss from continuing operations for the three months ended March 31, 2003 included $2.8 million of costs and expenses related to our restructuring efforts and various litigation. The loss from continuing operations in 2003 included $41.4 million in charges composed of (i) $30.0 million related to impairments of our seismic data library and (ii) $11.4 million of costs and expenses related to our restructuring efforts, bankruptcy proceedings and various litigation, net of reduction in litigation accruals. The loss from continuing operations before cumulative effect of change in accounting principle in 2002 included $157.2 million in charges composed of (i) $128.7 million related to impairments of our seismic data library and revisions to the estimated useful life of our seismic data library and (ii) $28.5 million of costs and expenses related to our restructuring efforts, various

litigation, severance costs, the acceleration of certain lease obligations, allowances for doubtful accounts and certain other accruals. The income from continuing operations for 2001 included $1.3 million for charges related to former executives.

Critical Accounting Policies

We operate in one business segment, which is made up of seismic data acquisition, seismic data licensing, seismic data processing and seismic reproduction services.

Revenue Recognition

Revenue From Data Acquisition

Revenue from the creation of new seismic data is recognized using the proportional performance method based upon costs incurred and work performed to date as a percentage of total estimated costs and work required. Management believes that this method is the most reliable and representative measure of progress for its data creation projects. The duration of most data creation projects is generally less than one year. Under these projects, we create new seismic data designed in conjunction with our customers and specifically suited to the geology of the area using the most appropriate technology available. The contracts typically result in one or more customers underwriting a significant portion of the direct creation costs in exchange for a license or licenses to use the resulting data. Customers make periodic payments throughout the creation period, which generally correspond to costs incurred and work performed. These payments are non-refundable. We outsource the substantial majority of the work required to complete data acquisition projects to third-party contractors. Our payments to these third party contractors comprise the substantial majority of the total estimated costs of the project and are paid throughout the creation period. The creation process generally occurs in the following stages: permitting, surveying, drilling, recording and processing. The stages of this work often occur concurrently. Throughout the creation period, the customers receive legally enforceable rights and access to, and the benefits of, the results of all work performed. The customers also receive access to and use of the newly acquired and processed data. The customers may have exclusive access to the work performed and exclusive use of the newly acquired and processed data for a limited term, which is generally nine months or less, after final delivery of the processed data. The customers access to and use of the results of the work performed and of the newly acquired, processed data is governed by a license agreement, which is a separate agreement from the acquisition contract. Our acquisition contracts require the customer either to have a license agreement in place or to execute one at the time the acquisition contract is signed. We maintain sole ownership of the newly acquired data, which is added to our library, and we are free to license the data to other customers when the original customers exclusivity period ends.

Revenue From Data Licenses

We license data from our seismic data library to customers to review for a limited period of time or to hold long-term.

The usage of all data delivered to the customer, whether for review only or to hold long-term, is governed by a license agreement, which is a separate agreement from the sales contract. Our contracts require the customer either to have a license agreement in place or to execute one at the time the contract is signed. The license agreement governs all data delivered to the customer during the term. Payment terms under the contracts vary from 30 days to 18 months depending on the size of the transaction. All payments due are non-cancelable and all payments made are non-refundable. The customer has access to all available data covered by the contracts on the date the contract is executed. If the contract allows licensing of data that is not currently available, revenue is deferred until such time that the data is available for licensing. The contracts permit selection of the data in its present form, and we are under no obligation to make any enhancements, modifications or additions to the data unless specific terms to the contrary are included, in which case revenue with respect to such data would be deferred until performance is accomplished. Copies of the data are available to the customer immediately upon request.

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We recognize revenue from licensing of seismic data when we have contracted with the customer for a fixed sales price, a licensing agreement is in place, the customer has selected specific data under the terms of the contract or the contract has expired without full selection having occurred, and collectibility of the sales price is reasonably assured. We recognize revenue for the particular data selected as each specific selection of data is made by the customer. If selections are not completed by the expiration date of the contract, we then recognize any remaining revenue under that contract. In each case (selection or expiration), the earnings process is complete. We do not recognize revenue for amounts billed in advance of being earned until the aforementioned criteria are met. For revenue that is deferred, we defer the direct costs (primarily commissions) related to the revenues. Revenue from licensing of seismic data is presented net of revenue shared with other entities.

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

Revenue From Non-Monetary Data Exchanges

In certain cases, we grant our customer a non-exclusive license to selected data from our library in exchange for ownership of seismic data from the customer. Occasionally, in connection with specific data acquisition contracts, we receive both cash and ownership of seismic data from the customer as consideration for the underwriting of new data acquisition. The data that we receive is distinct from the data that we are licensing to the customer. Because we receive ownership of distinct seismic data to be added to our library, and this data may be relicensed by us on a continuing basis, in exchange for a data license, the exchange is not a like-kind exchange, which would be accounted for at historical cost. Once data selection or creation is completed, the exchange represents the culmination of the earnings process with the customer and is not merely an exchange between two seismic companies. These exchanges are referred to as non-monetary data exchanges.

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

We determine fair value of data exchanged by first determining the value of the license granted to the customer. We do so by evaluating the range of our cash transactions for licenses of similar data during the prior six months for licenses in the United States and for the prior twelve months for licenses in Canada. In evaluating the range of cash transactions, we do not consider transactions that are disproportionately high or low. We then consider the value of the data received from the customer. In determining the value of the data received, we consider the age, quality, current demand and future marketability of the data, as well as the cost that would be required to create the data. In the United States, we apply a limitation on the value we assign per square mile on the data exchanged. In Canada, in the event of a difference greater than 2% between the value of the license granted and the value of the data received, we assign the lower value to the exchange. In significant exchanges ($500,000 or more), we obtain concurrence from an independent third party in order to support our valuation of the data received. We obtain this concurrence on an annual basis, usually in connection with the preparation of our annual financial statements.

Revenue From Our Seitel Solutions, Ltd. and Seitel Solutions Canada Ltd. Subsidiaries

Revenue from our Seitel Solutions, Ltd. and Seitel Solutions Canada Ltd. subsidiaries (collectively, Solutions) are recognized as the services for reproduction and delivery of seismic data are provided to customers.

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Seismic Data Library

Costs associated with creating, acquiring or purchasing the seismic data library are capitalized and such costs are amortized principally on the income forecast method subject to a straight-line amortization period of seven years for onshore data and five years for offshore data applied on a quarterly basis at the individual survey level.

Costs of Seismic Data Library

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

For data acquired through a non-monetary data exchange, we capitalize an amount equal to the fair value of the data we received or the fair value of the license granted to the customer, whichever is more readily determinable. In the case of any single non-monetary exchange where the fair value recorded is in excess of $500,000, we also obtain concurrence from a third party to support our valuation.

For internally created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, we capitalize certain internal costs related to processing the created data. Such costs include salaries and benefits of our processing personnel and certain other costs incurred for the benefit of the processing activity. We believe that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party.

Data Library Amortization

Effective January 1, 2002 (see Change in Accounting Principle below) we amortize our seismic data library using the greater of the amortization that would result from the application of the income forecast method or a straight-line basis over the useful life of the data. Due to the subjectivity inherent in the income forecast amortization method, the revised amortization policy ensures a minimum level of amortization will be recorded if sales of the specific data do not occur as expected and ensures that costs are fully amortized at the end of the data s useful life.

We apply the income forecast method by forecasting the ultimate revenue expected to be derived from a particular data library component over the estimated useful life of each survey comprising part of such component. This forecast is made by us annually and reviewed quarterly. If, during any such review, we determine that the ultimate revenue for a library component is expected to be significantly different than the original estimate of total revenue for such library component, we revise the amortization rate attributable to future revenue from each survey in such component. In addition, in connection with such reviews and updates, we evaluate the recoverability of our seismic data library, and if required under Statement of Financial Accounting Standard, or SFAS, No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets, record an impairment charge with respect to such data. See discussion on Seismic Data Library Impairment below.

The actual rate of amortization depends on the specific seismic surveys licensed and selected by our customers during the year. The amortization rates vary by component and, effective January 1, 2004, range from a low of 47% to a high of 100% with a weighted average rate of 56% based on the net book value of each component compared with the net book value of the entire seismic data library as of such date. The actual rate of amortization recorded in any period varies from the weighted average rate due to the application of straight-line amortization on a survey-by-survey basis, as well as the mix of revenue recognized by component.

The greater of the income forecast or straight-line amortization policy is applied quarterly on a cumulative basis at the individual survey level. Under this policy, we first record amortization using the income forecast

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method. The cumulative amortization recorded for each survey is then compared with the cumulative straight-line amortization. If the cumulative straight-line amortization would be higher for any specific survey, additional amortization expense is recorded, resulting in accumulated amortization being equal to the cumulative straight-line amortization for such survey. This requirement is applied regardless of future-year revenue estimates for the library segment of which the survey is a part and does not consider the existence of deferred revenue with respect to the library segment or to any survey. As discussed below in Revision of Useful Life of Data Library, we revised our useful life estimate in the fourth quarter of 2002 from ten years to five years with respect to offshore data and from ten years to seven years with respect to onshore data.

Change in Accounting Principle

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

Revision of Useful Life

In the fourth quarter of 2002, we reevaluated our estimate of the useful life of our seismic data library and revised the estimated useful life of our seismic data library to reduce the useful life of offshore data from ten to five years and onshore data from ten to seven years. In making this decision, we considered a number of factors, including, among others, the impairment charges we reported in 2002, the additional amortization charges we recorded during the first three quarters of 2002 pursuant to our amortization policy and seismic industry conditions. With respect to each survey in the data library, the useful life policy is applied from the time such survey is available for licensing to customers generally, since some data in the library may not be licensed until an exclusivity period (usually nine months or less) has lapsed.

As a result of the adoption of the new accounting principle described above and the revision of the estimates of the useful lives of the seismic data in the fourth quarter of 2002, all of our seismic data library is amortized on the greater of the income forecast method or straight-line amortization over five or seven years, as applicable.

Seismic Data Library Impairment

As events or conditions require, we evaluate the recoverability of our seismic data library in accordance with SFAS No. 144. We evaluate our seismic data library for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. We consider the level of sales performance in each component compared to projected sales, as well as industry conditions, among others, to be key factors in determining when our seismic data should be evaluated for impairment.

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

In the fourth quarter of 2002, we reevaluated the level which constitutes the lowest level of independently identifiable cash flows. In our reevaluation, we considered the results of the comprehensive forecasting process that had been undertaken by management in the fourth quarter of 2002, recent sales trends and management s expectations relative to its ability to attribute revenues to lower survey aggregation levels. The results of management s analysis indicated that we could reasonably forecast the future sales at levels lower than previously practicable. Accordingly, in the fourth quarter of 2002, we refined our impairment evaluation methodology to evaluate our seismic data library in components based on our operations and geological and geographical trends, and as a result, established the following data library groupings for purposes of evaluating

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impairments: (1) Gulf of Mexico offshore comprised of the following components: (a) multi-component data, (b) value-added products, (c) ocean bottom cable data, (d) shelf data, and (e) deep water data; (2) North America onshore comprised of the following components: (a) Texas Gulf Coast, (b) northern, eastern and western Texas, (c) southern Louisiana/Mississippi, (d) northern Louisiana, (e) Rocky Mountains, (f) North Dakota, (g) other United States, (h) Canada and (i) value-added products; and (3) international data outside North America. We believe that these library components constitute the lowest levels of independently identifiable cash flows.

In accordance with SFAS No. 144, the impairment evaluation is based first on a comparison of the undiscounted future cash flows over each component s remaining estimated useful life with the carrying value of each library component. If the undiscounted cash flows are equal to or greater than the carrying value of such component, no impairment is recorded. If undiscounted cash flows are less than the carrying value of any component, the forecast of future cash flows related to such component is discounted to fair value and compared with such component s carrying amount. The difference between the library component s carrying amount and the discounted future value of the expected revenue stream is recorded as an impairment charge.

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

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

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

Use of Estimates and Assumptions

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

The most difficult, subjective and complex estimates and assumptions that deal with the greatest amount of uncertainty are related to our accounting for our seismic data library. In addition, management adopted a new accounting principle and revised several of the key assumptions and estimates in accounting for our seismic data library in 2002.

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

During 2003, we recorded $30.0 million in impairment charges related to certain components of our seismic data library. The key factors in determining the amount of impairment are the level of sales forecast for each seismic data component and the discount rate used. Future sales are primarily forecast based on the historical trend of resale performance and any changes to these estimates could have an impact on the amount of an impairment. Additionally, we use a risk adjusted rate of return to discount future cash flows to determine fair value. Changes to such discount rate can have an impact on the amount of an impairment. The following table shows the estimated impact on the impairments recorded in 2003 had the level of future sales or the discount rate been increased or decreased by the percentages shown, with all other factors remaining constant (in millions):

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

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

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

Seasonality and Timing Factors

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

Restatement of Financial Statements

In February 2002, we reevaluated the application of Staff Accounting Bulletin No. 101, or SAB 101, to our core business of seismic data licensing and our revenue recognition policies under certain types of contracts for the creation of new seismic surveys. This process resulted in a determination that it was appropriate to change our revenue recognition policies for transactions for seismic data licensing and for certain data creation activities. As a result of this decision, we restated our results for the nine months ended September 30, 2001, and for the year ended December 31, 2000. The restatement had the impact of reducing previously reported revenue by $42.7 million and net income by $14.4 million for the nine months ended September 30, 2001 and by $25.5 million and $22.9 million, respectively, for the year ended December 31, 2000. The restatement had no effect on the amount or timing of cash received by us during those periods.

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

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

Results of Operations

The accompanying financial information and related discussions of financial condition and results of operations are based on the assumption that we will continue as a going concern which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. On January 17, 2004, we filed the Plan with the bankruptcy court, which subsequently was amended on February 5, 2004. On March 18, 2004, the bankruptcy court entered an order confirming the Plan. The Plan provides that on the Guaranty Performance Date, all of our outstanding allowed pre-petition claims will be fully paid, in cash, together with post-petition (non-default rate) interest thereon, except for disputed claims and claims that are reinstated under the Plan. The Plan further provides for a sequence of interdependent corporate and securities transactions, which are described elsewhere in this prospectus. Payments of allowed creditors claims required under the Plan will be funded primarily utilizing the net proceeds from a combination of transactions. See Use of Proceeds and Liquidity and Capital Resources. Certain conditions, as fully described in The Plan of Reorganization Effectiveness of the Plan , are required for the Plan to become effective. The consolidated financial statements reflect the amounts as of March 31, 2004, which we believe will ultimately be paid to settle liabilities and contingencies that may be allowed in bankruptcy.

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Three Months Ended March 31, 2004 and 2003

The following table summarizes the components of our revenue for the three months ended March 31, 2004 and 2003 (in thousands):

	Three Months Ended March 31,	
	2004	**2003**
Acquisition revenue:		
Cash underwriting	$ 17,361	$ 8,491
Underwriting from non-monetary exchanges	1,812	
Licensing revenue:		
New resales for cash	18,229	18,295
Non-monetary exchanges	3,080	3,109
Deferral of revenue	(14,355)	(12,372)
Selections of data	13,961	11,631
Solutions and other	1,176	1,170
Total revenue	$ 41,264	$ 30,324

The increase in total revenue was primarily due to an increase in acquisition revenue. We planned a more active program to add new data to our library in 2004, the majority of which was concentrated in the first quarter. We do not anticipate our acquisition revenue to continue at this level in the subsequent quarters of 2004. The majority of the first quarter increase was for programs located in Canada, a growth area for us. Operational considerations render the winter months the optimal time to acquire new data in Canada. Revenue recognized from resales of data in the first quarter of 2004 maintained a consistent level as compared to the first quarter of 2003.

At March 31, 2004, we had a deferred revenue balance of $58,635,000, of which $15,269,000 resulted from non-monetary exchanges. The deferred revenue will be recognized when selection of the data is made by the customer or upon expiration of the selection period, whichever occurs first.

Seismic data library amortization amounted to $22,621,000 in the first quarter of 2004 compared to $16,436,000 in the first quarter of 2003. The amount of seismic data library amortization fluctuates based on the level and location of specific seismic surveys licensed (including licensing resulting from new data acquisition) and selected by our customers during any period as well as the amount of straight-line amortization required under our accounting policy. As a percentage of revenue from licensing seismic data, seismic data library amortization was 56% for the first quarters of 2004 and 2003.

Selling, general and administrative (SG&A) expenses were $8,539,000 in the first quarter of 2004 compared to $8,893,000 in the first quarter of 2003. First quarter 2004 SG&A expenses included $321,000 of legal fees and other costs associated with litigation with several parties, $478,000 of severance costs paid to our former chief executive officer pursuant to his retention and change of control agreement, and $85,000 related to foreign currency transaction losses related to our Canadian operations. First quarter 2003 SG&A expenses include $3.1 million of legal and professional fees related to our ongoing restructuring efforts and costs associated with litigation with several parties, including certain of our former officers and directors. Offsetting a portion of these expenses in the first quarter of 2003 were foreign currency transaction gains (reducing SG&A expense) totaling $1.4 million related to the strengthening of the Canadian dollar for U.S. denominated transactions of our Canadian subsidiaries. Taking into consideration these items, first quarter 2004 SG&A was approximately 6% higher than first quarter 2003 SG&A primarily due to variable expenses (i.e., commissions) tied to revenue. As a percentage of revenue, SG&A was 21% for the first quarter of 2004 and 29% for the first quarter of 2003.

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During the three months ended March 31, 2004, we incurred expenses associated with reorganization totaling $4,147,000. Reorganization items are expense or income items that are incurred or realized by debtors because they are in reorganization. These items include, but are not limited to, professional fees and similar types of expenses incurred directly related to the chapter 11 cases, loss accruals or gains or losses resulting from activities of the reorganization process, and interest earned on cash accumulated by debtors because they are not paying their pre-petition liabilities. For the three months ended March 31, 2004, reorganization items were as follows (in thousands):

Professional Fees	$ 3,324
Interest Income	(31)
Accelerated amortization of deferred debt issue costs	1,007
Reduction of pre-petition liabilities	(426)
Other	273
Total	$ 4,147

Effective on March 30, 2004, the bankruptcy court allowed the amount of Berkshire Hathaway, Inc. s claims in respect of its senior unsecured notes which previously had been recorded by us at a value of $255 million principal amount, plus accrued interest. Under AICPA Statement of Position No. 90-7 (SOP 90-7), Financial Reporting by Entities in Reorganization Under the Bankruptcy Code , which has been followed by us since the commencement of our chapter 11 cases, once a debt claim is formally allowed by the bankruptcy court, any theretofore existing deferred issue costs in respect of such debt is required to be adjusted to the extent necessary to report the debt at the allowed claim amount. At the time the senior unsecured notes were established as an allowed claim, we had $1.0 million of deferred issue costs recorded on our balance sheet and characterized as prepaid expenses. Such amount should have been expensed in the quarter ended March 31, 2004 as a non-cash reorganization charge as opposed to being expensed on the effective date of the Plan. Additionally, certain pre-petition liabilities totaling $426,000 are disputed by us and, in accordance with SOP 90-7, it is not probable that such pre-petition liabilities will result in allowed claims. Therefore, such liabilities should have been correspondingly reduced as of March 31, 2004. The previously reported first quarter 2004 results have been revised to reflect the accelerated amortization of the remaining $1.0 million deferred issue costs and the reduction in liabilities subject to compromise of $426,000. Such adjustments are reflected in reorganization items in the consolidated statement of income. These revisions did not affect our previously reported income from operations, cash position or cash flows from operations.

As a result of our recording a loss for the first three months of 2004, along with the chapter 11 filing and the fact that there exists substantial doubt about our ability to continue to recover assets and satisfy liabilities in the normal course of business, our U.S. income tax benefit was offset by a valuation allowance since such benefit is not assured of realization. Tax expense of $706,000 and $35,000 was recorded in the first quarters of 2004 and 2003, respectively, and related to earnings on certain Canadian subsidiaries.

Years Ended December 31, 2003, 2002 and 2001

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

	2003	2002	2001
Acquisition revenue:			
Cash underwriting	$ 35,577	$ 23,549	$ 25,778
Underwriting from non-monetary exchanges	624		
Licensing revenue:			

New resales for cash	79,776	66,231	71,989
Non-monetary exchanges	10,630	13,551	57,045
Deferral of revenue	(51,421)	(38,366)	(89,764)
Selections of data	51,603	81,982	48,114
Solutions and other	4,676	2,848	2,076
Total revenue	$ 131,465	$ 149,795	$ 115,238

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

The increase in revenue in 2002 as compared with 2001 is due primarily to (1) increased selections of data related to contracts on which revenue was initially deferred and (2) decreased deferrals in 2002 compared with the prior period. The net increase in reported revenues from year to year as a result of the change in selections and deferrals was $85.3 million. This was partially offset by a $43.5 million decrease in the amount of non-monetary exchanges completed in 2002 compared with the prior year. The increased selections in 2002 reflect the high rate of deferrals in the preceding year and the subsequent selection by clients in 2002 of the specific data to license. Additionally, we believe our clients accelerated selections during 2002 as a result of our financial condition in 2002. The decrease in deferrals corresponds to a reduction in non-monetary exchanges completed during 2002 compared with 2001. The reduction in non-monetary exchanges compared with 2001 is principally related to a reduction in both the number and size of transactions during 2002 compared with the prior year. In 2002, 13 exchanges were completed compared with 38 such transactions in the prior year. In 2002, the three largest exchanges accounted for $9.1 million of revenue whereas in 2001 the three largest exchanges accounted for $20.6 million. Cash transactions related to data acquisition and cash licensing sales declined by a total of $8.0 million in 2002 compared with 2001. This decline was related to the first quarter of 2002, when cash licensing sales were $4.2 million and were lower than in any quarterly period since 1993. Cash licensing rebounded in the second, third and fourth quarters of 2002 and averaged approximately $20 million per quarter during that period.

At December 31, 2003, we had a deferred revenue balance of $58,876,000, of which $17,719,000 resulted from non-monetary exchanges through which we received ownership of seismic data in lieu of cash. The total deferred revenue at December 31, 2003 consists of $29,704,000 deferred revenue on contracts entered into prior to 2003 and $29,172,000 on contracts entered into during 2003. The deferred revenue will be recognized when selection of specific data is made by the customer or upon expiration of the data licensing contracts, whichever occurs first. Deferred revenue will be recognized no later than the following, based on the expiration of the selection period, although some revenue may be recognized earlier if selection occurs earlier (in thousands):

2004	$ 39,343,000
2005	15,240,000
2006	2,743,000
2007	120,000

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

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

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

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

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

SG&A expenses were $29,678,000 in 2003, $71,732,000 in 2002 and $34,805,000 in 2001. The lower SG&A expenses in 2003 compared with 2002 reflects a decrease in personnel and other costs resulting from cost reduction measures implemented in the last half of 2002, including reductions in work force, relocation of our headquarters, reduction of space in our Calgary operations, overhaul of our compensation structure and the imposition of strict controls on spending of all types. As a percentage of total revenue, SG&A expenses were 23% in 2003, 48% in 2002 and 30% in 2001.

The 2003 SG&A expenses include (1) $6.4 million of legal and professional fees related to restructuring efforts incurred prior to the chapter 11 filing and legal fees associated with various parties, which include former executive officers, (2) $1.1 million related to settlement of certain litigation, primarily the class action lawsuit, (3) $1.0 million related to pre-petition claims management believes are probable of settlement in connection with the Plan and (4) $0.7 million related to acceleration of the lease of a jet aircraft. These amounts are offset partially by $4.1 million of foreign currency gains related to the strengthening of the Canadian dollar for U.S. denominated transactions of our Canadian subsidiaries. Additionally, in 2003, we recorded a reduction of $2.8 million in liabilities as a result of certain litigation being settled for amounts less than that previously estimated and recorded.

The increase of $36.9 million in 2002 compared with 2001 is composed principally of the following: (1) $9.9 million of legal and professional fees for ongoing financial restructuring efforts and litigation with various parties, which include former executive officers; (2) $8.9 million related to allowances for collection of advances and notes receivable from former executive officers; (3) $5.8 million related to litigation accruals with former executives; (4) $1.3 million in bonus and severance compensation paid to one of our former executive

officers; (5) $1.5 million related to the acceleration of the lease of a jet aircraft; (6) $1.4 million in allowances for doubtful accounts, more than half of which is related to notes receivable from former executive officers; (7) $2.5 million for increased commissions related to the higher level of revenue; (8) $1.7 million due to expensing certain internal costs of new data acquisition in 2002 whereas such costs were capitalized in 2001; (9) $1.1 million of consulting fees, primarily associated with Solutions business; (10) $0.8 million of costs incurred in connection with the restatement of our financial statements; and (11) $0.8 million of increased premiums for casualty, property, health and other insurance coverage.

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

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

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

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

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

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

Discontinued Operations

In June 2002, our board of directors unanimously adopted a plan to dispose of our oil and gas operations by sale. In 2002, we sold substantially all of our oil and gas assets and recorded charges totaling $58.9 million to

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reduce the carrying value of such assets to their estimated fair value. During 2003, we revised our estimate of the fair value of our remaining oil and gas properties and increased our estimate of fair value by $985,000. In January 2004, we sold a portion of our remaining oil and gas assets for approximately $1,287,000, of which $1 million was paid in cash and the balance is due in four equal quarterly installments beginning April 30, 2004 pursuant to a promissory note. Our remaining oil and gas assets are not material and we continue to seek buyers.

Revenue from the discontinued operations was $72,000 and $81,000 for the three months ended March 31, 2004 and 2003, respectively. Pre-tax income (loss) from discontinued operations was $35,000 and $(237,000) for the three months ended March 31, 2004 and 2003, respectively. The increase in the pre-tax income from the discontinued operations between the first quarter of 2004 and 2003 was primarily a result of the first quarter of 2003 including a charge of $277,000 to reduce the carrying value of such properties to their estimated fair value.

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

Liquidity and Capital Resources

As of May 25, 2004, we had approximately $48.9 million in consolidated cash, cash equivalents and short-term investments. In addition, we have in place and approved by the bankruptcy court the DIP Facility for up to $20 million. Advances under the DIP Facility are available pursuant to a formula based on the carrying value of certain accounts receivable and components of the seismic data library. If an advance is made under the DIP Facility, the first such advance must be in an amount not less than, and must be used to retire our term loan presently outstanding in the amount of, $5.4 million and secured by certain seismic data. The DIP Facility is secured by a first priority, perfected security interest in substantially all of our U.S. assets and a pledge of all of the issued and outstanding capital stock of our U.S. subsidiaries. At May 25, 2004, there was no outstanding balance under the DIP Facility and there was $20.0 million of availability. On the effective date of the Plan, the DIP Facility will be terminated and replaced with our new revolving credit facility. For a discussion of a number of factors that may impact our liquidity and the sufficiency of our capital resources, see Overview above.

Operating Activities. Cash flows provided by operating activities from continuing operations were $29,538,000 and $12,366,000 for the three months ended March 31, 2004 and 2003, respectively, and $80,314,000, $21,716,000 and $30,767,000 for the years ended December 31, 2003, 2002 and 2001, respectively. The significant increase from first quarter 2003 to first quarter 2004 was primarily due to an increase in collection on licensing invoices and non-payment of interest expense on the debtors debt due to the bankruptcy proceedings. The significant increase from 2002 to 2003 was primarily due to the receipt of a Federal income tax refund of $17.4 million, non-payment of interest expense on the debtors debt due to the bankruptcy proceedings and increased cash license sales during 2003. The decrease from 2001 to 2002 was primarily due to an increase in amounts paid for interest expense and legal and professional fees partially offset by a decrease in Federal income taxes paid. Absent any adverse factors outside our control such as a significant decrease in oil and gas prices or a decline in availability of capital for our customers, we believe that our liquidity and access to cash will be sufficient to fund our current operations through 2004 if we are successful in completing all of the financing transactions contemplated by the Plan. See Financing Activities below.

Investing Activities. Cash flows used by investing activities from continuing operations were $25,955,000 and $11,488,000 for the three months ended March 31, 2004 and 2003, respectively, and $48,668,000,

$49,358,000 and $79,565,000 for the years ended December 31, 2003, 2002 and 2001, respectively. Cash expenditures for seismic data were $25,696,000 and $15,811,000 for the three months ended March 31, 2004 and 2003, respectively, reflecting the increase in new seismic data acquisition programs in 2004, and $52,106,000, $40,986,000 and $71,922,000 for the years ended December 31, 2003, 2002 and 2001, respectively.

Our capital budget for the remainder of 2004 is presently estimated to be $55.6 million, substantially all of which is allocated for additions to our seismic data library. Of the amount budgeted, approximately $31.7 million of these additions will come from data acquisition projects for which we anticipate receiving approximately $20.9 million in cash underwriting. In addition, the budget anticipates potential cash data purchases of approximately $11.7 million, and the execution of approximately $10.9 million in non-monetary exchanges. In addition to the above described seismic data library additions, we plan to spend approximately $1.3 million on other property and equipment. Assuming the capital budget is executed as planned, it would require approximately $23.8 million to be funded from operating cash flow. As of May 25, 2004, we had capital expenditure commitments related to data acquisition projects of approximately $20.8 million of which approximately $15.7 million of cash underwriting has been obtained.

We also have operating lease and facility rental obligations. Payments due for the remainder of the year ending December 31, 2004 are approximately $0.8 million.

Financing Activities. Cash flows provided by (used in) financing activities were $(708,000) and $(2,166,000) for the three months ended March 31, 2004 and 2003, respectively, and $(5,646,000), $(2,630,000) and $61,255,000 for the years ended December 31, 2003, 2002 and 2001, respectively. During the three months ended March 31, 2004 payments on term loans and capital leases equaled $274,000 and payments related to professional fees incurred in connection with our debt and equity transactions were $474,000. During the year ended December 31, 2003 payments on term loans and capital leases equaled $5.8 million and were offset by payments received on notes receivable from officers and employees of approximately $1.1 million.

As of March 31, 2004, we had approximately $271.8 million of outstanding debt and lease obligations, with aggregate contractual cash obligations summarized as follows (in thousands):

	Payments due by period				
Contractual cash obligations	**Total**	**2004**	**2005**	**2006**	**2007 and thereafter**
Debt obligations(1)	$ 260,855	$ 260,440	$ 37	$ 38	$ 340
Capital lease obligations	6,267	1,209	2,434	34	2,590
Operating lease obligations	4,669	751	960	677	2,281
Total contractual cash obligations	$ 271,791	$ 262,400	$ 3,431	$ 749	$ 5,211

(1) These debt obligations have contractual maturities ranging from 2003 to 2011. We are not in compliance with certain of the covenants related to this debt and the holders of $255 million of such debt have accelerated the maturity thereof. Pursuant to our Plan, $260.4 million of this debt will be paid in full in 2004; therefore, the maturities have been reflected as due in 2004. This table does not give effect to the issuance of the new senior notes due 2014 or the consummation of the Plan.

Under the Plan, the rights of, and ultimate payments related to, certain of these contractual obligations may be substantially altered.

We have outstanding $255 million principal amount of senior unsecured notes that were issued in various series from December 1995 through December 2001. The senior unsecured notes bear interest at rates ranging from 7.04% to 7.48% and have maturity dates ranging from June 2003 to October 2011. As a result of the non-payment of interest thereon, our chapter 11 filing and the restatement of our financial statements prior to January 1, 2002, among other factors, we are currently in default on the senior unsecured notes. No principal or interest payments have been made on the senior unsecured notes since May 2, 2003.

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On August 28, 2001, our wholly owned subsidiary Seitel Data, Ltd. obtained a term loan for the purchase of certain seismic data, some of which data secures the debt. We are not in compliance with payment terms or covenants of this term loan. At May 25, 2004, $5.4 million principal amount was outstanding under this term loan, which principal is due on October 1, 2004, when a balloon payment of $2.5 million is due. No principal or interest payments have been made on this loan since we filed voluntary petitions under chapter 11 on July 21, 2003.

On March 18, 2004, the bankruptcy court confirmed the Plan, under which all of our allowed pre-petition claims, including the senior unsecured notes and term loan discussed above, will be fully paid, in cash, together with post-petition (non-default rate) interest, except with respect to any disputed claims and any claims that are reinstated under the Plan. Total payments to creditors required, and administrative expenses anticipated, to be paid under the Plan on the Guaranty Performance Date are expected to aggregate $304.9 million. Please see The Plan of Reorganization The Plan and Treatment of Pre-Petition Claims for a discussion of the treatment of our pre-petition creditors.

Payments to creditors under the Plan will be funded primarily utilizing the following:

- net cash payments received by us upon exercise of the Stockholder Warrants prior to their expiration on July [ ], 2004,
- to the extent the Stockholder Warrants are not exercised, in full, prior to their expiration, the net proceeds from the sale of shares of our reorganized common stock to the Standby Purchasers on the Guaranty Performance Date,
- the net proceeds from the private placement of new senior notes, which, together with additional funds, will be deposited into escrow on the effective date of the Plan pending release and use thereof on the Guaranty Performance Date as described herein under Description of Indebtedness of Reorganized Seitel New Senior Notes,
- borrowings under our new revolving credit facility with WFF and
- cash and cash equivalents on hand.

Please see Use of Proceeds.

Summarized below are the estimated sources and uses of funds on the Guaranty Performance Date:

Sources and Uses of Funds at Guaranty Performance Date

($ in millions)

Sources		**Uses**	
Cash Required(1)	$ 39.9	Outstanding Senior Unsecured Notes	$ 255.0
New Senior Notes	190.0	Accrued Interest on Senior Unsecured Notes(4)	22.9
		Other Secured & Unsecured Claims(5)	11.5
This Offering(2)	75.0	Administrative Costs(6)	6.6

		Fees & Other Expenses(7)	8.9
Total Sources	**$ 304.9(3)**	**Total Uses**	**$ 304.9**

(1) The Plan requires that we have on hand as of the effective date of the Plan cash and cash equivalents of not less than $35 million available to pay allowed creditors claims required under the Plan, to the extent necessary.

(2) Includes gross proceeds from the combination of (x) the exercise of the Stockholder Warrants and (y) to the extent the Stockholder Warrants are not exercised, in full, before they expire on July [ ], 2004, our sale to the Standby Purchasers on the Guaranty Performance Date of all shares of our reorganized common stock not sold upon such exercise.

(3) The amount of our net cash flow during the period between April 1, 2004 and the Guaranty Performance Date will determine whether we will be required to draw down on our new revolving credit facility to partially fund payments of allowed creditors claims required under the Plan and, if so, how much we will be required to draw down.

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(4) Includes interest accrued on outstanding senior unsecured notes through July 27, 2004.
(5) Includes $5.7 million of secured claims, $5.3 million of unsecured claims and $0.5 million of priority claims.
(6) Includes administrative costs related to the Plan expected to be incurred from April 1, 2004 to July 27, 2004.
(7) Includes issuance fees relating to this offering, fees related to the private placement of new senior notes, and legal and other fees expected to be incurred from April 1, 2004 to July 27, 2004.

Our principal sources of funds in 2004 after the consummation and effectiveness of the Plan are expected to be operating revenues, cash and cash equivalents on hand, and funds available for borrowing under our new revolving credit facility. Our principal uses of funds are expected to be the payment of operating expenses, debt service requirements as a result of the implementation of the Plan, and capital expenditures as described above in Investing Activities.

After giving effect to consummation of the transactions contemplated by the Plan, including the completion of this offering, the private placement of new senior notes and the proceeds from borrowings to the extent available under our new revolving credit facility, we expect that operating revenues, cash and cash equivalents on hand, and borrowings under our new revolving credit facility will be sufficient in the aggregate to satisfy our operating expenses, debt service requirements and the cash requirements of expected acquisitions of seismic data for the 12-month period following the effective date of the Plan.

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

Other Debt

On January 12, 2004, our wholly owned subsidiary Olympic Seismic Ltd. entered into a new revolving credit facility. The facility allows it to borrow up to $5 million (Canadian), subject to an availability formula, by way of prime-based loans, bankers acceptances or letters of credit. The rate applicable to borrowings is the bank s prime rate plus 0.35% per annum and to bankers acceptances is 1.50% per annum. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The facility is secured by the assets of Olympic, SEIC Trust Administration Ltd. (as sole trustee of, and for and on behalf of, SEIC Business Trust) and SEIC Holdings, Ltd., but is not guaranteed by us or any of our other U.S. subsidiaries. However, all intercompany debt owing by Olympic, SEIC Trust Administration Ltd., SEIC Business Trust or SEIC Holdings, Ltd. to us, SEIC Partners Limited Partnership or to any of our U.S. subsidiaries (approximately $60,768,000 (Canadian) at March 31, 2004) has been subordinated to the repayment of the revolving credit facility. Available borrowings under the facility are equivalent to a maximum of $5 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of SEIC Trust Administration, less prior-ranking claims, if any, relating to inventory or accounts. The facility is subject to repayment upon demand and is available from time to time at the bank s sole discretion. A review of this demand facility is performed annually at the bank s discretion. As of May 25, 2004, no amounts were outstanding on this revolving line of credit and $2.4 million (Canadian) was available on the line of credit. Olympic is not a party to any of the debt issued by us other than the note payable to a former executive.

During 2001 and 2002, we entered into capital leases for the purchase of computer and data center furniture and equipment. The lease agreement originally was for a term of approximately two years. On February 18, 2003, we and the lessor entered into a restructuring of this lease effective as of January 1, 2003. Under the restructured obligation, on February 18, 2003, we made a one-time payment of $1,580,000, plus applicable taxes, in consideration of past due lease payments and agreed to make 33 additional monthly payments of principal and interest of $165,000, plus applicable taxes. At the conclusion of the lease, we may purchase the leased equipment, in whole but not in part, for $810,000, less a credit of $309,910 in respect of a cash deposit held by the lessor. The outstanding balance on the capital lease as of May 25, 2004 was $3,322,000. We assumed the lease pursuant to an order of the bankruptcy court dated December 29, 2003.

On April 30, 2002, Olympic entered into a sale-leaseback agreement on a building and land located in Calgary, Alberta, Canada. Proceeds of the sale were $3.6 million (Canadian). The proceeds were used to pay off Olympic s revolving line of credit and for general corporate purposes. The term of the lease is a 20-year capital

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lease with lease payments of: $336,000 (Canadian) in years 1-5; $370,860 (Canadian) in years 6-10; $409,500 (Canadian) in years 11-15; and $452,340 (Canadian) in years 16-20. The transaction resulted in a gain on the sale of $737,000, which has been deferred and is being recognized into income over the term of the lease.

In connection with the settlement of certain litigation, we entered into a note payable to a former executive consisting of payments of $6,417 per month for 36 months commencing June 2003 and payments of $6,000 per month for 84 months commencing June 2006. The note is non-interest bearing. The note is guaranteed by Olympic Seismic, Ltd. The outstanding balance on this note as of May 25, 2004 was $435,000. Since the date we filed our voluntary chapter 11 petition with the bankruptcy court, Olympic Seismic, Ltd. has made the monthly payments on this note. Under the Plan, the note will be assumed by Reorganized Seitel.

Under the terms of a separation agreement with one of our former officers, we have guaranteed a bank loan with an outstanding balance of $193,000 as of May 25, 2004. The balance is due in annual installments of $60,000 with a maturity date of November 13, 2006.

Deferred Taxes. We have not paid Federal income taxes in the last two years. As of March 31, 2004, in Canada we had a net deferred tax liability of approximately $2.5 million, net of a valuation allowance of $0.5 million. In the U.S., we had a net deferred tax asset of $65.8 million, all of which was fully offset by a valuation allowance. We anticipate receiving a refund of Federal income tax of approximately $9.9 million related to the carryback of our expected taxable loss for the year ended December 31, 2003. Following the implementation of the Plan, any of our remaining net operating loss and tax credit carryforwards and certain other tax attributes applicable to periods prior to the effective date of the Plan (collectively, pre-change losses) may be limited under Section 382 of the Internal Revenue Code of 1986, as amended, as a result of a change in ownership of Reorganized Seitel. Under Section 382, if a corporation undergoes an ownership change and the corporation does not qualify for or elects not to be subject to treatment under Section 382(l)(5)(H), the amount of its pre-change losses that may be utilized to offset future taxable income is subject to an annual limitation. The amount of the annual limitation is generally based on the value of the company immediately before the ownership change multiplied by a percentage rate published by the Internal Revenue Service. Such limitation also may apply to certain losses or deductions that are economically accrued but not recognized as of the date of the ownership change and that are subsequently recognized during the five-year period beginning with the date of the ownership change. We anticipate that we will have such losses or deductions that may be subject to the limitation.

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 2003, capital expenditures for seismic data and other property and equipment amounted to $60.1 million and $1.1 million, respectively. Of the $60.1 million of seismic data additions in 2003, $45.3 million were cash additions, $13.0 million were for non-monetary exchanges and $1.8 million were other non-cash additions. These capital expenditures, as well as taxes, interest expense, cost of sales and general and administrative expenses, were funded by operations and current cash balances.

During the first three months of 2004, capital expenditures for seismic data and other property and equipment amounted to $29.6 million and $0.3 million, respectively. Of the $29.6 million of seismic data additions, $26.4 million were cash additions, $3.1 million were for non-monetary exchanges and $0.1 million were other non-cash additions. These capital expenditures, as well as taxes, interest expense, cost of sales and general and administrative expenses, were funded by operations and current cash balances.

Our capital budget for the remainder of 2004 is presently estimated to be $55.6 million, substantially all of which is allocated for additions to our seismic data library. Of the amount budgeted, approximately $31.7 million of these additions will come from data acquisition projects for which we anticipate receiving approximately $20.9 million in cash underwriting. In addition, the budget anticipates potential cash data purchases of

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approximately $11.7 million, and the execution of approximately $10.9 million in non-monetary exchanges. In addition to the above described seismic data library additions, we plan to spend approximately $1.3 million on other property and equipment. Assuming the capital budget is executed as planned, it would require approximately $23.8 million to be funded from operating cash flow. As of May 25, 2004, we had capital expenditure commitments related to data acquisition projects of approximately $20.8 million, of which approximately $15.7 million of cash underwriting has been obtained.

Recent Accounting Pronouncements

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

Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk, including adverse changes in commodity prices, interest rates and foreign currency exchange rates as discussed below.

Interest Rate Risk

We may enter into various financial instruments, such as interest rate swaps, to manage the impact of changes in interest rates. Currently, we have no open interest rate swap or interest rate lock agreements. Therefore, our exposure to changes in interest rates primarily results from our short-term and long-term debt with both fixed and floating interest rates. The following table presents principal or notional amounts (stated in thousands) and related average interest rates by year of maturity for our debt obligations and their indicated fair market value at December 31, 2003:

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

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

	2003	2004	2005	2006	2007	There-after	Total	Fair Value
Debt:								
Variable Rate	$ 3,750	$ 4,497	$	$	$	$	$ 8,247	$ 8,247
Average Interest Rate	4.55%	4.35%					4.44%	
Fixed Rate	$ 10,375	$ 32,500	$ 12,500	$ 32,500	$ 12,500	$ 155,000	$ 255,375	$ 172,994
Average Interest Rate	7.23%	7.13%	7.28%	7.13%	7.28%	7.31%	7.25%	

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

Foreign Currency Exchange Rate Risk

Our Canadian subsidiaries conduct business in the Canadian dollar and are therefore subject to foreign currency exchange rate risk on cash flows related to sales, expenses, financing and investing transactions in currencies other than the U.S. dollar. As of March 31, 2004, we did not have any open forward exchange contracts.

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BUSINESS

General

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

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

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

Industry Conditions

The overall demand for seismic data and related geophysical services is dependent upon spending by oil and gas companies for exploration, production, development and field management activities which, in turn, is driven largely by present and expected future prices for crude oil and natural gas. This is impacted by global events and economic, tax, and environmental considerations. Weak global economic conditions combined with an oversupply of oil and gas led to a weak commodity price environment in the latter half of 2001, which led to a decrease in capital spending by our customers on seismic data and geophysical services in late 2001 and the first half of 2002. Since then, however, the relative strengthening of economic conditions, the global political environment and colder weather in the United States have resulted in dramatic price increases. As of May 28, 2004, oil and gas prices were $39.88 per barrel and $6.42 per mcf, respectively, or 50% and 66% above their five-year average.

In addition to commodity prices, the U.S. and Canadian onshore rig counts have also increased significantly since 2002, reaching an average onshore rig count of 1,545 rigs for the three months ended March 31, 2004, well above the five-year average onshore rig count of 1,097 rigs.

The attractive commodity price environment over the last few years has been a catalyst for the increase in exploration and production spending in both the U.S. and Canada. Since the end of 1999, U.S. exploration and production annual spending increased from $22.0 billion to $50.5 billion, and Canadian exploration and production annual spending increased from $9.2 billion to $14.2 billion, representing average annual increases of 23% and 11%, respectively.

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

As attractive commodity pricing, rig counts and the strong performance of oil and gas companies is expected to continue, barring unforeseen world events and economic conditions, we anticipate improved seismic industry market conditions. We believe this improvement, as well as the need to replace oil and gas reserves, which according to industry analysts are currently being depleted at a rate of 5% to 10% per year, should result in attractive spending levels.

	Years Ended December 31,					Three Months Ended March 31,	
($ in billions, unless stated otherwise)	1999	2000	2001	2002	2003	2003	2004
Average Oil Price ($/bbl)	19.30	30.37	25.96	26.17	31.06	33.96	35.33
Average Natural Gas ($/mcf)	2.27	4.30	3.96	3.37	5.49	6.38	5.62
Average Rig Count:(a)							
U.S. Onshore	519	778	1,003	717	924	788	1,021
Canada Onshore	240	340	336	257	368	489	524
Total North American Onshore	759	1,118	1,339	975	1,292	1,278	1,545
Offshore Gulf of Mexico	105	136	148	109	103	104	95
Total North America, excluding Canada offshore	864	1,254	1,487	1,083	1,395	1,381	1,640
Exploration-Production Spending:(b)							
United States:							
Drilling-exploration	18.3	24.3	39.9	33.9	42.1	na	na
Production	3.5	4.6	7.6	6.4	8.0	na	na
OCS lease bonus	0.2	0.4	1.0	0.5	0.5	na	na
U.S. Subtotal	22.0	29.4	48.5	40.9	50.5	na	na
Canada:							
Drilling-exploration	5.8	8.6	9.7	8.0	9.9	na	na
Production	3.4	3.5	4.0	3.4	4.2	na	na
Canada Subtotal	9.2	12.0	13.7	11.4	14.2	na	na
Total North America	31.3	41.5	62.2	52.3	64.7	na	na
Average S&P Small Capitalization E&P Index(c)	133.4	191.0	231.5	229.9	268.1	238.0	348.1
Average S&P Mid Capitalization E&P Index(d)	75.6	102.4	133.6	145.8	161.1	149.6	198.7
Average S&P Large Capitalization E&P Index(e)	110.9	131.1	141.7	130.5	136.1	128.9	161.1

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

Bloomberg. Includes: Cabot Oil and Gas, Cimarex Energy, Evergreen Resources, Nuevo Energy, Patina Oil and Gas, Prima Energy, Remington Oil, Southwestern Energy, Spinnaker Exploration, St. Mary's Land and Exploration, Stone Energy, Swift Energy, Tom Brown, Vintage Petroleum

(d) Bloomberg. Includes: Forest Oil, Newfield Exploration, Noble Energy, Pioneer Natural Resources, Pogo Producing, XTO Energy

(e) Bloomberg. Includes: Anadarko Petroleum, Apache, Burlington Resources, Devon Energy, EOG Resources, Kerr-McGee, Unocal

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

Dry Wells as a % of Total Exploratory Wells (in US)

Seismic Data

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

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

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

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Seismic Data Library

Our seismic data library includes both onshore and offshore 3D and 2D data and offshore multi-component data. We have ownership in approximately 32,000 square miles of 3D and approximately 1.1 million linear miles of 2D seismic data concentrated primarily in the major North American oil and gas producing regions. The majority of our seismic data library covers onshore regions within North America, with a geographic concentration on the onshore and transition zone of the U.S. Gulf Coast extending from Texas to Florida, western Canada, Mississippi, eastern Texas, the Rocky Mountain region and northern Louisiana. Most of our remaining seismic data library covers the offshore Gulf of Mexico and eastern Canada. Our seismic data concentration is primarily in the 3D market. The following table described our 3D seismic data library as of May 25, 2004.

3D Data Library at May 25, 2004	Square Miles	Percentage of Subtotal
Gulf Coast Texas	5,464	40.9%
Southern Louisiana/Mississippi	5,636	42.1%
Rockies	816	6.1%
Northern Louisiana	371	2.8%
Other	1,088	8.1%
Total U.S. Onshore	**13,375**	**100.0%**
Canada	**8,629**	**100.0%**
Conventional	9,096	90.1%
Multi-Component	996	9.9%
Total U.S. Offshore	**10,092**	**100.0%**
Worldwide Total	**32,096**	**100.0%**

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

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

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

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

Data Library Creation

We regularly add to our library of seismic data by: (1) recording new data, (2) buying ownership of existing data for cash, (3) acquiring ownership of existing data from customers in exchange for an assignment of a non-exclusive license to data from our library, or non-monetary exchange, or (4) creating new value-added products from data existing within our library.

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

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

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

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

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Licenses and Marketing

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

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

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

Seitel Solutions

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

Our Current Strategies

During the past 18 months, we have implemented a plan to refocus our activities, both functionally and geographically, on areas in which we have historically experienced meaningful success or in which we believe we can achieve significant growth in the future. As a result, we have made some permanent changes to our operating philosophy, including:

- We have discontinued our oil and gas exploration and production activities and have disposed of almost all of our properties. Our remaining oil and gas assets are not material.

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

We have discontinued making additional capital investments in seismic data in geographical areas such as Alabama, Michigan and North Dakota because we do not believe these areas have sufficient revenue producing potential.

We have significantly narrowed and reduced the mission for our Solutions division to focus on internal requirements with a very limited participation in the external market in the near term.

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

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

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

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

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

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

We will only pursue new acquisition projects if we are reasonably confident that conditions exist for repeated licensing of the same data over an extended period. Inherent in our rationale for creating new 3D survey additions to our library, is the idea of proximity to 3D surveys already in the library. We believe that there is greater value in contiguous data, or reasonably close concentrations of surveys in a single area.

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

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

Our Competitive Strengths

We believe that we have the following competitive strengths:

Leading Market Position. Within our industry, we are considered to be one of the leading providers of seismic data in North America. We believe our library of onshore 3D seismic data is one of the largest available for licensing in the U.S. and Canada. We have ownership in approximately 32,000 square miles of 3D seismic data, the majority of which is concentrated primarily in the onshore Gulf coast of Texas, Louisiana and Mississippi, western Canada and the offshore Gulf of Mexico. In addition, we have ownership in 1.1 million linear miles of 2D seismic data, which we believe makes us one of the largest providers of 2D data in North America.

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Data Ownership Provides the Opportunity to Realize Long-Term Revenue Streams. We own our seismic data and are able to license the data an unlimited number of times, allowing for a lengthened life of our seismic data library. The ability to license the seismic data multiple times, as well as the commercial longevity of our seismic data, is a result of many factors, including multiple interpretations of the same data set, changes in ownership of mineral interests, new discoveries of hydrocarbons, advances in drilling and production technology, creation of oil and gas distribution infrastructures, and the advent of new seismic processing techniques. As a result, we believe there is minimal obsolescence risk regarding our seismic library. Most of our data is expected to generate revenues for 10 years or more. In some instances, samples of our older 2D data are still being licensed after 25 years. The current weighted average of our 3D onshore data library is 3.3 years.

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

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

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

Refocused Operations

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

Customers

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

Competition

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

We believe that we have positioned ourselves to take advantage of the continued trend by exploration and production companies to outsource their seismic data needs. In addition, we believe we can compete favorably due to: the breadth of our data library, the expertise of our marketing staff, the technical proficiency of our geoscientists and the employment of a business model that does not require capital investment in, or the ownership of, field crews.

Seasonality and Timing Factors

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

Employees

As of May 25, 2004, we and our subsidiaries had 145 full-time employees, including 6 executive officers, 18 marketing staff and 29 geotechnical staff. None of our employees are covered by a collective bargaining agreement, and we consider our relationships with our employees to be good.

Raw Materials and Proprietary Information

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

Properties

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

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

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

Legal Proceedings

See The Plan of Reorganization for a detailed discussion of our chapter 11 reorganization and the Plan.

Seitel was the subject of a formal investigation by the SEC s Division of Enforcement. In December 2002, the SEC issued an Order Directing Private Investigation and Designating Officers To Take Testimony, commonly called a formal order of investigation. We were also notified by the Enforcement Division of the SEC that it intended to recommend that the SEC initiate an administrative proceeding against Seitel for alleged books and records and internal control violations. We cooperated fully with the SEC during the course of its investigation, and on June 16, 2003, we reached a consensual resolution of the SEC s civil complaint alleging violations of the reporting, books and records, internal controls and proxy statement provisions of the Exchange Act. In connection with the settlement and without admitting or denying the allegations, we agreed to the entry of a final judgment permanently enjoining us from violating such provisions.

On February 3, 2003, the former holders of Seitel s senior unsecured notes accelerated the senior unsecured notes and made demand upon Seitel and certain of its former and current officers and directors for money damages arising from certain alleged negligent actions and/or misrepresentations of those officers and directors. The holders alleged that money damages arising from the foregoing claims were not fully quantified, but exceeded $20 million and included, without limitation, the lost value of such holders investment in the senior unsecured notes. Notice of the demand has been provided by us to our insurance carriers. The holders of the senior unsecured notes did not commence suit. As of June 26, 2003, all of the former holders of senior unsecured notes had sold their senior unsecured notes to Ranch, which subsequently sold the senior unsecured notes to Berkshire. Under the Plan, if confirmed, all of the foregoing claims will be released and discharged.

On July 18, 2002, Seitel s former chief executive officer sued Seitel in the 113th Judicial District Court of Harris County, No. 2002-35891. Mr. Frame alleges a breach of his employment contract by virtue of his termination and also alleges defamation. He also seeks a declaratory judgment that certain funds he received from us were proper and do not have to be repaid. We have answered and asserted various defenses. We also filed a counter-suit to recover approximately $4,200,000 in corporate funds that Seitel believes Mr. Frame inappropriately caused Seitel to pay him or for his benefit plus over $800,000 due on two notes that were accelerated pursuant to their respective terms. In addition, Seitel also holds a judgment against Mr. Frame in the amount of at least $590,000 relating to a loan made to Mr. Frame by Bank One N.A. (Bank One) and guaranteed by Seitel. Seitel intends to seek dismissal of the complaint against it, and to pursue its causes of action. Seitel also intends to pursue enforcement of its judgment against Mr. Frame. Mr. Frame has filed claims totaling $20.2 million against Seitel and the other debtors in the chapter 11 cases. The debtors have filed objections to such claims.

Seitel and its subsidiaries, Energy Venture Holdings LLC, Endeavor Exploration LLC, and DDD Energy, Inc., were sued by a former employee, Mark Stover, in Harris County District Court, 269th Judicial District,

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Cause No. 2002-52120 on October 8, 2002. Mr. Stover alleged breach of his employment contract and wrongful termination. We answered and generally denied the complaint on November 8, 2002. The matter was automatically stayed upon the chapter 11 filing. On October 9, 2003, Mr. Stover filed a proof of claim in the bankruptcy court in the amount of $374,500. We have filed an objection to the claim, but are currently in settlement discussions with Mr. Stover. If a settlement is reached, it will require bankruptcy court approval.

Seitel and its subsidiary, Seitel Data, Ltd., are parties to a class action lawsuit for geophysical trespass entitled *Juan O. Villarreal v. Grant Geophysical, Inc.*, *et al*., Cause No. DC-00-214, in the 229th District Court of Starr County, Texas that was initiated on April 1, 2002. The plaintiffs have sued a number of defendants, including Seitel and Seitel Data, Ltd. The plaintiffs allege that certain defendants conducted unauthorized 3D seismic exploration of the mineral interests, and sold the information obtained to other defendants. The plaintiffs seek an unspecified amount of damages. All of the defendants have obtained summary judgments dismissing the plaintiffs claims, and the case is now on appeal before the San Antonio Court of Appeals under Cause No. 04-02-00674-CV. On July 22, 2003, the Texas Court of Appeals granted appellant motion to proceed against the other appellees. The appeal against Seitel remains stayed. We intend to vigorously represent our interests in this appeal.

Seitel sued its former in-house counsel and law firm in *Seitel, Inc. v. Cynthia Moulton and Franklin Cardwell & Jones, P.C.*, Cause No. 2003-09151 in the 127th Judicial District Court of Harris County, Texas. The suit alleges negligence, breach of fiduciary duty and breach of contract surrounding the settlement of a personal lawsuit against the former chief executive officer and other aspects of representation. Seitel seeks recovery for fees paid and related expenses. Initial pleadings were filed on February 21, 2003. Discovery has not yet commenced.

On March 27, 2003, Seitel was served with a complaint filed by the General Electric Credit Corporation of Tennessee (GE) in the District Court No. 333rd of Harris County, Texas, styled *General Electric Credit Corporation of Tennessee, v. N360X, LLC and Seitel*. The complaint alleged that Seitel, as guarantor, and its wholly owned subsidiary N360X, LLC, as lessee, defaulted on an agreement for the lease of a jet aircraft. GE accelerated the obligation, took possession of the aircraft and demanded payment of amounts GE claims are due pursuant to the termination of the lease. The claim was subsequently reduced to $2.055 million plus interest at 9% from November 18, 2003 and purchased by Berkshire and the amount thereof has been agreed to by the parties.

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MANAGEMENT

Executive Officers and Directors of Seitel

The executive officers and directors of Seitel, and their ages and positions with Seitel, as of May 25, 2004, are as follows:

Name	Age	Position(s) with Seitel	Director Since	Committee Membership
Fred S. Zeidman	57	Chairman of the Board of Directors	1997	(2)
Randall D. Stilley	50	President and Chief Executive Officer	N/A	
Kevin P. Callaghan	51	Chief Operating Officer and Executive Vice President	N/A	
Robert D. Monson	49	Chief Financial Officer	N/A	
Leonard M. Goldstein	57	General Counsel and Corporate Secretary	N/A	
Marcia H. Kendrick	43	Senior Vice President, Chief Accounting Officer and Assistant Secretary	N/A	
Robert J. Simon	48	President Seitel Data, Ltd.	N/A	
Walter M. Craig, Jr.	50	Director and Assistant Corporate Secretary	1987	(2)(3)
Robert L. Knauss	73	Director	2002	(1)(4)
William Lerner	70	Director	1985	(1)(2)(3)
John E. Stieglitz	73	Director	1989	(1)(3)

(1) Member of Audit Committee
(2) Member of Corporate Governance and Nominating Committee
(3) Member of Compensation and Stock Option Committee
(4) Member of Special Litigation Committee

With the exception of Mr. Fred S. Zeidman, none of the above identified directors will continue as a director of Reorganized Seitel, and those individuals identified under Executive Officers and Directors of Reorganized Seitel will constitute the board of directors.

Fred S. Zeidman, a director since 1997, was named chairman of our board of directors on June 3, 2002. He served as acting chief executive officer from November 6, 2002 to December 6, 2002. He is a member of Seitel s Corporate Governance and Nominating Committee. Mr. Zeidman was a director of EquiFin, Inc., (EquiFin) (formerly known as InterSystems, Inc.) from July 1993 through October 2000. EquiFin provided structured capital to small and mid-size business enterprises. He served as president and chief executive officer of EquiFin from July 1993 until December 1999. He also served as president of Interpak Terminals, Inc., a wholly owned subsidiary of Helm Capital Group, Inc. (Helm), engaged in the packaging and distribution of thermoplastic resins, from July 1993 until its sale in July 1997. Mr. Zeidman also currently serves as a director of First Prosperity Bank and as Chairman of the United States Holocaust Memorial Council in Washington, D.C.

Randall D. Stilley was named president and chief executive officer of Seitel on February 17, 2004. Mr. Stilley has over 28 years of experience in the oil and gas industry. He has been an investor and consultant to private equity funds since 2000. Prior to that time, he was president of the Oilfield Services Division at Weatherford International, Inc., a New York Stock Exchange, Inc.-listed company, from 1998 to 2000, where he was instrumental in the growth of Weatherford. Prior to his employment at Weatherford, Mr. Stilley spent 22 years at Halliburton Company, a New York Stock Exchange, Inc.-listed company, holding various management and engineering roles, including vice president of the Production Enhancement Group and vice president, Asia Pacific. He is a registered professional engineer in the State of Texas.

Kevin P. Callaghan has been chief operating officer and executive vice president of Seitel and president of Olympic Seismic Ltd. since June 2002. Prior to this date, Mr. Callaghan had been senior vice president of Seitel

Data, Ltd. since January 1998. He was interim president of Olympic Seismic Ltd. from July 2001 until June 2002 and vice president of Olympic Seismic Ltd. from January 2001 until July 2001. Mr. Callaghan joined Seitel in August 1995 as vice president of Onshore Operations of Seitel Data, Ltd. He has also served as an outside director of Aeroscan International Inc., a privately held Canadian company engaged in digital imaging services, from June 2000 until December 2002.

Robert D. Monson was named chief financial officer effective May 10, 2004. Mr. Monson has over 19 years of experience in the oil and gas industry, including over four years in the international seismic industry. He has served in various financial capacities with Schlumberger Limited, a New York Stock Exchange, Inc.-listed company, since 1985. Most recently, Mr. Monson has served as business segment chief financial officer for Schlumberger Well Services and the worldwide controller for Oilfield Technology Centers. Prior to this he served as worldwide director of human resources for financial personnel of Schlumberger Limited. From 1998 to 2000 he served as chief financial officer of Schlumberger Oilfield Services-UK. From 1985 to 1998 he served as either treasurer or controller to other Schlumberger entities, including assignments in the New York headquarters and various international locations.

Leonard M. Goldstein joined Seitel in October 2002 and was named general counsel and corporate secretary in February 2003. Mr. Goldstein has over 30 years experience as a corporate general counsel, and as a practitioner in the private and public practice of law. From 1996 to 2001, Mr. Goldstein was general counsel, senior vice president, chief administrative officer and secretary for New Era of Networks, Inc., or NEON, a publicly traded software company. He was a partner with the law firm of Feder, Morris, Tamblyn and Goldstein, PC in Denver, Colorado from 1978 to 1996. In addition, Mr. Goldstein has played a strategic role in consulting and corporate development to many software development companies.

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

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

Walter M. Craig, Jr. is chairman of Seitel s Corporate Governance and Nominating Committee and a member of Seitel s Compensation and Stock Option Committee. Mr. Craig became assistant secretary of Seitel in June 2000. Mr. Craig has been president and chief executive officer of EquiFin since August 2000. He has been a director of EquiFin since April 1993 and in April 2001, he was named chairman of the board of directors of EquiFin. Prior to his employment at EquiFin, Mr. Craig was, from 1993 to 2000, president and a director of PLB Management Corp, the general partner of The Mezzanine Financial Fund, L.P., a private limited partnership which made collateralized loans to companies. From 1993 until November 1999, he served as executive vice president and chief operating officer of Helm, a publicly held company involved in merchant banking activities from 1981 to 2000.

Robert L. Knauss was elected as a director of Seitel in June 2002. He is the sole member of Seitel s Special Litigation Committee and a member of Seitel s Audit Committee. Mr. Knauss was chairman of the board of directors of Philip Services Corporation, or PSC, an industrial and metals services company, from April 2002 through December 2003 and principal executive officer from May 2002 through December 2003. He also served as chairman of the board of PSC from April 2000 to May 2001. In June 1999, the predecessor company of PSC filed a voluntary petition for reorganization under chapter 11 of the Bankruptcy Code. Mr. Knauss has been chairman and chief executive officer of Baltic International USA, Inc., an investment company, since January 1994. He is a director of Equus II Inc. and a director of The Mexico Fund, Inc., both of which are investment funds. Mr. Knauss is the former Dean of the schools of law at both the University of Houston and Vanderbilt

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University and served as a Visiting Professor at the Amos Tuck School of Business Administration at Dartmouth College.

William Lerner is chairman of Seitel s Audit Committee, a member of Seitel s Compensation and Stock Option Committee and a member of Seitel s Corporate Governance and Nominating Committee. Mr. Lerner has been engaged in the private practice of corporate and securities law in New York since 1960 and Pennsylvania since 1991. His career includes service with the U.S. Securities and Exchange Commission, the American Stock Exchange, and as counsel to a major investment banking/securities brokerage firm. Mr. Lerner is a director of Rent-Way, Inc., a New York Stock Exchange listed company that is the second largest in the rental-purchase industry; Micros-to-Mainframes, Inc., a Nasdaq listed company that provides comprehensive high-technology computer and communication services primarily in the New York Tri-State area; and The Cortland Trust, Inc., a money market mutual fund that is marketed primarily through brokerage firms and regional commercial banks.

John E. Stieglitz has been a director of Seitel since 1989. He is chairman of Seitel s Compensation and Stock Option Committee and a member of Seitel s Audit Committee. He is Chairman Emeritus of Conspectus, Inc., a privately held company formed in 1976 to provide services in the area of executive recruitment. He served as President of Conspectus, Inc. from 1976 to 1996. Mr. Stieglitz is also a director of EquiFin. He was a director of Helm from 1987 to 2001.

All of Seitel s directors and executive officers, except for Mr. Stilley and Mr. Monson, served in their current positions with Seitel before commencement of our bankruptcy cases on July 21, 2003. Executive officers serve at the discretion of Seitel s board of directors. There is no family relationship between any director or executive officer of Seitel.

Executive Officers and Directors of Reorganized Seitel

On the effective date of the Plan, we will amend and restate our certificate of incorporation to provide, among other things, for a classified board of directors consisting of three classes. Class I will consist of three directors who will serve for an initial term of three years expiring in 2007, Class II will consist of three directors who will serve for an initial term of two years expiring in 2006, and Class III will consist of one director who will serve for an initial term of one year expiring in 2005. Accordingly, we will not hold an annual meeting of stockholders to elect a Class III director until 2005. Each class of directors standing for election upon the expiration of its initial term will be elected for successive terms of three years. Directors hold office until their successors have been elected and qualified. The Plan reflects a negotiated agreement with Mellon HBV and the Official Equity Committee, and provides that the initial members of Reorganized Seitel s board of directors be composed of seven directors selected as follows:

Two directors (one in Class I and one in Class II) selected by Mellon HBV, one of whom must satisfy applicable rules and regulations of independence for audit committees. Mellon HBV has selected Robert Kelly and J. D. Williams to serve as initial directors of Reorganized Seitel.

Two directors (one in Class I and one in Class II) selected by a majority vote of the Official Equity Committee, one of whom must satisfy applicable rules and regulations of independence and financial literacy qualifications for audit committees. The Official Equity Committee has selected Charles H. Mouquin and C. Robert Black to serve as initial directors of Reorganized Seitel. Mr. Mouquin is a member of the Official Equity Committee.

Two directors (one in Class I and one in Class II) selected by Fred S. Zeidman, Seitel s chairman of the board, one of whom must satisfy applicable rules and regulations of independence and financial literacy qualifications for audit committees. Mr. Zeidman has selected himself and Ned S. Holmes to serve as initial directors of Reorganized Seitel.

One director (Class III) selected by mutual agreement of Mellon HBV, the Official Equity Committee and Seitel s chairman of the board. Randall D. Stilley has been selected to serve as an initial director of Reorganized Seitel by mutual agreement of Mellon HBV, the Official Equity Committee and Mr. Zeidman.

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On the effective date of the plan: (i) our amended and restated certificate of incorporation providing for a classified board of directors will be filed and become effective, (ii) all members of our current board of directors will resign except for Mr. Zeidman and (iii) our new classified board will be formed and each director designee will assume office in his respective class.

The following table sets forth the individuals who will continue in their positions as executive officers and directors and those individuals who are anticipated to become directors of Reorganized Seitel, and their ages (as of May 25, 2004) and positions with Reorganized Seitel on the effective date of the Plan:

Name	Age	Position(s) with Reorganized Seitel	Director Class
Fred S. Zeidman	57	Chairman of the Board and Director Designee**	Class I
Randall D. Stilley	50	President, Chief Executive Officer and Director Designee*	Class III
Kevin P. Callaghan	51	Chief Operating Officer and Executive Vice President	N/A
Robert D. Monson	49	Chief Financial Officer	N/A
Leonard M. Goldstein	57	General Counsel and Corporate Secretary	N/A
Marcia H. Kendrick	43	Senior Vice President, Chief Accounting Officer and Assistant Secretary	N/A
Robert J. Simon	48	President Seitel Data, Ltd.	N/A
Robert Kelley	58	Director Designee*	Class II
J.D. Williams	66	Director Designee*	Class I
Charles H. Mouquin	67	Director Designee*	Class II
C. Robert Black	68	Director Designee*	Class I
Ned S. Holmes	59	Director Designee*	Class II

* Individual anticipated to become a director on the effective date of the Plan.
** Individual anticipated to continue as a director on the effective date of the Plan.

For biographies of Messrs. Zeidman, Stilley, Callaghan, Monson, Goldstein and Simon and Ms. Kendrick, please see Executive Officers and Directors of Seitel above. Randall D. Stilley, our chief executive officer and president, has entered into an employment agreement with us which has been approved by the bankruptcy court in our chapter 11 proceedings. For a discussion concerning this agreement, please see Employment Agreement with Mr. Stilley below.

Robert Kelley, who is one of Mellon HBV s designees, is currently president of Kellco Investments Inc., a private investment company located in Ardmore, Oklahoma. Mr. Kelley has more than 30 years experience in the oil and gas industry. He retired in April 2001 as chairman of the board of Noble Affiliates, Inc. (now Noble Energy, Inc.), an independent energy company with exploration and production operations throughout the United States, including the Gulf of Mexico, and international operations in Argentina, China, Ecuador, Equatorial Guinea, the Mediterranean Sea, the North Sea and Vietnam. Prior to October 2, 2000, he also served as president and chief executive officer of Noble

Affiliates, Inc. and its three subsidiaries, Samedan Oil Corporation, Noble Gas Marketing, Inc. and Noble Trading, Inc. Mr. Kelley is also a director of OG&E Energy Corporation (NYSE), a public utility headquartered in Oklahoma City, Oklahoma; Lone Star Technologies, Inc., a leading manufacturer of oilfield tubular goods located in Dallas, Texas and Cabot Oil & Gas Corporation, an independent oil and gas company engaged in the exploration and development of oil and gas properties located in Houston, Texas. Mr. Kelley has a B.B.A. from the University of Oklahoma and is a certified public accountant.

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

Charles H. Mouquin, who is one of the Official Equity Committee s designees, currently acts as manager for the stock accounts of a few select clients. Mr. Mouquin has more that 40 years experience as a securities analyst. In 1962, he served as a security analyst for Parrish Securities. In 1971, he joined Central National Gottesman, and in 1976 was appointed senior vice president. From 1976 to 1987, he was senior vice president and director of research for Fiduciary Trust Company International. He has served as consultant to Hamershlag Kempner and Company as well as the Norman Shethar Company. Mr. Mouquin has a B. S. degree in Economics from the University of California at Berkley.

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

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

The amended and restated bylaws of Reorganized Seitel will provide that its Nominating/Corporate Governance Committee consist entirely of independent directors within the meaning of the applicable requirements of the Nasdaq Stock Market or any national securities exchange on which our securities are listed for trading. Upon the expiration of the respective initial terms of the members of Reorganized Seitel s board of directors, and subject to all applicable laws, rules, regulations and listing requirements, any holder of our reorganized common stock, irrespective of their ownership interest in Seitel, will have the right to recommend to the Nominating/Corporate Governance Committee persons for election to Reorganized Seitel s board of directors, provided that such holder has complied with the advance notice procedures for stockholders to make nominations of candidates for election as directors as set forth in the amended and restated bylaws and applicable proxy rules of the SEC. Please see Description of Capital Stock of Reorganized Seitel Anti-Takeover Provisions Contained in the Amended and Restated Certificate of Incorporation and Bylaws for a detailed description of such stockholder advance notice provisions and other provisions relating to the rights of stockholders to recommend persons for election to Reorganized Seitel s board of directors.

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Corporate Governance

We are committed to establishing and maintaining high standards of corporate governance. Accordingly, we have constructed a comprehensive set of corporate governance initiatives that we believe serve the long-term interests of our company. As more fully discussed below, we believe these initiatives comply with the provisions of the Sarbanes-Oxley Act of 2002 (SOXA), the rules and regulations of the SEC adopted under SOXA, and the listing standards of the Nasdaq National Market as if we were a Nasdaq-listed company.

Our amended and restated certificate of incorporation and bylaws will provide that so long as Reorganized Seitel has any class of equity securities (regardless of class) or debt securities registered under Section 12 of the Exchange Act, we will comply with the corporate governance requirements of the Nasdaq Stock Market for the initial and continued listing of securities of any national securities exchange on which any of our securities are then listed for trading, and if not so listed for trading, of the Nasdaq Stock Market, without regard to any controlled company exemptions, as that term is defined in the applicable listing requirements.

In addition, and in furtherance of the settlement and termination of certain derivative actions instituted against Seitel, enhanced internal controls, procedures and approval processes have been designed and maintained. We have established Audit, Nominating/Corporate Governance and Compensation Committees of the board of directors. We have designed their respective charters to implement compliance with mandated corporate governance initiatives and best practices and to enable performance of our ongoing obligations under the consent judgment of permanent injunction in connection with Seitel s resolution of an SEC enforcement proceeding. See The Plan of Reorganization Events Preceding Our Chapter 11 Cases and Business Legal Proceedings .

It is anticipated that the newly constituted board of directors of Reorganized Seitel will hold an initial organizational meeting promptly after the Guaranty Performance Date at which, among other things, the composition of all committees of reorganized Seitel s board will be determined. As required by SOXA and by the Nasdaq listing standards, our Audit Committee will be composed of three independent directors , as that term is defined in SOXA and the Nasdaq listing standards. All members of the Audit Committee will meet the qualifications for audit committee service and one member will qualify as the audit committee financial expert. Our Nominating/Corporate Governance Committee and our Compensation Committee will likewise be composed of three independent directors and will be compliant with Nasdaq listing standards.

Although we do not intend to apply to list our reorganized common stock or the Stockholder Warrants on any national securities exchange or U.S. inter-dealer quotation system, we have elected to comply with the Nasdaq listing standards, without regard to any otherwise applicable controlled company exemptions, as that term is defined in the applicable listing requirements. All companies listed or applying to be listed on Nasdaq must comply with the following corporate governance requirements:

A majority of the company s board of directors must be independent as defined in Nasdaq s listing standards.

The independent members of the board must hold regularly scheduled executive sessions at least twice annually at which only independent directors are present.

The audit committee members must (1) meet the specified independence criteria provided for by rules adopted by the SEC under the Exchange Act, (2) receive no compensation other than compensation for board or committee service, (3) have at least one member qualify as the audit committee financial expert as defined by rules adopted by the SEC and (4) be financially sophisticated, as defined.

The audit committee must (1) be solely vested with the authority to engage and discharge the company s independent auditors and to engage advisors and counsel, (2) be funded by the company, and (3) provide and implement procedures for anonymous complaints relating to accounting, internal control or auditing matters (commonly referred to as whistleblower procedures), all pursuant to a written charter designed to achieve the audit committee s purpose of overseeing the accounting and financial reporting processes, and the annual audits and quarterly reviews of the company s financial statements.

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Listed companies must provide Nasdaq with prompt notification after an executive officer becomes aware of any material noncompliance by the company with the Nasdaq governance listing requirements.

Directors must be selected or recommended for the board s selection by either a nominating committee consisting solely of independent directors, or by a majority of independent directors. The nominating process must be addressed by formal written charter in the case of a company that has a nominating committee, and by board resolution, in the case of a company that does not have a nominating committee.

The compensation of executive officers must be determined or recommended to the board for determination by either a compensation committee consisting solely of independent directors or by a majority of the independent directors.

A publicly available code of conduct applicable to all directors, officers and employees must be adopted and comply with the definitions of Code of Ethics provided in SOXA and the rules of the SEC adopted under SOXA.

Our Committees, Code and Policies

Audit Committee. Our Audit Committee has been established pursuant to a written charter which we believe is compliant with SOXA and the rules of the SEC adopted thereunder, and the Nasdaq listing standards. Our Audit Committee assists the board of directors in its oversight of the quality and integrity of our accounting, auditing, and financial reporting practices. The Audit Committee s role includes discussing with management our process to manage financial risk and for compliance with significant applicable legal, ethical and regulatory requirements. The Audit Committee is responsible for the appointment, compensation, retention and oversight of our independent auditor engaged to prepare or issue audit reports on our financial statements or to perform other audit, review or attest services for us, and for reviewing the scope of the audit plan and the results of each audit with management and our independent auditors. The Audit Committee will receive reports from management and the internal auditor, and will meet with representatives of our independent auditor in carrying out the committee s oversight responsibilities. The specific responsibilities in carrying out the Audit Committee s oversight role are delineated in the Audit Committee charter, which will be posted on Reorganized Seitel s website. All members of our Audit Committee are and will be independent as such term is defined in the listing standards of the Nasdaq Stock Market as applicable to audit committee members, and one of its members will be an audit committee financial expert as such term is defined in the applicable rules of the SEC.

Our audit committee is also responsible for approving all proposed transactions between our company and any of our officers, directors and significant employees, any immediate family members of such persons, and any entity in which any of such persons, directly or indirectly, have more than a 5% voting or economic interest or in which any such persons otherwise is a partner, director, officer, managing member or trustee (or are affiliates or associates).

Compensation Committee. Our Compensation Committee will operate pursuant to a written charter, and will be responsible for establishing, reviewing and approving the compensation and benefits of executive officers and administering our 2004 omnibus stock option plan when adopted under the Plan. A copy of the committee s charter will be available on Reorganized Seitel s website. All of the members of the Compensation Committee will be independent as such term is defined in the listing standards of the Nasdaq Stock Market.

Nominating/Corporate Governance Committee. Our Nominating/Corporate Governance Committee will operate pursuant to a written charter and will have the exclusive right to recommend candidates for election to Reorganized Seitel s board of directors. A copy of the committee s charter will be available on Reorganized Seitel s website. The Nominating/Corporate Governance Committee will consider any director candidate recommended by a stockholder of Reorganized Seitel when such recommendation is submitted in accordance with our amended and restated bylaws, the procedures described in this prospectus under Description of Capital

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Stock of Reorganized Seitel Anti-Takeover Provisions Contained in the Amended and Restated Certificate of Incorporation and Bylaws and the applicable rules of the SEC. The Nominating/Corporate Governance Committee charter will set forth certain guidelines and criteria for determining the qualifications that a director nominee must possess before it recommends a nominee for a position on Reorganized Seitel s board of directors. The charter will provide that director nominees should possess the highest personal and professional ethics, integrity and values, and be committed to representing the long-term interests of the stockholders of Reorganized Seitel. The Nominating/Corporate Governance Committee will be responsible for and will determine the qualifications of director nominees by considering Reorganized Seitel s needs for business and other experience relevant to the issues impacting Reorganized Seitel. The committee s process for identifying and evaluating nominees will be as follows:

In the case of incumbent directors whose terms of office are scheduled to expire, the Nominating/Corporate Governance Committee will review such directors overall service to Reorganized Seitel during their term, including the number of meetings attended, level of participation, quality of performance, and any transactions of such directors with Reorganized Seitel during their term.

In the case of new director candidates, the Nominating/Corporate Governance Committee will first determine whether the nominee is independent under the listing standards of the Nasdaq Stock Market. The committee may then compile a list of other potential candidates using its network of contacts, and may also engage, if it deems appropriate, an outside professional search firm. The committee will then meet to discuss and consider such candidates qualifications and then will choose a candidate by majority vote.

The Nominating/Corporate Governance Committee will also ensure that the composition of the board of directors of Reorganized Seitel at all times adheres to the independence requirements of the Nasdaq Stock Market and reflects a range of talents, ages, skills, character, diversity and expertise, particularly in the areas of management, leadership and corporate governance, the seismic data industry and related industries sufficient to provide sound and prudent guidance with respect to the operations and interests of Reorganized Seitel.

Director Independence Standards

We have established standards to be satisfied for the purpose of determining director independence. These standards generally provide that no director or any immediate family member shall have received from us any direct or indirect compensation or other remuneration within the preceding five years as an advisor or consultant and shall not have received any compensatory fees or personal benefits other than standard compensation applicable to all directors, nor have had a personal services contract with us within the preceding five years.

Payments by us, if any, to a director s primary business affiliation or any business of an immediate family member must be made in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated persons pursuant to arm s-length negotiation, and the aggregate of such payments must not exceed 1% of the gross revenues of the company receiving the payment. The same is applicable with payments made to us by a director s primary business affiliation or that of an immediate family member.

No director or immediate family member of a director can be an officer, director or trustee of a charity, foundation, university or foundation to which we make contributions.

Our policy is not to have interlocking directorates. Therefore, no inside director or executive officer may serve as a director where one of our directors is an executive officer.

No director or immediate family member may receive an IPO allocation from a broker/dealer acting or in the past three years has acted as an underwriter or placement agent of our securities, or has acted as a financial advisor to us.

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Audit Committee Complaint Procedures

Our Audit Committee has adopted a procedure for our employees to submit good faith complaints, on a confidential basis, without fear of reprisals, regarding our accounting, internal accounting controls or auditing matters. These procedures provide for the receipt, retention and treatment of such complaints. Complaints may relate, without limitation, to fraud or deliberate error in the preparation, evaluation, review or audit of our financial statements or in the recording and maintenance of our financial records; deficiencies or non-compliance with our internal accounting controls; or misrepresentations or false statements to or by a senior officer or accountant regarding our financial records or financial reports.

The Audit Committee will acknowledge the receipt of any complaint, direct the review of the complaint and direct prompt and appropriate action when and as warranted in the judgment of the Audit Committee.

Code of Ethics and Business Conduct

We are committed to a high standard of business conduct. This means conducting business in accordance with the spirit and letter of all applicable laws, regulations and public policies, and in accordance with the best standard of ethical business practices. Our Code of Ethics and Business Conduct (the Code), which is available on our website, essentially codifies the business and ethical principles that have always been a part of our business practice, is intended to help in this endeavor by providing a clear statement of the fundamental principles that govern our business, and is intended to promote, among other things:

- honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships,
- avoidance of conflicts of interest, including disclosure to an appropriate person identified in the Code of any material transaction or relationship that reasonably could be expected to give rise to such a conflict,
- full, fair, accurate, timely, and understandable public disclosure in reports and documents that we file with, or submit to, the SEC and in other public communications made by us,
- compliance with applicable governmental laws, rules and regulations, not only of the U.S., but also applicable governmental laws, including provincial laws, rules and regulations of Canada and any other foreign jurisdiction in which we or any of our direct or indirect subsidiaries operate,
- prompt internal reporting of Code violations to the appropriate person identified in the Code, and
- accountability for adherence to the Code.

Our Code, which covers a wide range of business practices and procedures, applies to all our officers, directors and employees. This Code does not and cannot address every issue that may arise, but it establishes basic principles to guide all employees of Seitel. Some of the basic principles espoused in our Code include the compliance by all of our officers, directors and employees of the laws of countries and jurisdictions in addition to the U.S. federal securities laws, including laws which relate to conduct in the workplace, tax matters, wages, working conditions and laws which directly relate to our principal business activities. Our Code, among other things:

- requires compliance with internal and disclosure controls and dealings with our independent auditors, all in furtherance of the honest and accurate recording and reporting of financial information,

- requires directors, officers and employees to disclose and report violations and waivers of our Code,

- prohibits an officer, director or employee taking for themselves a corporate opportunity belonging to us or in which we have a reasonable expectancy,

- requires accurate maintenance of our books and records, and compliance with our document retention policies, prohibits disclosure of our proprietary or confidential information, including material non-public information, and

requires accountability for violations of our Code through oversight by our Nominating/Corporate Governance Committee.

Communications with Stockholders of Reorganized Seitel

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

Director Compensation

At the organizational meeting of the initial board of directors of Reorganized Seitel, the board will approve and adopt an appropriate compensation package for directors who are not employees of Reorganized Seitel, which will include an annual fee, fees for each board meeting attended in person and for each board meeting attended by conference telephone and a fee for each committee meeting attended. Directors who are also employees of Reorganized Seitel will receive no fees for their service as directors.

All directors will be entitled to reimbursement for their reasonable out-of-pocket expenditures.

Director Liability and Indemnification of Directors and Executive Officers

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

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

The amended and restated bylaws provide that Reorganized Seitel will, to the full extent permitted by the Delaware General Corporation Law, indemnify and may advance expenses to Reorganized Seitel s directors and officers. Reorganized Seitel may also maintain directors and officers liability insurance, which covers directors and officers against certain claims or liabilities arising out of the performance of their duties.

We may also enter into indemnification agreements with our officers and directors from time to time in the future.

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Executive Compensation

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

Summary Compensation Table

		Annual Compensation				
Name and Principal Position	**Year**	**Salary ($)**	**Bonus ($)**	**Other Annual Compensation (2)**	**Long-Term Compensation Awards Stock Options/SARs (#)**	**Other Compensation ($)**
Larry E. Lenig, Jr. (1)						
Former Chief Executive Officer and President	2003	$ 300,000	$ 290,000			$ 3,500(3)
	2002	$ 51,559				$ 375
Kevin P. Callaghan	2003	$ 82,200		$ 1,099,139		$ 3,500(3)
	2002	$ 75,000		$ 951,289		$ 12,678
Chief Operating Officer and Executive Vice President						
Robert J. Simon						
President Seitel Data, Ltd.	2003	$ 158,400		$ 1,189,848		$ 3,000(3)
	2002	$ 112,500		$ 1,327,288		$ 131,581
Leonard M. Goldstein	2003	$ 300,000				$ 3,500(3)
General Counsel and Corporate Secretary						
Marcia H. Kendrick	2003	$ 242,200	$ 25,000			$ 3,000(3)
Chief Accounting Officer, Senior Vice President and Assistant Corporate Secretary	2002	$ 235,000		$ 8,389		$ 69,663
	2001	$ 211,667	$ 250,000	$ 8,115		$ 53,903

(1) Mr. Lenig left the employ of Seitel on February 17, 2004, as anticipated, after completion of the structuring and negotiation of the Plan.
(2) Includes commissions based on sales for Messrs. Callaghan and Simon and commission based on property sales for Ms. Kendrick.
(3) Includes amounts contributed by Seitel to its 401(k) Savings Plan (the 401(k) Plan) on behalf of such named executive officers as discretionary and matching contributions.

Stock Option Grants in Fiscal 2003

No options to purchase common stock were granted during the year ended December 31, 2003, to any of the executive officers named in the summary compensation table above. Under the Plan, all options outstanding as of the effective date of the Plan will be cancelled in their entirety, and the holders of such options will no longer be able to exercise such options after such time.

2004 Omnibus Stock Option Plan

Under the Plan, each of our existing equity compensation plans will be terminated as of the effective date of the Plan and all other options, warrants and rights outstanding will be terminated. In connection with our reorganization, our board of directors will adopt the Seitel, Inc. 2004 Omnibus Stock Option Plan (the Stock Option Plan) as provided in the Plan, which will become authorized on the effective date of the Plan. Under the Stock Option Plan, Reorganized Seitel may issue up to 8,270,662 shares of reorganized common stock representing 5% of our reorganized common stock on a fully diluted basis, all of which shares may be issued pursuant to the exercise of options or other stock purchase rights.

The Stock Option Plan is intended to attract, retain, and reward high-quality executives, employees, directors and other persons who provide services to Reorganized Seitel and/or its subsidiaries, enabling such persons to acquire or increase a proprietary interest in Reorganized Seitel to strengthen the mutuality of interests between such persons and stockholders of Reorganized Seitel, and providing such persons with annual and long-

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term performance incentives to expend their maximum efforts in the creation of shareholder value. The Stock Option Plan is also intended to qualify certain compensation awarded thereunder for tax deductibility under Section 162(m) of the Internal Revenue Code to the extent deemed appropriate by our Compensation Committee. It is contemplated that each executive officer (generally the chairman of the board, vice-chairman, chief executive officer, chief operating officer, president and vice presidents of Reorganized Seitel), other officers, employees and other persons who perform services of special importance to Reorganized Seitel, including directors of Reorganized Seitel, will be eligible to participate under the Stock Option Plan.

Subject to the specific provisions of the Stock Option Plan, our newly constituted Compensation Committee, which will administer the plan, will have the discretion to determine the recipients of the awards, the nature of the awards to be granted, the dates such awards will be granted, the terms and conditions of awards and the interpretation of the Stock Option Plan.

Generally, the Stock Option Plan may be amended by action of the board of directors, except that any amendment or alteration is subject to the approval of Reorganized Seitel s stockholders not later than the annual meeting next following such board action if such stockholder approval is required by any federal or state law or regulation or the rules of Nasdaq or any national stock exchange on which any securities of Reorganized Seitel may then be listed for trading. The Compensation Committee may waive any conditions or rights under, or amend, alter, suspend, discontinue or terminate any award theretofore granted and any award agreement relating thereto, except as otherwise provided in the Stock Option Plan.

As more particularly set forth in the Stock Option Plan, at any time, awards granted thereunder may, in the discretion of the Compensation Committee, be granted either alone or in addition to, in tandem with, or in substitution or exchange for, any other award granted thereunder or any award granted under another plan of Reorganized Seitel, any subsidiary, or any business entity to be acquired by Reorganized Seitel or a subsidiary, or any other right of a holder to receive payment from Reorganized Seitel. If an award is granted in substitution or exchange for another award, the Compensation Committee will require the surrender of such other award in consideration for the grant of the new award. In addition, awards may be granted in lieu of cash compensation. The term of each award will be for such period as may be determined by the Compensation Committee; provided that in no event will the term of any option or SAR exceed a period of ten years (or such shorter term as may be required in respect of an ISO under Section 422 of the Internal Revenue Code).

Subject to the terms of the Stock Option Plan and any applicable award agreement, payments to be made by Reorganized Seitel or a subsidiary upon the exercise of an option or other award or settlement of an award may be made in such forms as our Compensation Committee shall determine, including, without limitation, cash, reorganized common stock, other awards or other property, and may be made in a single payment or transfer, in installments, or on a deferred basis. The settlement of any award may be accelerated, and cash paid in lieu of reorganized common stock in connection with such settlement, in the discretion of our Compensation Committee or upon occurrence of one or more specified events (in addition to a change of control). Installment or deferred payments may be required by our Compensation Committee or permitted at the election of the holder on terms and conditions established by our Compensation Committee. Payments may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments or the grant or crediting of Dividend Equivalents (as defined below) or other amounts in respect of installment or deferred payments denominated in reorganized common stock.

The Stock Option Plan generally provides that, unless our Compensation Committee determines otherwise, each option or right granted thereunder will become exercisable in full upon certain change of control events as described therein. If any change is made in the stock subject to the Stock Option Plan, or subject to any right or option granted thereunder (through merger, consolidation, reorganization, recapitalization, stock dividend, dividend in property other than cash, stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or otherwise), our Compensation Committee will make appropriate adjustments to the classes, number of shares and price per share of stock subject to outstanding rights or options.

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In general, our Compensation Committee may impose on any award (subject to the provisions of the Stock Option Plan), such additional terms and conditions not inconsistent with the provisions of the Stock Option Plan as our Compensation Committee will determine, including terms requiring forfeiture of awards in the event of termination of employment of the holder and terms permitting a holder to make elections relating to his or her award. Our Compensation Committee will retain full power and discretion to accelerate, waive or modify, at any time, any term or condition of an award that is not mandatory under the Stock Option Plan; provided, however, that our Compensation Committee will not have any discretion to accelerate, waive or modify any term or condition of an award that is intended to qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code if such discretion would cause the award not to so qualify. Except in cases in which our Compensation Committee is authorized to require other forms of consideration under the Stock Option Plan, or to the extent other forms of consideration must by paid to satisfy the requirements of state law, no consideration other than services may be required for the grant (but not the exercise) of any award. The Stock Option Plan provides several types of awards: stock options, stock appreciation rights (including limited stock appreciation rights), restricted stock, restricted stock units or RSUs, bonus stock and awards in lieu of obligations, dividend equivalents, annual incentive and performance awards, and other stock-based awards, as further described below.

Stock Options. Options granted under the Stock Option Plan may be either incentive stock options (ISOs) or options which do not qualify as ISOs. Our Compensation Committee will determine the exercise price of stock purchasable under an option, provided that such exercise price will be not less than the fair market value of a share of stock on the date of grant of such option except as otherwise provided in the Stock Option Plan. Our Compensation Committee will determine the times at or circumstances under which an option may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the methods by which such exercise price may be paid or deemed to be paid, the form of such payment, including, without limitation, cash, stock, other awards or awards granted under other plans of Reorganized Seitel or any subsidiary, or other property (including notes or other contractual obligations of holders to make payment on a deferred basis), and the methods by or forms in which stock will be delivered or deemed to be delivered to holders. In no event may an option remain exercisable more than ten years following the date of grant.

The terms of any ISO granted under the Stock Option Plan will comply in all respects with the provisions of Section 422 of the Internal Revenue Code.

Stock Appreciation Rights. SARs may be granted to recipients of options under the Stock Option Plan. An SAR will confer a right to receive, upon exercise thereof, the excess of (A) the fair market value of one share of reorganized common stock on the date of exercise (or, in the case of a Limited SAR, the fair market value determined by reference to the Change in Control Price, as defined in the Stock Option Plan) over (B) the grant price of the SAR as determined by our Compensation Committee provided that such grant price shall not be less than the fair market value of a share of reorganized common stock on the date of grant of such SAR except as provided under the Stock Option Plan. Our Compensation Committee will determine at the date of grant or thereafter, the time or times at which and the circumstances under which an SAR may be exercised in whole or in part (including based on achievement of performance goals and/or future service requirements), the method of exercise, method of settlement, form of consideration payable in settlement, method by or forms in which reorganized common stock will be delivered or deemed to be delivered to holders, whether or not an SAR will be in tandem or in combination with any other award, and any other terms and conditions of any SAR. Limited SARs that may only be exercised in connection with a change of control or other event as specified by our Compensation Committee may be granted on such terms as the committee may determine. SARs and Limited SARs may be either freestanding or in tandem with other awards.

Restricted Stock. Restricted shares awarded under the Stock Option Plan will be subject to such restrictions on transferability, risk of forfeiture and other restrictions as are imposed by our Compensation Committee, which restrictions may lapse separately or in combination at such times, under such circumstances (including based on achievement of performance goals and/or future service requirements), in such installments or otherwise, as our

Compensation Committee may determine at the date of grant or thereafter. Except to the extent restricted under the terms of the Stock Option Plan and any award agreement relating to the restricted stock, a holder granted restricted stock will have all of the rights of a shareholder, including the right to vote the restricted stock and the right to receive dividends thereon (subject to any mandatory reinvestment or other requirement imposed by our Compensation Committee). During the restricted period applicable to the restricted stock, subject to provisions of the Stock Option Plan, the restricted stock may not be sold, transferred, pledged, hypothecated, margined or otherwise encumbered by the holder.

Restricted stock granted under the Stock Option Plan will be evidenced in the manner determined by our Compensation Committee. Our Compensation Committee may require that certificates representing restricted stock, if any, registered in the name of a holder bear a legend, that Reorganized Seitel retain physical possession of the certificates, and that the holder deliver a stock power to Reorganized Seitel, endorsed in blank, relating to the restricted stock. As a condition to the grant of an award of restricted stock, our Compensation Committee may require or permit a holder to elect that any cash dividends paid on a share of restricted stock be automatically reinvested in additional shares of restricted stock or applied to the purchase of additional awards under the Stock Option Plan. Unless otherwise determined by our Compensation Committee, stock distributed in connection with a stock split or stock dividend, and other property distributed as a dividend, will be subject to restrictions and a risk of forfeiture to the same extent as the restricted stock with respect to which such stock or other property has been distributed. Except as otherwise determined by our Compensation Committee, upon termination of employment during the applicable restriction period, restricted stock that is at that time subject to restrictions will be forfeited and reacquired by Reorganized Seitel.

Restricted Stock Units. The Stock Option Plan also provides for the award of Restricted Stock Units (RSUs). These are rights to receive reorganized common stock, cash or a combination thereof at the end of a specified deferral period. The satisfaction of an RSU award occurs on the expiration of the deferral period specified for such RSU by our Compensation Committee. RSUs may be satisfied by the delivery of stock, cash equal to the fair market value of the specified number of shares of reorganized common stock covered by the RSUs, or a combination thereof, as determined by our Compensation Committee. Except as otherwise determined by our Compensation Committee, upon termination of employment during the applicable deferral period or portion thereof to which forfeiture conditions apply (as provided in the award agreement evidencing the RSUs), all RSUs that are at that time subject to deferral (other than a deferral at the election of the Holder) shall be forfeited; provided that our Compensation Committee may waive such restriction or forfeiture condition in whole or in part in the event of terminations resulting from specified causes, and our Compensation Committee may in other cases waive in whole or in part the forfeiture of RSUs. Unless otherwise determined by our Compensation Committee at the date of grant, Dividend Equivalents on the specified number of shares of reorganized common stock covered by an award of RSUs will be either (A) paid with respect to such RSUs at the dividend payment date in cash or in shares of unrestricted reorganized common stock having a fair market value equal to the amount of such dividends, or (B) deferred with respect to such RSUs and the amount or value thereof automatically deemed reinvested in additional RSUs, other awards or other investment vehicles, as the Compensation Committee will determine or permit the holder to elect.

Bonus Stock and Awards in Lieu of Obligations. Our Compensation Committee is also authorized to grant reorganized common stock as a bonus, or to grant reorganized common stock or other awards in lieu of obligations to pay cash or deliver other property under the Stock Option Plan, provided that, in the case of holders subject to Section 16 of the Exchange Act, the amount of such grants remains within the discretion of our Compensation Committee to the extent necessary to ensure that acquisitions of reorganized common stock or other awards are exempt from liability under Section 16(b) of the Exchange Act. Reorganized common stock or awards granted thereunder will be subject to such other terms as determined by our Compensation Committee.

Dividend Equivalents. The Stock Option Plan also authorizes our Compensation Committee to grant Dividend Equivalents to a Holder, entitling the holder to receive cash, reorganized common stock, other awards, or other property equal in value to dividends paid with respect to a specified number of shares of reorganized

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common stock, or other periodic payments. Dividend Equivalents may be awarded on a freestanding basis or in connection with another award. Our Compensation Committee may provide that Dividend Equivalents will be paid or distributed when accrued or will be deemed to have been reinvested in additional reorganized common stock, awards, or other investment vehicles, and subject to such restrictions on transferability and risks of forfeiture, as our Compensation Committee may specify.

Annual Incentive and Performance Awards. Under the Stock Option Plan, our Compensation Committee is authorized to make Annual Incentive Awards and Performance Awards payable in cash, shares of reorganized common stock, or other awards, on terms and conditions established by the Compensation Committee, subject to certain conditions. The right of a holder to exercise or receive a grant or settlement of any award, and the timing thereof, may be subject to such performance conditions as may be specified by our Compensation Committee. It is our intent that Performance Awards and Annual Incentive Awards granted to persons who are designated by our Compensation Committee as likely to be covered employees within the meaning of Section 162(m) of the Internal Revenue Code and regulations thereunder (including Regulation 1.162-27 and successor regulations thereto) will, if so designated by our Compensation Committee, constitute performance-based compensation within the meaning of Section 162(m) of the Internal Revenue Code and regulations thereunder.

Performance Awards. In determining a Performance Award, our Compensation Committee may use such business criteria and other measures of performance as it may deem appropriate in establishing any performance conditions, and may exercise its discretion to reduce or increase the amounts payable under any award subject to performance conditions, except as limited in the case of a Performance Award or Annual Incentive Award intended to qualify under Section 162(m) of the Internal Revenue Code. If our Compensation Committee determines that a Performance Award should qualify as performance-based compensation for purposes of Section 162(m) of the Internal Revenue Code, the grant, exercise and/or settlement of such Performance Award will be contingent upon achievement of pre-established performance goals and other terms set forth in the Stock Option Plan. Our Compensation Committee may establish a Performance Award pool, which will be an unfunded pool, for purposes of measuring performance of Reorganized Seitel in connection with Performance Awards. The amount of such Performance Award pool will be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in the Stock Option Plan during the given performance period, as specified by our Compensation Committee in accordance with the Stock Option Plan. Our Compensation Committee may specify the amount of the Performance Award pool as a percentage of any of such business criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such business criteria.

Annual Incentive Awards. Our Compensation Committee may establish an Annual Incentive Award pool, which will be an unfunded pool, for purposes of measuring performance of Reorganized Seitel in connection with Annual Incentive Awards. The amount of such Annual Incentive Award pool will be based upon the achievement of a performance goal or goals based on one or more of the business criteria set forth in the Stock Option Plan during the given performance period, as specified by our Compensation Committee in accordance therewith. Our Compensation Committee may specify the amount of the Annual Incentive Award pool as a percentage of any of such business criteria, a percentage thereof in excess of a threshold amount, or as another amount which need not bear a strictly mathematical relationship to such business criteria.

Our Compensation Committee will determine potential recipients of Annual Incentive Awards, and the amounts potentially payable thereunder, for each fiscal year, not later than the end of the 90th day of each such fiscal year, or at such other date as may be required or permitted in the case of awards intended to be performance-based compensation under Section 162(m) of the Internal Revenue Code. In the case of individual Annual Incentive Awards intended to qualify under Section 162(m) of the Internal Revenue Code, the amount potentially payable shall be based upon the achievement of a performance goal or goals based on one or more of the business criteria in the given performance year, as specified by our Compensation Committee; in other cases, such amounts will be based on such criteria as shall be established by the Compensation Committee. In all cases, the maximum Annual Incentive Award of any holder will be subject to the limitations set forth in the Stock Option Plan.

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After the end of each fiscal year, our Compensation Committee will determine the amount, if any, of (A) the Annual Incentive Award pool, and the maximum amount of potential Annual Incentive Award payable to each holder in the Annual Incentive Award pool, or (B) the amount of potential Annual Incentive Award otherwise payable to each holder. Our Compensation Committee may, in its discretion, determine that the amount payable to any holder as a final Annual Incentive Award will be increased or reduced from the amount of his or her potential Annual Incentive Award, except in the case of an Annual Incentive Award intended to qualify under Section 162(m) of the Internal Revenue Code. Our Compensation Committee will specify the circumstances in which an Annual Incentive Award shall be paid or forfeited in the event of termination of employment by the holder prior to the end of a fiscal year or settlement of such Annual Incentive Award.

Other Stock-Based Awards. The Stock Option Plan also authorizes our Compensation Committee, subject to limitations under applicable law, to grant to holders such other awards that may be denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, reorganized common stock, as deemed by our Compensation Committee to be consistent with the purposes of the Stock Option Plan, including, without limitation, convertible or exchangeable debt securities, other rights convertible or exchangeable into reorganized common stock, purchase rights for reorganized common stock, awards with value and payment contingent upon performance of Reorganized Seitel or any other factors designated by our Compensation Committee, and awards valued by reference to the book value of reorganized common stock or the value of securities of or the performance of specified subsidiaries. Our Compensation Committee will determine the terms and conditions of such awards. Reorganized common stock delivered pursuant to an award in the nature of a purchase right granted will be purchased for such consideration, paid for at such times, by such methods, and in such forms, including, without limitation, cash, reorganized common stock, other awards, or other property, as our Compensation Committee will determine. Cash awards, as an element of or supplement to any other award under the Stock Option Plan, may also be granted.

Reorganized Seitel intends that the grant of any awards to or other transaction by a holder who is subject to Section 16 of the Exchange Act will be exempt from Section 16 pursuant to an applicable exemption (except for transactions acknowledged in writing to be non-exempt by such holder). Accordingly, if any provision of the Stock Option Plan or any award agreement does not comply with the requirements of Rule 16b-3 as then applicable to any such transaction, such, provision will be construed or deemed amended to the extent necessary to conform to the applicable requirements of Rule 16b-3 so that such holder will avoid liability under Section 16(b).

No award or other right or interest granted under the Stock Option Plan will be pledged, hypothecated or otherwise encumbered or subject to any lien, obligation or liability of the holder thereof to any party (other than Reorganized Seitel or a subsidiary), or assigned or transferred by such holder otherwise than by will or the laws of descent and distribution or to a beneficiary upon the death of a holder, and such awards or rights that may be exercisable will be exercised during the lifetime of the holder only by the holder or his or her guardian or legal representative, except that awards and other rights (other than ISOs and SARs in tandem therewith) may be transferred to one or more beneficiaries or other transferees during the lifetime of the holder, and may be exercised by such transferees in accordance with the terms of such award, but only if and to the extent such transfers are permitted by our Compensation Committee pursuant to the express terms of an award agreement (subject to any terms and conditions which the Compensation Committee may impose thereon). A beneficiary, transferee, or other person claiming any rights under the Stock Option Plan from or through any holder will be subject to all terms and conditions of the Stock Option Plan and any award agreement applicable to such holder, except as otherwise determined by our Compensation Committee, and to any additional terms and conditions deemed necessary or appropriate by the committee.

The foregoing is a summary description of the Stock Option Plan, and does not purport to describe all of its terms and provisions. Reference is made to the full Stock Option Plan filed as an exhibit to the registration statement of which this prospectus is a part report for all of its terms and provisions.

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Employment Agreement with Mr. Stilley

Effective February 17, 2004, we entered into an employment agreement with Randall D. Stilley in which Mr. Stilley agreed to act as president and chief executive officer for an initial term of one year. The agreement has been approved by the bankruptcy court. Under the agreement, we will provide Mr. Stilley the following compensation and employee benefits: (1) a base salary of $350,000 per annum, (2) participation in our 2004 omnibus stock option plan, (3) for calendar year 2004, Mr. Stilley is entitled to receive an annual cash incentive award of up to 60% of his base salary, (4) other employee benefits generally available to our employees, and (5) voluntary termination or termination not-for-cause benefits of: (A) any unpaid bonus earned, (B) 24 monthly payments, equal to one-twelfth of his base salary upon termination, (C) a pro-rata bonus, (D) immediate vesting of all options outstanding upon termination, and (E) continued participation for 6 months in medical and dental plans. We have also agreed to indemnify Mr. Stilley for any claim made against him or an employee or officer, except for claims resulting from Mr. Stilley s willful misconduct and gross negligence.

We do not have any other employment contracts with any of our other executive officers or directors.

Compensation Committee Interlocks and Insider Participation

Seitel s Compensation and Stock Option Committee is composed of John E. Stieglitz, Chairman, Walter M. Craig, Jr. and William Lerner.

No member of the Compensation and Stock Option Committee of Seitel s board of directors was, during 2003, an officer or employee of Seitel or any of its subsidiaries, or was formerly an officer of Seitel or any of its subsidiaries, or had any relationship requiring disclosure pursuant to applicable rules and regulations of the SEC. During 2003, no executive officer of Seitel served as (i) a member of the Compensation and Stock Option Committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served on Seitel s Compensation and Stock Option Committee, (ii) a director of another entity, one of whose executive officers served on Seitel s Compensation and Stock Option Committee, or (iii) a member of the Compensation and Stock Option Committee (or other board committee performing equivalent functions) of another entity, one of whose executive officers served as a director of Seitel.

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TRANSACTIONS INVOLVING RELATED PARTIES

The following is a summary of our transactions from January 1, 2003 through the date of this prospectus among our company and its directors, executive officers, beneficial owners of more than 5% of any class of its current or former voting securities, and certain entities with which the foregoing persons are affiliated or associated.

Transactions with Helm Capital Group, Inc.

Seitel entered into a number of transactions with Helm Capital Group, Inc. and its subsidiaries when Herbert Pearlman, a Helm executive officer, was a director of Seitel. As of February 2002, Herbert Pearlman is no longer a director of Seitel. Seitel owed Helm $16,000 as of December 31, 2002 for sales of seismic data and for general and administrative expenses paid by Helm on behalf of Seitel. No amounts were owed at December 31, 2003. Seitel incurred charges of $88,000 and $175,000, for these general and administrative expenses during 2002 and 2001, respectively. No such costs were incurred in 2003. It is not anticipated that Reorganized Seitel will incur any general and administrative expenses paid by Helm on behalf of Reorganized Seitel in future years. Fred S. Zeidman, our Chairman of the Board, served as president of a subsidiary of Helm from July 1993 to July 1997, Walter M. Craig, Jr., a director of our company, served as executive vice president and chief operating officer of Helm from 1993 to November 1999, and John E. Stieglitz, a director of our company, served as a director of Helm from 1987 to 2001.

Loans to Employees

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

On October 2, 1998, Seitel granted five-year loans at an interest rate of 4% to many of its employees for the purchase of an aggregate of 794,300 shares of common stock at the then market price of $10.3125 per share and options to purchase a like number of shares of common stock at an exercise price of $11.75 per share. Payment of 60% of the loan amount plus accrued interest was made in equal monthly, quarterly or annual payments, as applicable, and a balloon payment of the remaining 40% was due on October 2, 2003. Loans were made to

Mr. Simon, the president of Seitel Data, Ltd., amounting to $515,625, to Mr. Callaghan, our chief operating officer, amounting to $192,031 and to Ms. Kendrick, our senior vice president, chief accounting officer and assistant secretary, amounting to $257,813. The largest aggregate amounts of principal and interest outstanding on such loans since January 1, 2003, were approximately $262,000 for Mr. Simon, $52,000 for Mr. Callaghan and $131,000 for Ms. Kendrick. As of October 2003, the aggregate amounts of principal and interest outstanding on such loans to Messrs. Simon and Callaghan and Ms. Kendrick had been paid in full.

In October 2001, Seitel guaranteed an institutional loan totaling $600,000 to Kevin Fiur, its former chief operating officer and general counsel, who later was named chief executive officer and who resigned in November 2002. Under the terms of Mr. Fiur s separation agreement, a portion of the amount outstanding was paid and he is required to make annual installments of $60,000 with a maturity date of November 13, 2006. The outstanding and unpaid principal balance on the loan was $193,000 on May 25, 2004. We believe the loan is presently current and is not otherwise in default.

During 2001, Mr. Frame and Ms. Debra Valice, two former executive officers of Seitel, received advances against bonus and commission payments that were contingent upon achieving pre-tax profits goals during 2001. The pre-tax profits goals were not met in 2001. Seitel initially determined that advances previously paid but not earned or awarded would be repaid pursuant to promissory notes; however, the repayment of the note from Mr. Frame and certain other matters are the subject of pending litigation proceedings between Seitel and Mr. Frame. The repayment of the note from Ms. Valice and certain other matters were the subject of litigation proceedings between Ms. Valice and Seitel which proceedings have been settled, resulting in the forgiveness of

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such debt by Seitel. The SEC has informed Seitel that it has issued a formal order of investigation relating to the events surrounding the advances and other matters concerning Mr. Frame. The U.S. Attorney s Office for the Southern District of Texas was also investigating these events. For additional information concerning the pending matter involving Seitel and Mr. Frame, please see Business Legal Proceedings.

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

Transactions with the Standby Purchasers

Please see The Standby Purchase Guaranty and Management Executive Officers and Directors of Reorganized Seitel for information concerning the transactions contemplated with the Standby Purchasers, the Standby Purchaser Warrants and Mellon HBV s right to designate initial directors of Reorganized Seitel.

Right of Seitel s Chairman of the Board to Appoint Initial Directors of Reorganized Seitel

Please see Management Executive Officers and Directors of Reorganized Seitel for a discussion relating to the right of Fred S. Zeidman, Seitel s chairman of the board, to appoint initial directors of Reorganized Seitel.

Retention and Change of Control Agreement with Former Executive

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

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SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information presented below regarding beneficial ownership of our common stock and reorganized common stock has been presented in accordance with the rules of the SEC and is not necessarily indicative of beneficial ownership for any other purpose. Under these rules, beneficial ownership of shares of capital stock includes any shares as to which a person, directly or indirectly, has or shares voting power or investment power and also any shares as to which a person has the right to acquire such voting or investment power within 60 days through the exercise of any stock option or other right. As of May 25, 2004, there were 25,375,683 shares of our common stock outstanding.

The following table sets forth, as to each current director and executive officer named in the summary compensation table above, each beneficial owner of 5% or more of our common stock, and all officers and directors as a group, the number of shares of common stock and the percent of such class beneficially owned as of May 25, 2004 and, the number of shares of reorganized common stock and the percent of such class that would be beneficially owned as of the effective date of the Plan.

	Common Stock Beneficially Owned as of May 25, 2004		Reorganized Common Stock Beneficially Owned as of the Effective Date of the Plan of Reorganization	
Name and Address of Beneficial Owner (1)	Amount (2)	Percent of Class	Amount (2)(3)	Percent of Class
Contrarian Capital Management, L.L.C. (4) 411 West Putnam Avenue, Ste. 225 Greenwich, CT 06830	2,512,150	9.9%	14,887,000	9.9%
Mellon HBV Alternative Strategies LLC 200 Park Avenue, Ste. 3300 New York, NY 10166	2,356,132(5)	9.3%	142,393,700(6)	86.1%
Robert J. Simon 10811 S. Westview Circle Drive Building C, Ste. 100 Houston, Texas 77043	281,574(7)	1.1%	592,048	*
Kevin P. Callaghan 10811 S. Westview Circle Drive Building C, Ste. 100 Houston, Texas 77043	211,455(8)	*	146,893	*
Marcia H. Kendrick	154,027(9)	*	221,395	*

10811 S. Westview Circle Drive Building C, Ste. 100 Houston, Texas 77043				
Fred S. Zeidman** 4265 San Felipe, Ste. 600 Houston, TX 77027	141,450(10)	*	54,519	*
William Lerner 423 East Beau Street Washington, PA 15301	71,420(11)	*	54,341	*
John E. Stieglitz Conspectus, Inc. 222 Purchase Street Rye, NY 10580	64,335(12)	*	71,615	*

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Name and Address of Beneficial Owner (1)	Common Stock Beneficially Owned as of May 25, 2004		Reorganized Common Stock Beneficially Owned as of the Effective Date of the Plan of Reorganization	
	Amount (2)	Percent of Class	Amount (2)(3)	Percent of Class
Walter M. Craig, Jr. 1011 HWY 71 Spring Lake, NJ 07762	34,008(13)	*	10,417	*
Robert Knauss 5151 San Felipe, Ste. 1662 Houston, Texas 77056	10,000(14)	*		*
Randall D. Stilley** 10811 S. Westview Circle Drive Building C, Ste. 100 Houston, Texas 77043				
Robert D. Monson 10811 S. Westview Circle Drive Building C, Ste. 100 Houston, Texas 77043				
Leonard M. Goldstein 10811 S. Westview Circle Drive Building C, Ste. 100 Houston, Texas 77043				
Robert Kelley** 10811 S. Westview Circle Drive Building C, Ste. 100 Houston, Texas 77043				
J.D. Williams** 10811 S. Westview Circle Drive				

Building C, Ste. 100 Houston, Texas 77043				
Charles H. Mouquin** 10811 S. Westview Circle Drive Building C, Ste. 100 Houston, Texas 77043	187,500(15)	*	1,111,125	*
C. Robert Black** 10811 S. Westview Circle Drive Building C, Ste. 100 Houston, Texas 77043				
Ned S. Holmes** 10811 S. Westview Circle Drive Building C, Ste. 100 Houston, Texas 77043				
All executive officers and directors as a group (11 persons)	968,269(16)	3.7%	1,151,228	*

* Less than 1%

** Individual anticipated to become a director on the effective date of the Plan.

(1) Except as otherwise noted, each named holder has, to the best of our knowledge, sole voting and investment power with respect to the shares indicated.

(2) Includes shares that may be acquired from us within 60 days by any of the named persons upon exercise of any right. Under the Plan, any options or warrants to acquire shares of common stock outstanding on the effective date of the Plan will be cancelled, and the holders of such options and warrants will no longer be able to exercise such options and warrants after that time. Information with

respect to beneficial ownership of reorganized common stock assumes that such options or warrants were not exercised prior to the effective date of the Plan.

(3) Assumes the exercise in full of all Stockholder Warrants to be received by such stockholder on the effective date of the Plan.

(4) Information with respect to the beneficial ownership of Contrarian Capital Management, L.L.C. is derived from its Schedule 13G dated February 12, 2004. According to its Schedule 13G, Contrarian Capital Management, L.L.C. has shared voting and dispositive power with respect to 2,512,150 shares of common stock, representing 9.9% of the shares outstanding, and Contrarian Equity Fund, L.P. has shared voting and investment power with respect to 1,437,150 shares of common stock, representing 5.66% of the shares outstanding. Contrarian Capital Management, L.L.C. is the general partner of Contrarian Equity Fund, L.P. Jon R. Bauer is the managing member of Contrarian Capital Management, L.L.C.

(5) Includes: (1) 1,766,132 shares of common stock held of record by Mellon HBV Master Multi-Strategy Fund L.P., representing 6.96% of the shares outstanding; (2) 184,412 shares of common stock held of record by Mellon HBV Master Rediscovered Opportunities Fund LP, representing less than 1% of the shares outstanding; (3) 158,000 shares of common stock held of record by Distressed Recovery Master Fund Ltd., representing less than 1% of the shares outstanding; (4) 125,000 shares of common stock held of record by Mellon HBV Special Situations Fund L.P., representing less than 1% of the shares outstanding; (5) 85,000 shares of common stock held of record by Mellon HBV Capital Partners, representing less than 1% of the shares outstanding; (6) 21,037 shares of common stock held of record by HFR DS Performance Master Trust, representing less than 1% of the shares outstanding; and (7) 16,551 shares of common stock held of record by Axis-RDO Limited, representing less than 1% of the shares outstanding (collectively, the Mellon Funds).

Mellon HBV, which is an indirect wholly-owned subsidiary of Mellon Financial Corporation, has entered into investment advisory, manager and/or sub-manager agreements that grant Mellon HBV full and complete charge of the management of all securities investment, re-investment and trading activities of each of the entities set forth above. More specifically (1) as to Mellon HBV Master Multi-Strategy Fund L.P., (a) Mellon HBV serves as investment advisor pursuant to an Investment Advisory Agreement, dated March 1, 2002 and (b) Mellon HBV Company, Ltd. (HBV Limited), an affiliate of Mellon HBV, serves as sole general partner; (2) as to Mellon HBV Master Rediscovered Opportunities Fund LP, (a) Mellon HBV serves as investment advisor pursuant to an Investment Advisory Agreement, dated March 1, 2002 and (b) HBV Limited serves as sole general partner; (3) as to Mellon HBV Capital Partners LP, (a) Mellon HBV serves as an investment manager pursuant to an Investment Management Agreement dated June 1, 2003 and (b) Mellon HBV Advisors LLC, an affiliate of Mellon HBV, serves as sole general partner; (4) as to Mellon HBV Special Situations Fund LP, (a) Mellon HBV serves as an investment manager pursuant to an Investment Management Agreement dated June 1, 2003, (b) Mellon HBV II, LLC, an affiliate of Mellon HBV, serves as sole general partner with full responsibility for investment decisions except to the extent it delegates power to Mellon HBV and (c) Mellon HBV serves as administrator pursuant to an Administrative Services Agreement dated August 1, 2002; (5) as to Distressed Recovery Master Fund, Ltd., Mellon HBV serves as investment advisor pursuant to an Advisory Agreement dated October 1, 2003; (6) as to HFR DS Performance Master Trust, Mellon HBV serves as trading manager pursuant to a Trading Management Agreement dated February 6, 2002; and (7) as to Axis-RDO Limited, Mellon HBV serves as sub-manager pursuant to a Sub-Management Agreement dated March 1, 2002. Accordingly, Mellon HBV has sole voting and dispositive power with respect to 2,356,132 shares of common stock.

(6) Represents (1) 2,356,132 shares of reorganized common stock which will be beneficially owned by Mellon HBV on the effective date of the Plan and 11,606,306 shares of reorganized common stock issuable to the Mellon Funds upon exercise of Stockholder Warrants to be beneficially owned by Mellon HBV on the effective date of the Plan; (2) 113,393,694 shares of reorganized common stock Mellon HBV would be required to purchase from us on the Guaranty Performance Date pursuant to its standby purchase obligation, assuming none of the Stockholder Warrants (other than those beneficially held by the Mellon Funds) are exercised before they expire; and (3) 15,037,568 shares of reorganized common stock issuable to Mellon HBV upon exercise of the Standby Purchaser Warrants.

Includes: (1) 1,766,132 of Stockholder Warrants issued to Mellon HBV Master Multi-Strategy Fund L.P. on the effective date of the Plan; (2) 184,412 of Stockholder Warrants issued to Mellon HBV Master Rediscovered Opportunities Fund L.P. on the effective date of the Plan; (3) 158,000 of Stockholder Warrants issued to Distressed Recovery Master Fund, Ltd. on the effective date of the Plan; (4) 125,000 of Stockholder Warrants issued to Mellon HBV Special Situations Fund L.P. on the effective date of the Plan; (5) 85,000 of Stockholder Warrants issued to Mellon HBV Capital Partners LP on the effective date of the Plan; (6) 21,037 of Stockholder Warrants issued to HFR DS Performance Master Trust on the effective date of the Plan; and (7) 16,551 of Stockholder Warrants issued to Axis-RDO Limited.

(7) Includes 181,667 shares which may be acquired from us within 60 days upon exercise of options and common stock purchase warrants. The exercise prices of the options and warrants range from $11.00 to $13.73 per share.

(8)

Includes 186,667 shares which may be acquired from us within 60 days upon exercise of options and common stock purchase warrants. The exercise prices of the options and warrants range from $11.00 to $13.73 per share.

(9) Includes 116,667 shares which may be acquired from us within 60 days upon exercise of options and common stock purchase warrants. The exercise prices of the options and warrants range from $11.00 to $13.73 per share.

(10) Includes 132,250 shares which may be acquired from us within 60 days upon exercise of options. The exercise prices of the options range from $2.23 to $18.26 per share. Does not include 5,928.895 shares of common stock issuable to Mr. Zeidman under Seitel s non-employee director deferred compensation plan.

(11) Includes 62,250 shares which may be acquired from us within 60 days upon exercise of options. The exercise prices of the options range from $11.00 to $18.26 per share. Does not include 5,928.895 shares of common stock issuable to Mr. Lerner under Seitel s non-employee director deferred compensation plan.

(12) Includes 52,250 shares which may be acquired from us within 60 days upon exercise of options and common stock purchase warrants. The exercise prices of the options range from $11.00 to $18.26 per share. Does not include 5,928.895 shares of common stock issuable to Mr. Stieglitz under Seitel s non-employee director deferred compensation plan.

(13) Includes 32,250 shares which may be acquired from us within 60 days upon exercise of options. The exercise prices of the options range from $11.00 to $18.26 per share. Does not include 5,928.895 shares of common stock issuable to Mr. Craig under Seitel s non-employee director deferred compensation plan.

(14) Includes 10,000 shares which may be acquired from us within 60 days upon exercise of options at an exercise price of $2.09 per share.

(15) Includes 37,500 shares in which Mr. Mouquin has shared investment power to dispose of those shares.

(16) Includes an aggregate of 774,001 shares which may be acquired from us within 60 days upon exercise of options, by the group of ten persons which comprises all executive officers and directors. The exercise prices of the options and warrants range from $2.09 to $18.26 per share.

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DESCRIPTION OF CAPITAL STOCK OF REORGANIZED SEITEL

The following description sets forth the general terms of the reorganized common stock and the Stockholder Warrants. This description does not purport to be complete and is subject to and qualified in its entirety by reference to the amended and restated certificate of incorporation and amended and restated bylaws and the warrant agent agreement under which we issued the Stockholder Warrants. We have filed the amended and restated certificate of incorporation, amended and restated bylaws and the warrant agent agreement as exhibits to the registration statement of which this prospectus forms a part and reference is made to the respective documents for their complete provisions. See Where You Can Find Additional Information for information about how you can obtain copies of these documents.

Authorized and Outstanding Capital Stock

The amended and restated certificate of incorporation provides that Reorganized Seitel has authority to issue 400,000,000 shares of reorganized common stock, $0.01 par value. As of the effective date of the Plan, a total of 25,375,683 shares of reorganized common stock will be issued and outstanding, all of which will have been issued pursuant to the Plan.

The amended and restated certificate of incorporation authorizes Reorganized Seitel s board of directors from time to time and without further stockholder action to provide for the issuance of up to 5,000,000 shares of voting preferred stock in one or more series, and to fix the relative rights and preferences of the shares, including dividend rights, liquidation preferences, conversion privileges, redemption rights and voting powers. As of the date of this prospectus, Reorganized Seitel s board of directors has not provided for the issuance of any series of preferred stock, and there are no agreements or understanding for the issuance of any series of preferred stock.

Accordingly, the rights, preferences and privileges of holders of the reorganized common stock may be adversely affected by the holders of shares of any series of preferred stock that Reorganized Seitel may designate and issue from time to time. Among other things, by authorizing the issuance of shares of preferred stock with particular conversion, redemption, voting or other rights, the board of directors could adversely affect the voting power of the holders of the reorganized common stock and could discourage any attempt to effect a change-in-control of Reorganized Seitel even if such a transaction would be beneficial to the interests of Reorganized Seitel s stockholders.

Rights of Reorganized Common Stock

Voting Rights. Each record holder of reorganized common stock is entitled to notice of and to attend and vote at all special and annual meetings of Reorganized Seitel s stockholders. In addition, each holder is entitled, together with the holders of all other outstanding classes of stock entitled to attend the special and annual meetings of Reorganized Seitel s stockholders, to cast for each outstanding share of reorganized common stock one cumulative vote for the election of directors, and one non-cumulative vote on all other matters acted upon by the stockholders. See Certain Other Provisions of the Amended and Restated Certificate of Incorporation and Bylaws below.

Liquidation Rights. The holders of reorganized common stock and the holders of any class or series of stock entitled to participate with the holders of reorganized common stock as to the distribution of assets in the event of any liquidation, dissolution or winding-up of Reorganized Seitel, whether voluntary or involuntary, will be entitled to participate in the distribution of any of Reorganized Seitel s assets remaining after it has paid, or provided for the payment of, all of its debts and liabilities and after it has paid, or set aside for payment, to the holders of any class or series of stock having preference over the reorganized common stock in the event of liquidation, dissolution or winding-up, the full preferential amounts, if any, to which the holders of such class or series are entitled.

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Dividends. Dividends may be paid on the reorganized common stock and on any class or series of stock entitled to participate with the reorganized common stock as to dividends on an equal per-share basis, but only when, as and if declared by the board of directors.

Other Rights. Holders of the reorganized common stock will not have any preemptive, subscription, conversion, redemption or sinking fund rights.

Description of Stockholder Warrants

See Description of Stockholder Warrants and How You May Transfer or Exchange Your Stockholder Warrants for a general description of the Stockholder Warrants.

Anti-Takeover Provisions Contained in the Amended and Restated Certificate of Incorporation and Bylaws

Our amended and restated certificate of incorporation and amended and restated bylaws will contain provisions that could have the effect of delaying or making less likely to occur a change-in-control of Reorganized Seitel.

Number of Directors; Classified Board; Removal. Our amended and restated certificate of incorporation will provide that Reorganized Seitel s board of directors initially will be composed of seven directors divided into three classes, with each class of directors serving a staggered, three-year term. The initial term of the three Class I directors will expire at the 2007 annual meeting of Reorganized Seitel stockholders, the initial term of the three Class II directors will expire at the 2006 annual meeting of Reorganized Seitel stockholders, and the initial term of the one Class III director will expire at the 2005 annual meeting of Reorganized Seitel stockholders. After the expiration of the initial term of each class, each class of directors will be elected to a three-year term. Directors will hold office until their successors have been elected and qualified.

In accordance with the provisions of Section 141(k) of the Delaware General Corporation Law, so long as our board of directors remains divided into classes, stockholders can only remove directors for cause.

Special Meeting of Stockholders. Our amended and restated bylaws will provide that special meetings of stockholders may only be called by our president or chairman of the board, or by a majority of the entire board of directors pursuant to a formal resolution, or upon the written request of stockholders holding at least 10% of all votes entitled to be cast on the matter to be considered at the special meeting.

Stockholder Advance Notice Procedure. Our amended and restated bylaws will establish advance notice procedures for stockholders to submit nominations of candidates for election as directors or to present any other business for consideration at any of our annual or special stockholder meetings. These procedures will require stockholders to submit in writing any nomination of a candidate for election to the nominating/corporate governance committee or any other proposal for consideration at any special meeting not less than 10 nor more than 60 days before the date of the meeting and, in the case of any annual meeting not later than the date that in the current year corresponds to the 120th day prior to the date our proxy statement was released to stockholders in connection with the previous year s annual meeting of stockholders. The notice must include the following information:

the name and address of the stockholder who intends to submit the nominations, propose the business, and, as the case may be, the name and address of the person (or persons) to be nominated and the nature of the business to be proposed,

a representation that the stockholder is a holder of record of stock entitled to vote at the meeting, the class and number of shares of stock that are held of record, beneficially owned and represented by the stockholder on the date of the stockholder notice and on the record date of the meeting and, if

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applicable, that the stockholder intends to appear in person or by proxy at the meeting to nominate the person (or persons) specified in the notice and introduce the business specified in the notice,

if applicable, a description of all arrangements or understandings between the stockholder and each director nominee and any other person (or persons), which includes the names of such person (or persons), pursuant to which the nominations are to be made by the stockholder,

such other information regarding each nominee or each matter of business to be proposed by such stockholder as would be required to be included in a proxy statement filed under the proxy rules of the SEC if the nominee had been nominated, or intended to be nominated, or if the matter had been proposed, or intended to be proposed, by our board of directors, and

if applicable, the consent of each nominee to serve as director of Reorganized Seitel if so elected.

Our amended and restated bylaws will provide that the nominating committee of Reorganized Seitel s board of directors will consist entirely of independent directors within the meaning of the applicable requirements of the Nasdaq Stock Market or any national securities exchange on which the reorganized common stock is then listed for trading. Upon the expiration of the respective initial terms of the members of Reorganized Seitel s board of directors and subject to all applicable laws, rules, regulations and listing requirements, any holder of reorganized common stock, irrespective of their ownership interest in Reorganized Seitel, will have the right to recommend to the nominating committee persons for election to Reorganized Seitel s board of directors, provided that such holder has complied with the advance notice procedures set forth above. If a stockholder has fully complied with the advance notice procedures, the nominating committee (subject to its fiduciary duties and the criteria for director-nominees specified in the nominating committee charter of Reorganized Seitel then in effect) will recommend to the full board of Reorganized Seitel such designees proposed for election, as follows:

if any holder of reorganized common stock holds more than 30% of the outstanding common stock of Reorganized Seitel, it will be entitled to recommend for nomination as set forth above at any annual meeting of Reorganized Seitel s stockholders up to three designees, subject to reduction to reflect the members of the Reorganized Seitel board, if any, designated by such holder and still serving on the Reorganized Seitel board,

if any holder of reorganized common stock holds less than 30%, but more than 20%, of the outstanding common stock of Reorganized Seitel, it will be entitled to recommend for nomination as set forth above at any annual meeting of Reorganized Seitel s stockholders up to two designees, subject to reduction to reflect the members of the Reorganized Seitel board, if any, designated by such holder and still serving on the Reorganized Seitel board, and

if any holder of reorganized common stock holds less than 20%, but more than 10%, of the outstanding common stock of Reorganized Seitel, it will be entitled to recommend for nomination as set forth above at any annual meeting of Reorganized Seitel s stockholders one designee, subject to reduction to reflect the members of the Reorganized Seitel board, if any, designated by such holder and still serving on the Reorganized Seitel board.

Amendment of Bylaws. Our board of directors of Reorganized Seitel is authorized and empowered to adopt, amend and repeal the amended and restated bylaws, subject to the power of the stockholders of Reorganized Seitel to alter or repeal any bylaw whether adopted by them or otherwise; provided, however, that no bylaw adopted by stockholders of Reorganized Seitel may be altered, amended or repealed by the board of directors of Reorganized Seitel.

Certain Other Provisions of the Amended and Restated Certificate of Incorporation and Bylaws

Prohibition Against Issuance of Non-Voting Capital Stock. In accordance with Section 1123(a)(6) of the Bankruptcy Code, our amended and restated certificate of incorporation will prohibit the issuance of any shares of non-voting equity securities.

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Section 203 of the Delaware General Corporation Law. Our amended and restated certificate of incorporation will expressly opt out of the business combination statute contained in Section 203 of the Delaware General Corporation Law. Section 203, which essentially is an anti-takeover statute, provides that a person who acquires 15% or more of the outstanding voting stock of a Delaware corporation becomes an interested stockholder and, as such, is prohibited from engaging in mergers or certain other business combinations with the subject company in which it is an interested stockholder for a period of three years following the time that such interested stockholder becomes such stockholder, unless certain conditions are satisfied.

The Delaware General Corporation Law defines a business combination broadly to include, among other things, any merger or consolidation with the interested stockholder, any merger or consolidation caused by the interested stockholder in which the surviving company will not be subject to Delaware law, or the sale, lease, exchange, mortgage, pledge, transfer or other disposition to the interested stockholder of any assets of the company having a market value equal to at least 10% of the aggregate market value of the assets of Reorganized Seitel.

Although we will opt out of Section 203, such election will have a delayed effect and we will continue to be subject to Section 203 for a period of 12 months after the effective date of the Plan. Thereafter, we may engage in business combinations with interested stockholders without complying with the provisions of the statute.

Cumulative Voting. Our amended and restated certificate of incorporation will provide that at all elections of directors of Reorganized Seitel, each holder of stock or of any class or classes or series of stock will be entitled to the number of votes which such holder would be entitled to cast for the election of directors with respect to such holder s shares of stock, multiplied by the number of directors to be elected by such holder, and that such holder can cast all of such votes for a single director or may allocate them among the total number of directors nominated for election, or for any two or more of such nominees as such holder may determine.

Corporate Governance. Our amended and restated certificate of incorporation and bylaws will provide that so long as Reorganized Seitel has any class of equity securities (regardless of class) or debt securities registered under Section 12 of the Exchange Act, it will comply with the corporate governance requirements for the initial and continued listing of the Nasdaq Stock Market or any national securities exchange on which any of its securities are then listed for trading, and if not so listed for trading, of the Nasdaq Stock Market, without regard to any controlled company exemptions, as that term is defined in the applicable listing requirements.

Limitation of Liability. The Delaware General Corporation Law provides that a corporation may limit the liability of each director to the corporation or its stockholders for monetary damages except for (1) liability for any breach of the director s duty of loyalty to the corporation or its stockholders, (2) for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law, (3) in respect of certain unlawful dividend payments or stock redemptions or repurchases, and (4) for any transaction from which the director derives an improper personal benefit.

Our amended and restated certificate of incorporation will provide for the elimination and limitation of the personal liability of Reorganized Seitel s directors for monetary damages to the fullest extent permitted by the Delaware General Corporation Law. The effect of this provision is to eliminate the rights of Reorganized Seitel and its stockholders to recover monetary damages against a director for breach of the fiduciary duty of care as a director, including breaches resulting from grossly negligent behavior, except in situations described in clauses (1) through (4) above. The provision does not limit or eliminate the rights of Reorganized Seitel or any stockholder to seek non-monetary relief such as an injunction or rescission in the event of a breach of director s duty of care. This provision is consistent with Section 102(b)(7) of the Delaware General Corporation Law, which is designed, among other things, to encourage qualified individuals to serve as directors of Delaware corporations.

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Our amended and restated bylaws will provide that we will, to the full extent permitted by the Delaware General Corporation Law, indemnify and may advance expenses to Reorganized Seitel s directors and officers. Reorganized Seitel will also maintain directors and officers liability insurance, which covers directors and officers against certain claims or liabilities arising out of the performance of their duties.

Transfer Agent, Registrar and Warrant Agent

The transfer agent and registrar for the reorganized common stock and the warrant agent for the Stockholder Warrants is American Stock Transfer & Trust Company, 59 Maiden Lane, New York, New York 10038.

LEGAL MATTERS

The validity of the common stock and the Stockholder Warrants offered by this prospectus will be passed upon for us by Greenberg Traurig, LLP, New York, New York.

EXPERTS

The consolidated financial statements of Seitel, Inc. at December 31, 2003 and 2002, and for each of the three years in the period ended December 31, 2003, appearing in this prospectus and the registration statement have been audited by Ernst & Young LLP, independent auditors, as set forth in their reports thereon (which contain an explanatory paragraph describing conditions that raise substantial doubt about the company s ability to continue as a going concern as described in Notes A and B to the consolidated financial statements) appearing elsewhere herein, and are included in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

This prospectus is part of a registration statement on Form S-1 that was filed with the SEC. This prospectus does not contain all of the information set forth in the registration statement. Some items may have been omitted from the prospectus as permitted by the rules and regulations of the SEC. You should refer to the registration statement and its accompanying exhibits for further information with respect to us and the Plan. Statements made in this prospectus as to the provisions of any contract, agreement or other documents are not necessarily complete. With respect to each such contract, agreement or other document filed as an exhibit to the registration statement, please refer to the exhibit for a more complete description of the matter involved.

We are subject to the informational requirements of the Exchange Act and, in accordance therewith, file reports and other information with the SEC. Our reports and other information we file can be inspected and copied at the Public Reference Section of the SEC located at Room 1024, Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of these materials can be obtained from the Public Reference Section of the SEC at prescribed rates. Please call the SEC at 1-800-SEC-0330 for more information on the Public Reference Section. The SEC maintains a website at *www.sec.gov* that contains reports, proxy and information statements and other information on a delayed basis regarding registrants, including us, that file electronically with the SEC.

YOU MAY REQUEST A COPY OF OUR FILINGS WITH THE SECURITIES AND EXCHANGE COMMISSION, AT NO COST, OR AT WWW.SEC.GOV, OR BY WRITING OR TELEPHONING US AT THE FOLLOWING ADDRESS:

Seitel, Inc.

10811 South Westview Circle Drive

Suite 100, Building C

Houston, Texas 77043

Attention: Corporate Secretary

(713) 881-8900

www.seitel.com

You should rely only on the information contained in this prospectus or that we have specifically referred you to. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of those documents.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Seitel, Inc.:

We have audited the accompanying consolidated balance sheets of Seitel, Inc. and subsidiaries as of December 31, 2003 and 2002, and the related consolidated statements of operations, stockholders equity and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Seitel, Inc. and subsidiaries at December 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Notes A and B in the accompanying consolidated financial statements, on July 21, 2003, the Company and its wholly-owned U.S. subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code. Management s reorganization plans are also described in Note B. This condition raises substantial doubt about the Company s ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability of assets or the amounts of liabilities that may result from the outcome of this uncertainty.

As discussed in Note C in the consolidated financial statements, effective January 1, 2002, the Company changed its method of recording amortization expense relative to its seismic data library.

/s/ ERNST & YOUNG LLP

Houston, Texas

March 26, 2004

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SEITEL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands)

	December 31,	
	2003	**2002**
ASSETS		
Cash and equivalents	$ 44,362	$ 21,517
Restricted cash	202	4,469
Receivables		
Trade, less allowance for doubtful accounts of $799 and $834 at December 31, 2003 and 2002, respectively	37,461	34,536
Notes and other	12,047	14,372
Seismic data library (Note C)	858,027	809,168
Less: Accumulated amortization	(610,486)	(524,772)
Net seismic data library	247,541	284,396
Property and equipment, at cost	32,901	30,399
Less: Accumulated depreciation and amortization	(17,470)	(10,610)
Net property and equipment	15,431	19,789
Oil and gas operations held for sale (Note D)	1,552	656
Investment in marketable securities	99	5
Deferred income taxes (Note E)		11,322
Prepaid expenses, deferred charges and other	8,394	7,074
TOTAL ASSETS	$ 367,089	$ 398,136

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

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SEITEL, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS Continued

(In thousands, except share and per share amounts)

	December 31,	
	2003	2002
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities not subject to compromise:		
Accounts payable	$ 6,330	$ 13,604
Accrued liabilities	8,820	15,451
Employee compensation payable	2,264	2,336
Income taxes payable		916
Oil and gas operations held for sale (Note D)	17	94
Debt (Note F)		
Senior Notes		255,000
Term loans	5,417	8,622
Obligations under capital leases (Note G)	6,571	8,439
Financial guaranty		554
Deferred income taxes (Note E)	1,953	
Deferred revenue (Note A)	58,876	56,084
Liabilities subject to compromise	273,119	
TOTAL LIABILITIES	363,367	361,100
COMMITMENTS AND CONTINGENCIES (Note H)		
STOCKHOLDERS EQUITY		
Preferred stock, par value $.01 per share; authorized 5,000,000 shares; none issued		
Common stock, par value $.01 per share; authorized 50,000,000 shares; issued and outstanding 25,811,601 at December 31, 2003 and 2002	258	258
Additional paid-in capital	166,630	166,630
Retained deficit	(159,731)	(121,793)
Treasury stock, 435,918 shares at cost at December 31, 2003 and 2002	(5,373)	(5,373)
Notes receivable from officers and employees for stock purchases	(124)	(1,178)
Accumulated other comprehensive income (loss)	2,062	(1,508)
TOTAL STOCKHOLDERS EQUITY	3,722	37,036
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 367,089	$ 398,136

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

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SEITEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

	Year Ended December 31,		
	2003	**2002**	**2001**
REVENUE	$ 131,465	$ 149,795	$ 115,238
EXPENSES:			
Depreciation and amortization	82,638	129,856	49,448
Cost of sales	815	928	1,196
Selling, general and administrative	29,678	71,732	34,805
Impairment of seismic data library	29,959	82,964	
	143,090	285,480	85,449
INCOME (LOSS) FROM OPERATIONS	(11,625)	(135,685)	29,789
Interest expense	(20,526)	(21,248)	(14,245)
Interest and other income	576	392	784
Gain on extinguishment of liabilities	681		
Reorganization items (Note B)	(5,984)		
Loss on sale of marketable securities		(332)	
Income (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	(36,878)	(156,873)	16,328
Provision (benefit) for income taxes	2,199	(18,304)	6,748
Income (loss) from continuing operations before cumulative effect of change in accounting principle	(39,077)	(138,569)	9,580
Discontinued operations:			
Income (loss) from operations (including gain (loss) from disposal of $985 and $(60,172) in 2003 and 2002, respectively) before income taxes	1,139	(62,709)	(37,805)
Income tax benefit			(13,232)
Income (loss) from discontinued operations	1,139	(62,709)	(24,573)
Cumulative effect of change in accounting principle, net of tax benefit of $5,994 in 2002		(11,162)	
NET LOSS	$ (37,938)	$ (212,440)	$ (14,993)
Earnings (loss) per share:(1)			
Basic:			
Income (loss) from continuing operations	$ (1.54)	$ (5.48)	$ .38
Income (loss) from discontinued operations	.04	(2.48)	(.98)
Cumulative effect of change in accounting principle		(.44)	
Net income (loss)	$ (1.50)	$ (8.40)	$ (.60)

Diluted:			
Income (loss) from continuing operations	$ (1.54)	$ (5.48)	$ .37
Income (loss) from discontinued operations	.04	(2.48)	(.95)
Cumulative effect of change in accounting principle		(.44)	
Net income (loss)	$ (1.50)	$ (8.40)	$ (.58)
Weighted average number of common and common equivalent shares:			
Basic	25,376	25,300	24,986
Diluted	25,376	25,300	25,692

(1) For pro forma disclosure of earnings and earnings per share information related to the 2002 change in accounting principle for seismic data library amortization as if it had been in effect in 2001, see Note C.

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

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SEITEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share amounts)

	Compre-hensive Income	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock Shares	Treasury Stock Amount	Notes Receivable from Officers & Employees	Accumulated Other Compre-hensive Income (Loss)
Balance, December 31, 2000		25,306,517	$ 253	$ 159,543	$ 106,617	(635,918)	$ (7,667)	$ (4,965)	$ (191)
Net proceeds from issuance of common stock upon exercise of options		504,086	5	6,398					
Tax reduction from exercise of stock options				515					
Treasury stock purchased						(100,000)	(1,405)		
Payments received on notes receivable from officers and employees								1,189	
Net loss	$ (14,993)				(14,993)				
Foreign currency translation adjustments	(1,733)								(1,733)
Unrealized gain on marketable securities net of income tax expense of $14	21								21
Comprehensive loss	$ (16,705)								
Balance, December 31, 2001		25,810,603	258	166,456	91,624	(735,918)	(9,072)	(3,776)	(1,903)
Net proceeds from issuance of common stock upon exercise of options		998		9					
Tax reduction from exercise of stock options				165					
Issuance of common stock in connection with employee agreements					(977)	300,000	3,699		
Payments received on notes receivable from officers and employees								751	
Allowance for notes receivable								1,847	
Net loss	$ (212,440)				(212,440)				
Foreign currency translation adjustments	89								89
Unrealized gain on marketable securities	1								1
Reclassification adjustment for losses included in income, net of tax benefit of $75	305								305
Comprehensive loss	$ (212,045)								

Balance, December 31, 2002		25,811,601	258	166,630	(121,793)	(435,918)	(5,373)	(1,178)	(1,508)
Payments received on notes receivable from officers and employees								1,054	
Net loss	$ (37,938)				(37,938)				
Foreign currency translation adjustments	3,499								3,499
Unrealized gain on marketable securities	71								71
Comprehensive loss	$ (34,368)								
Balance, December 31, 2003		25,811,601	$ 258	$ 166,630	$ (159,731)	(435,918)	$ (5,373)	$ (124)	$ 2,062

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

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SEITEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2003	**2002**	**2001**
Cash flows from operating activities:			
Reconciliation of net loss to net cash provided by operating activities of continuing operations:			
Net loss	$ (37,938)	$ (212,440)	$ (14,993)
Loss (income) from discontinued operations, net of tax	(1,139)	62,709	24,573
Cumulative effect of change in accounting principle, net of tax		11,162	
Depreciation and amortization	82,638	130,343	49,461
Impairment of seismic data library	29,959	82,964	
Allowance for collection of trade receivables	252	650	30
Allowance for collection of notes and other receivables		9,512	
Deferred income tax provision (benefit)	13,275	(5,679)	(5,142)
Non-cash sales	(16,540)	(52,525)	(18,219)
Loss on sale of marketable securities		332	
Amortization of deferred financing costs	482	514	398
Write off of deferred financing costs		321	
Gain on extinguishment of debt	(681)		
Loss (gain) on sale of property and equipment	12	(80)	
Common stock issued as compensation		444	
(Increase) decrease in receivables	(1,702)	208	5,499
(Increase) decrease in other assets	(1,129)	2,190	(3,136)
Increase (decrease) in deferred revenue	1,362	(9,832)	(4,134)
Increase (decrease) in accounts payable and other liabilities	11,463	923	(3,570)
Net cash provided by operating activities of continuing operations	80,314	21,716	30,767
Cash flows from investing activities:			
Cash invested in seismic data	(52,106)	(40,986)	(71,922)
Cash paid to acquire property and equipment	(844)	(8,933)	(7,643)
Cash received from disposal of property and equipment	15	2,540	
Net proceeds from sale of marketable securities		2,490	
Decrease (increase) in restricted cash	4,267	(4,469)	
Net cash used in investing activities of continuing operations	(48,668)	(49,358)	(79,565)
Cash flows from financing activities:			
Borrowings under line of credit		20,274	112,771
Principal payments under line of credit		(21,579)	(151,440)
Borrowings on term loans		3,104	10,000
Principal payments on term loans	(3,421)	(3,885)	(625)
Principal payments on capital lease obligations	(2,372)	(1,264)	(110)
Proceeds from issuance of senior notes			107,000
Principal payments under senior notes			(18,333)
Proceeds from issuance of common stock		9	6,437
Costs of debt and equity transactions	(431)		(1,148)
Repurchase of common stock			(1,405)
Buyout of financial guaranty	(325)		
Loans to officers, employee and director	(161)	(65)	(3,194)

Payments on notes receivable from officers, employees and director	1,064	776	1,302
Net cash provided by (used in) financing activities of continuing operations	(5,646)	(2,630)	61,255
Effect of exchange rate changes	(3,376)	138	(1,804)
Net cash provided by discontinued operations	221	26,428	4,354
Net increase (decrease) in cash and equivalents	22,845	(3,706)	15,007
Cash and equivalents at beginning of period	21,517	25,223	10,216
Cash and equivalents at end of period	$ 44,362	$ 21,517	$ 25,223

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

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2003

NOTE A BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Seitel, Inc. (the Company) has ownership in an extensive library of proprietary onshore and offshore seismic data that it offers for license to oil and gas companies. The main geographic regions of the Company s focus include the onshore, offshore and transition zone of the U.S. Gulf Coast extending from Texas to Florida, northern Louisiana, Mississippi, eastern Texas, the Rocky Mountain region and western Canada. The majority of the Company s seismic data covers onshore regions within North America with the remainder covering offshore United States. To support its seismic data licensing business, the Company maintains warehouse and electronic storage facilities in Houston, Texas and Calgary, Alberta, Canada and offers, through its wholly owned subsidiaries, Seitel Solutions, Ltd. and Seitel Solutions Canada Ltd. (collectively, Solutions), the ability to access and interact, via a standard web browser and the Internet, with the seismic data library owned and marketed by the Company.

Basis of Presentation: The accompanying consolidated financial statements include the accounts of Seitel, Inc. and the accounts of its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. Certain reclassifications have been made to the amounts in the prior years financial statements to conform to the current year s presentation.

The Company presents its consolidated balance sheets on an unclassified basis. The portion of seismic data library costs to be amortized during the next year cannot be classified as a current asset due to Securities and Exchange Commission (SEC) guidance. Classification of all of these costs as noncurrent would be misleading to the reader because it would not indicate the level of assets expected to be converted into cash in the next year.

Substantial Doubt About the Company s Ability to Continue as a Going Concern: The Company s financial statements have been prepared on a basis that assumes the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. On July 21, 2003, the Company filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code (see Note B-Reorganization Proceedings). Accordingly, there is substantial doubt about the Company s ability to continue as a going concern, including recovering assets and satisfying liabilities in the normal course of business. On January 17, 2004, the Debtors filed with the Bankruptcy Court the third amended joint plan of reorganization (the Plan), which subsequently was amended on February 5, 2004. On March 18, 2004, the Bankruptcy Court confirmed the Plan. Under the Plan, all of the Company s outstanding allowed pre-petition claims will be fully paid, in cash, together with post-petition (non-default rate) interest, except with respect to any disputed claims and any secured claims that are reinstated under the Plan. The Plan further provides that the Company will receive $75 million of new equity as a result of the exercise of the reorganized common stock purchase warrants and/or the sale of shares under the standby purchase agreement. Payments to creditors under the Plan will be funded utilizing (i) the net proceeds from the new equity, (ii) net proceeds of not less than $180 million from the Company s anticipated institutional offering of new senior unsecured notes, and (iii) available cash and equivalents of not less than $35 million. Certain conditions, as fully described in Note B Reorganization Proceedings , are required for the Plan to become effective. The consolidated financial statements reflect the amounts as of December 31, 2003, which the Company believes will ultimately be paid to settle liabilities and contingencies that may be allowed in bankruptcy, including interest. There can be no assurance that the transactions will be consummated in the way contemplated under the Plan, or that the Company will emerge from its reorganization proceedings as contemplated under the Plan.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

Contractual Obligations: As of December 31, 2003, the Company had approximately $272.3 million of outstanding debt and lease obligations, with aggregate contractual cash obligations summarized as follows (in thousands):

		Payments due by period			
Contractual cash obligations	**Total**	**2004**	**2005**	**2006**	**2007 and thereafter**
Debt obligations (Note F)(1)	$ 260,863	$ 260,448	$ 37	$ 38	$ 340
Capital lease obligations (Note G)	6,571	1,476	2,434	34	2,627
Operating lease obligations (Note G)	4,910	1,001	963	679	2,267
Total contractual cash obligations	$ 272,344	$ 262,925	$ 3,434	$ 751	$ 5,234

(1) As described in Note F, these debt obligations have contractual maturities ranging from 2003 to 2011. The Company is not in compliance with certain of the covenants related to this debt and the holders of $255 million of such debt have accelerated the maturity thereof. Pursuant to the Company s Plan of Reorganization, $260.4 million of this debt will be paid in full in 2004; therefore, the maturities have been reflected as due in 2004.

As a result of the bankruptcy filing discussed in Note B below, the rights of and ultimate payments related to certain of these contractual obligations may be substantially altered.

Gain on Extinguishment of Liabilities: In 2003, the Company negotiated settlement of certain liabilities for less than the amounts previously recorded in the financial statements. The resulting gain of $681,000 has been reflected as a gain on extinguishment of liabilities in the accompanying consolidated statements of income for the year ended December 31, 2003.

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

The most difficult, subjective and complex estimates and assumptions that deal with the greatest amount of uncertainty are related to the Company s accounting for its seismic data library. In addition, management adopted a new accounting principle and revised several of the key assumptions and estimates in the accounting for the Company s seismic data library in 2002 and recorded significant impairment charges in 2003 and 2002 (see Note C).

The Company s accounting for its seismic data library requires it to make significant estimates and assumptions relative to future sales and cash flows from such library. These cash flows impact future amortization rates, as well as impairment charges, and the cash flows are highly subjective. The Company estimates future revenue primarily by analyzing the historical revenue trends generated by its existing seismic data library. Any changes in the Company s estimates or underlying assumptions will impact the Company s income from operations prospectively from the date changes are made. To the extent that such estimates, or the assumptions used to make those estimates, prove to be significantly different than actual results, the carrying value of the seismic data library may be subject to higher prospective amortization rates, additional straight-line amortization or impairment losses. In addition, based on future events, the Company may make changes in the

SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

estimated useful life of the asset. Changes in the underlying assumptions regarding future sales and cash flows from the library or revisions to its estimated useful life may cause the Company s prospective amortization expense to decrease or increase materially and may also result in significant impairment losses being recognized. If such changes or revisions take place in the future, the effect on the Company s reported results could be significant to any particular reporting period.

In a portion of its seismic data library activities, the Company engages in certain non-monetary exchanges and records a data library asset for the seismic data acquired and recognizes revenue on the transaction in accordance with its policy on revenue from data licenses. These transactions are valued at the fair value of the data received by the Company or licenses granted by the Company, whichever is more readily determinable. In addition, in exchanges valued at $500,000 or more, the Company obtains third-party concurrence to support its estimate of the fair value of the transactions. The Company s estimate of the value of these transactions is highly subjective and based, in large part, on data sales transactions between the Company and a limited number of customers over a limited time period, and appraisals of the value of such transactions based on a relatively small market of private transactions over a limited period of time.

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

Revenue Recognition:

Revenue from Data Acquisition

Revenue from the creation of new seismic data is recognized using the proportional performance method based upon costs incurred and work performed to date as a percentage of total estimated costs and work required. Management believes that this method is the most reliable and representative measure of progress for its data creation projects. The duration of most data creation projects is generally less than one year. Under these contracts, the Company creates new seismic data designed in conjunction with its customers and specifically suited to the geology of the area using the most appropriate technology available. The contracts typically result in one or more customers underwriting a significant portion of the direct creation costs in exchange for a license or licenses to use the resulting data. Customers make periodic payments throughout the creation period, which generally correspond to costs incurred and work performed. These payments are non-refundable. 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. The creation process generally occurs in the following stages: permitting, surveying, drilling, recording and processing. The stages of this work often occur concurrently. Throughout the creation period, the customers receive legally enforceable rights and access to, and the benefits of, the results of all work performed. The customers also receive access to and use of the newly acquired and processed data. The customers may have exclusive access to the work performed and exclusive use of the newly acquired and processed data for a limited term, which is generally less than nine months, after final delivery of the processed data. The customers access to and use of the results of the work performed and of the newly acquired, processed data is governed by a license agreement which is a separate agreement from the acquisition contract. The Company s acquisition contracts require the customer either to have a license agreement in place or to execute one at the time the acquisition contract is signed. The Company maintains sole ownership of the newly acquired data, which is added to its library, and is free to license the data to other customers when the original customers exclusivity period ends.

Revenue from Data Licenses

The Company licenses data from its seismic data library to customers to review for a limited period of time or to hold long-term under four basic forms of contracts.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

Under the first form of contract, the customer licenses and selects data from the data library at the time the contract is entered into.

Under the second form of contract, referred to as a review and possession 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.

Under the third form of contract, referred to as a library card contract, the customer initially receives only access to data. The customer may then select specific data, from the collection of data to which it has access, to hold long-term under its license agreement. The lengths of the selection periods under the library card contracts vary.

Under the fourth form of contract, referred to as a review only 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 usage of all data delivered to the customer, whether for review only or to hold long-term, is governed by a license agreement, which is a separate agreement from the sales contracts that are described above. The Company s contracts require the customer either to have a license agreement in place or to execute one at the time the contract is signed. The license agreement governs all data delivered to the customer during the term. Payment terms under the contracts vary from 30 days to 18 months depending on the size of the transaction. All payments due are non cancelable and all payments made are non-refundable. The customer has access to all available data covered by the contracts on the date the contract is executed. If the contract allows licensing of data that is not currently available, revenue is deferred until such time that the data is available for licensing. The contracts permit selection of the data in its present form, and the Company is under no obligation to make any enhancements, modifications or additions to the data unless specific terms to the contrary are included, in which case revenue with respect to such data would be deferred until performance is met. Copies of the data are available to the customer immediately upon request.

The Company recognizes revenue from licensing of seismic data when the Company has contracted with the customer for a fixed sales price; a licensing agreement is in place; the customer has selected specific data under the terms of the contract or the contract has expired without full selection having occurred; and collectibility of the sales price is reasonably assured. The Company recognizes revenue for the particular data selected as each specific selection of data is made by the customer. If selections are not completed by the expiration date of the contract, the Company recognizes any remaining revenue under that contract. In each case (selection or expiration), the earnings process is complete. The Company does not recognize revenue for amounts billed in advance of being earned until the aforementioned criteria are met. For revenue that is deferred, the Company defers the direct costs (primarily commissions) related to the revenues. Revenue from licensing of seismic data is presented net of revenue shared with other entities.

Revenue from Non-Monetary Data Licenses

In certain cases, the Company grants its customer a non-exclusive license to selected data from its library in exchange for ownership of seismic data from the customer. Occasionally, in connection with specific data acquisition contracts, the Company receives both cash and ownership of seismic data from the customer as consideration for the underwriting of new data acquisition. The data that the Company receives is distinct from the data that it is licensing to the customer. Because the Company receives ownership of distinct seismic data to be added to its library, and this data may be relicensed by the Company on a continuing basis, in exchange for a

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

data license, the exchange is not a like-kind exchange, which would be accounted for at historical cost. Once data selection or creation is completed, the exchange represents the culmination of the earnings process with the customer and is not merely an exchange between two seismic companies. These exchanges are referred to as non-monetary data exchanges.

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

The Company determines fair value of data exchanged by first determining the value of the license granted to the customer. It does so by evaluating the range of cash transactions by the Company for licenses of similar data during the prior six months for licenses in the United States and for the prior twelve months for licenses in Canada. In evaluating the range of cash transactions, the Company does not consider transactions that are disproportionately high or low. The Company then also considers the value of the data 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 as well as the cost that would be required to create the data. In the United States, the Company applies a limitation on the value it assigns per square mile on the data exchanged. In Canada, in the event of a difference greater than 2% between the value of the license granted and the value of the data received, the Company assigns the lower value to the exchange. In significant exchanges, the Company obtains concurrence from an independent third party in order to support the Company s valuation of the data received. In 2001, the Company obtained third party concurrence on all non-monetary exchanges valued at $800,000 or more. Effective January 1, 2002, the Company obtains third party concurrence on all non-monetary exchanges of $500,000 or more. The Company obtains this concurrence on an annual basis, usually in connection with the preparation of its annual financial statements. The independent third party evaluators concurred with the Company s valuations of all significant exchange transactions during 2003, 2002 and 2001.

In 2003, 2002 and 2001, the Company recorded seismic data library assets of $13,033,000, $13,551,000 and $57,045,000, respectively, from non-monetary exchanges of seismic data, including exchanges in which the Company and the customer simultaneously issued equivalent cash payments to each other. Revenue on a significant portion of the non-monetary exchange transactions was initially deferred in accordance with the Company s accounting policy. Because of data selections by customers and underwriting from non-monetary exchanges, the Company recognized revenue of $14,668,000, $44,965,000 and $14,875,000 in 2003, 2002 and 2001, respectively, from this activity.

Revenue from Solutions

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

Trade Receivables: The Company determines the adequacy of its allowance for doubtful accounts based on a periodic review of specific receivables for which revenue has been recognized.

In certain transactions, the Company may permit a customer to make payments on receivables over a period of time. If such payments extend beyond one year from the transaction date, the Company discounts such receivable and recognizes interest income over the term of the payments.

SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

Property and Equipment: Property and equipment consists primarily of computer equipment, leasehold improvements and furniture and fixtures. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets of three to five years.

Marketable Equity Securities: The Company accounts for its marketable equity securities in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities. Management determines the appropriate classification of marketable securities at the time of purchase and reevaluates such designation at each balance sheet date. The Company s marketable securities are categorized as available-for-sale and are carried at fair value, with unrealized holding gains and losses, net of taxes, reflected in accumulated other comprehensive income (loss) included in stockholders equity until realized. For the purpose of computing realized gains and losses, cost is identified on a specific identification basis.

At December 31, 2003 and 2002, total unrealized gains on marketable securities were $38,000 and $7,000, respectively, and total unrealized losses on marketable securities were $19,000 and $66,000, respectively. The deferred tax expense (benefit) on the net gains/losses were $4,000 and $(3,000) at December 31, 2003 and 2002, respectively.

Debt Issue Costs: Debt issue costs related to the Company s Senior Notes and debtor-in-possession loan facility are included in prepaid expenses, deferred charges and other assets in the consolidated balance sheet. Such costs are amortized over the scheduled maturities of the debt. As of December 31, 2003 and 2002, unamortized debt issue costs were $1,300,000 and $1,350,000, respectively. As discussed in Note B, pursuant to the Company s confirmed Plan of Reorganization, its senior notes are expected to be paid and debtor-in-possession facility will be cancelled upon the Company s emergence from bankruptcy. Accordingly, the remaining portion of the debt issue costs will be expensed at that time.

Income Taxes: The Company follows the asset and liability method of accounting for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes. Under this method, deferred income tax assets and liabilities are recorded for the future income consequences of temporary differences between the financial reporting and income tax bases of assets and liabilities, and are measured using enacted tax rates and laws.

The Company regularly evaluates valuation allowances established for deferred tax assets for which future realization is uncertain. In assessing the realizability of deferred tax assets at December 31, 2003, the Company considered whether it was more likely than not that some portion or all of the deferred tax assets would not be realized. The Company considers the scheduled reversal of deferred tax liabilities and tax planning strategies in making this assessment.

The Company and all of its U.S. subsidiaries file a consolidated federal income tax return. The Company does not provide U.S. taxes on the undistributed earnings of its foreign subsidiaries whose earnings are intended to be permanently reinvested in foreign operations. At December 31, 2003, accumulated net earnings of non-U.S. subsidiaries for which no U.S. federal taxes have been provided were $7.9 million.

Foreign Currency Translation: For subsidiaries whose functional currency is deemed to be other than the U.S. dollar, asset and liability accounts are translated at period-end exchange rates and revenue and expenses are translated at the current exchange rates as of the dates on which they are recognized. Resulting translation adjustments are included in accumulated other comprehensive income (loss) in stockholders equity. Accumulated translation gains (losses) were $2,047,000 and $(1,452,000) at December 31, 2003 and 2002, respectively. Any gains or losses realized on transactions or monetary assets or liabilities in currencies other than

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the functional currency are included in net income in the current period. Transaction gains (losses) totaling $4,136,000, $125,000 and $(315,000) for 2003, 2002 and 2001, respectively, are included in selling, general and administrative expenses in the consolidated statements of operations.

Use of Derivatives: The Company may enter into various derivative instruments to manage foreign exchange risks. Derivatives are limited in use and are entered into for purposes of hedging cash flows and not for speculative purposes. The Company may enter into foreign exchange contracts to hedge certain foreign currency denominated assets or liabilities and currency commitments. As of December 31, 2003 and 2002, the Company did not have any derivative contracts.

Earnings per Share: In accordance with SFAS No. 128, Earnings Per Share, basic earnings per share is computed based on the weighted average shares of common stock outstanding during the periods. Diluted earnings per share is computed based on the weighted average shares of common stock plus the assumed issuance of common stock for all potentially dilutive securities. The computations for basic and diluted net income (loss) per share for 2003, 2002 and 2001 consist of the following (in thousands, except per share amounts):

	Year Ended December 31,		
	2003	2002	2001
Income (loss) from continuing operations before cumulative effect of change in accounting principle	$ (39,077)	$ (138,569)	$ 9,580
Income (loss) from discontinued operations, net of tax	1,139	(62,709)	(24,573)
Cumulative effect of change in accounting principle, net of tax		(11,162)	
Net loss	$ (37,938)	$ (212,440)	$ (14,993)
Basic weighted average shares	25,376	25,300	24,986
Effect of dilutive securities:(1)			
Options and warrants			706
Diluted weighted average shares	25,376	25,300	25,692
Earnings (loss) per share:			
Basic:			
Income (loss) from continuing operations	$ (1.54)	$ (5.48)	$ .38
Income (loss) from discontinued operations	.04	(2.48)	(.98)
Cumulative effect of change in accounting principle		(.44)	
Net loss	$ (1.50)	$ (8.40)	$ (.60)
Diluted:			

Income (loss) from continuing operations	$ (1.54)	$ (5.48)	$ .37
Income (loss) from discontinued operations	.04	(2.48)	(.95)
Cumulative effect of change in accounting principle		(.44)	
Net loss	$ (1.50)	$ (8.40)	$ (.58)

(1) A weighted average year-to-date number of options and warrants to purchase 4,272,000, 7,710,000, 1,974,000 shares of common stock were outstanding during 2003, 2002 and 2001, respectively, but were not included in the computation of diluted per share net income because they were anti-dilutive.

Material dilution may occur upon consummation of the Plan; see Note B Reorganization Proceedings.

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Stock-Based Compensation: The Company accounts for employee stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. APB Opinion No. 25 generally does not require compensation costs to be recorded on options which have exercise prices at least equal to the market price of the stock on the date of grant. Accordingly, no compensation cost has been recognized for the Company s stock-based plans. Had compensation cost for the Company s stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the optional accounting method prescribed by SFAS No. 123, Accounting for Stock-Based Compensation and expensed pro-rata over the vesting period of the awards, the Company s net loss and loss per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

	2003	2002	2001
Net loss			
As reported	$ (37,938)	$ (212,440)	$ (14,993)
Less: Total stock-based employee expense determined under SFAS No. 123, net of tax	(3,244)	(3,816)	(9,346)
Pro forma	$ (41,182)	$ (216,256)	$ (24,339)
Basic loss per share			
As reported	$ (1.50)	$ (8.40)	$ (.60)
Pro forma	$ (1.62)	$ (8.55)	$ (.97)
Diluted loss per share			
As reported	$ (1.50)	$ (8.40)	$ (.58)
Pro forma	$ (1.62)	$ (8.55)	$ (.95)

Fair Value of Financial Instruments: SFAS No. 107, Disclosures about Fair Value of Financial Instruments, requires disclosure of the fair value of certain financial instruments. The estimated fair value amounts have been determined by the Company using available market data and valuation methodologies. The book values of cash and equivalents, receivables and accounts payable approximate their fair values as of December 31, 2003 and 2002, due to the short-term maturity of these instruments. Based upon the rates available to the Company, the fair value of the Senior Notes and note payable to former executive approximates $223,590,000 and $172,994,000 as of December 31, 2003 and 2002, respectively, compared to the book value of $255,446,000 and $255,000,000 at December 31, 2003 and 2002, respectively. The book value of the Company s term loan approximates fair value due to the variable interest rates under the agreement.

Comprehensive Income: In accordance with SFAS No. 130, Reporting Comprehensive Income, the Company has reported comprehensive income in the consolidated statements of stockholders equity for the three years ended December 31, 2003. Accumulated other comprehensive income for the Company consists of foreign currency translation adjustments and unrealized gains (losses) on marketable securities. Cumulative translation adjustments are not adjusted for income taxes as they relate to indefinite investments in non-U.S. subsidiaries.

Recent Accounting Pronouncements: In July 2001, the Financial Accounting Standards Board (FASB) issued SFAS No. 143, Accounting for Asset Retirement Obligations. This statement addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) the normal operation of a long-lived asset, except for certain obligations of lessees. The Company adopted this standard on January 1, 2003. The adoption of this standard did not have a material effect on the financial position or results of operations of the Company.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

In June 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Disposal or Exit Activities. This Statement requires that liabilities for the costs associated with exit or disposal activities be recognized when the liabilities are incurred, rather than when an entity commits to an exit plan. The new rules changed the timing of liability and expense recognition related to exit or disposal activities, but not the ultimate amount of such expenses. The Company adopted SFAS No. 146 on January 1, 2003. The adoption of this standard did not have a material effect on the Company s financial statements.

In November 2002, the FASB issued Interpretation 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). FIN 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN 45 also expands the disclosures required to be made by a guarantor about its obligations under certain guarantees that it has issued. Initial recognition and measurement provisions of FIN 45 are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements were effective for 2002 and are provided in Note H. The adoption of FIN 45 on January 1, 2003 did not have a material effect on the results of operations or balance sheet of the Company.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure an amendment of FASB Statement No. 123. This statement provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation, along with the requirement of disclosure in both annual and interim financial statements about the method used and effect on reported results.

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

NOTE B REORGANIZATION PROCEEDINGS

On July 21, 2003, (the Petition Date), Seitel, Inc., and its wholly owned U.S. subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) (Chapter 11 Case No. 03-12227 (PJW)). Seitel, Inc. and its 30 U.S. subsidiaries that have filed petitions are collectively referred to herein as the Debtors and the Chapter 11 cases of these entities are collectively referred to herein as the Cases. By order of the Bankruptcy Court dated July 25, 2003, the Cases are being jointly administered. On July 22, 2003, the Debtors filed their joint plan of reorganization. Since the Petition Date, the Debtors have continued to operate their business and manage their properties as debtors-in-possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. No trustee has been appointed in the Cases.

None of the Company s direct or indirect subsidiaries or affiliates incorporated in Canada or other non-U.S. jurisdictions have filed Chapter 11, and none are expected to file for reorganization or protection from creditors under any insolvency or similar law in the U.S. or elsewhere. Such non-filing, non-U.S. based subsidiaries and affiliates are called non-Debtors .

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The previously filed involuntary bankruptcy petitions which were pending against the Company were dismissed on July 25, 2003 by order of the Bankruptcy Court pursuant to a joint request for such dismissal filed by the Company and Ranch Capital L.L.C. (Ranch). Ranch previously purchased all of the senior unsecured notes (the Notes) held by the entities which filed the involuntary bankruptcy petitions. Ranch subsequently sold the Notes to Berkshire Hathaway Inc. (Berkshire). An official equity committee (the Official Equity Committee) was appointed on August 11, 2003.

On the Petition Date, the Debtors sought, and thereafter obtained, authority to take a broad range of actions, including to honor and perform under their pre-petition customer data agreements and to promote a business as usual atmosphere with customers and employees. This relief was essential to minimize disruptions to the Debtors businesses as a result of the commencement of the Cases and to assure their customers that the data license agreements for selection of seismic data would be honored pending confirmation of a plan. Additionally, other first day orders were obtained, including authority to pay certain, limited pre-petition employee wages and benefits, providing adequate assurance of future payments to utility companies, continued use of cash management systems, payment of pre-petition sales and use taxes and appointment of a claims and balloting agent.

By order dated September 22, 2003, the Bankruptcy Court approved a $20 million debtor-in-possession loan facility (the DIP Facility) from Wells Fargo Foothill, Inc. (Foothill), subject to certain conditions.

On October 6, 2003, the Debtors filed their first amended joint plan of reorganization, which superseded the joint plan of reorganization. The disclosure statement relating to the first amended joint plan of reorganization was approved upon notice, and a hearing to consider confirmation of the first amended joint plan of reorganization was scheduled in the Bankruptcy Court for November 4, 2003. In October 2003, the Company s stockholders voted to reject the first amended joint plan of reorganization.

On October 27, 2003, the Official Equity Committee moved to adjourn the Bankruptcy Court hearing to consider confirmation of the first amended joint plan of reorganization and to terminate the Debtors statutory exclusivity period. Following a hearing, the Bankruptcy Court ordered the termination of the Debtors exclusivity period, and on November 6, 2003 the Official Equity Committee filed with the Bankruptcy Court its own proposed, initial plan of reorganization (the Committee Plan). The Debtors and the holders of senior unsecured notes objected to the Committee Plan on the basis, among others, that the Committee Plan was not feasible within the meaning of Section 1129 of the Bankruptcy Code.

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

On January 17, 2004, the Debtors filed with the Bankruptcy Court the Plan, which subsequently was amended on February 5, 2004. The Plan was supported and accepted by the Official Equity Committee, as well as Berkshire and Ranch, and was accepted by the holders of more than 99.6% of the shares of the Company s common stock who voted on the Plan. On March 18, 2004, the Bankruptcy Court confirmed the Plan.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

Under the Plan:

- All of the Company s outstanding allowed pre-petition claims will be fully paid, in cash, together with post-petition (non-default rate) interest, except with respect to any disputed claims and any secured claims that are reinstated under the Plan.

- All 25,375,683 outstanding shares of the Company s common stock will be cancelled and such shares will be converted into the right to receive and be exchanged for:

  - an aggregate of 25,375,683 shares of reorganized common stock, representing all of the issued and outstanding shares of reorganized common stock on the effective date of the Plan, and

  - warrants to purchase an aggregate of 125,000,000 shares of reorganized common stock (Stockholder Warrants) at an exercise price of $.60 per share.

- The Standby Purchasers, as defined in the Plan, will purchase up to $75 million worth of reorganized common stock (representing the maximum number of shares subject to the Stockholder Warrants) not purchased by stockholders upon the exercise of their warrants.

- The Standby Purchasers will receive additional warrants to purchase up to 15,037,568 shares of reorganized common stock, representing 9.10% of the issued and outstanding shares of reorganized common stock on a fully diluted basis. Such warrants will expire seven years after their issuance and have an exercise price of $.72 per share.

Payments to creditors under the Plan will be funded utilizing (i) the net proceeds from the exercise of the reorganized common stock purchase warrants and/or the sale of shares under the standby purchase agreement, (ii) net proceeds of not less than $180 million from our anticipated institutional offering of new senior unsecured notes, and (iii) available cash and equivalents of not less than $35 million.

The effective date of the Plan is anticipated to occur in May 2004. The Plan will not become effective unless and until the following conditions have occurred:

- the contemplated institutional private placement of new senior notes is consummated and the net proceeds thereof deposited in the escrow account,

- the contemplated new revolving credit facility is closed and is in full force and effect,

- the Registration Statement is declared effective by the SEC, and no stop order has been issued in respect thereof, the Company s initial board of directors is appointed as set forth in the Plan and has agreed to serve as a director of the Company,

the Company has cash or cash equivalents in hand as of the effective date of the Plan and available to satisfy claims under the Plan of not less than $35 million, and

the effective date of the Plan has occurred on or prior to July 31, 2004.

The Company, with the consent of the Official Equity Committee and the Standby Purchasers and in certain cases, Berkshire and Ranch (which consent will not unreasonably be withheld), may waive any of the conditions set forth above, at any time, without notice, without leave or order of the bankruptcy court, and without any formal action other than proceeding to consummate the Plan.

In addition to the conditions precedent under the Plan, Mellon HBV Alternate Strategies LLC (Mellon HBV) has required the Company to satisfy separate conditions under the standby funding commitment entered

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS   Continued

into between the Company and Mellon HBV on January 5, 2004. Mellon HBV has the right to terminate its standby funding commitment if any of the conditions precedent under the standby commitment letter are not met. Mellon HBV also retains the right to terminate the standby funding commitment upon the occurrence and non-occurrence of certain events. Mellon HBV may, at its option, waive any of the conditions or termination events.

There can be no assurance that the transactions will be consummated in the way contemplated under the Plan, that the Company will consummate the Plan by July 31, 2004, or that the Company will emerge from its reorganization proceedings as contemplated under the Plan.

Generally, pre-Petition Date claims against the Debtors fall into two categories: secured and unsecured, including certain contingent or unliquidated claims. Under the Bankruptcy Code, a creditor s claim is treated as secured only to the extent of the value of the collateral securing such claim, with the balance of such claim being treated as unsecured. The amount and validity of pre-Petition Date contingent or unliquidated claims ultimately may be established by the Bankruptcy Court or by agreement of the parties. As a result of the Cases, additional pre-Petition Date claims and liabilities have been asserted, some of which are significant. The Debtors have objected to many of the asserted claims which the Debtors believe are improper or overstated. No provision has been included in the accompanying financial statements for such contingent or unliquidated claims that have been filed with the Bankruptcy Court except to the extent the Company believes such claims to be probable and estimable.

The accompanying consolidated financial statements have been prepared in accordance with AICPA Statement of Position 90-7 (SOP 90-7), Financial Reporting by Entities in Reorganization Under the Bankruptcy Code , and on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. However, as a result of the Cases, such realization of assets and liquidation of liabilities is subject to a significant number of uncertainties.

The following tables set forth certain financial information for the Debtors and non-Debtors (in thousands):

Condensed Consolidating Balance Sheets

December 31, 2003

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Cash and equivalents	$ 41,133	$ 3,229	$	$ 44,362
Receivables	41,410	8,098		49,508
Investment in subsidiaries	294,848	22,955	(317,803)	

Intercompany receivables (payables)	16,657	(16,657)		
Net seismic data library	193,826	53,715		247,541
Net property and equipment	8,013	7,418		15,431
Other assets	8,904	1,343		10,247
	$ 604,791	$ 80,101	$ (317,803)	$ 367,089
Liabilities not subject to compromise:				
Accounts payable and accrued liabilities	$ 11,522	$ 5,892	$	$ 17,414
Debt, including capital leases	9,232	2,756		11,988
Other liabilities	40,729	20,117		60,846
Liabilities subject to compromise	273,119			273,119
Stockholders equity	270,189	51,336	(317,803)	3,722
	$ 604,791	$ 80,101	$ (317,803)	$ 367,089

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

Condensed Consolidating Statements of Income

For the Year Ended December 31, 2003

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Revenue	$ 112,584	$ 22,319	$ (3,438)	$ 131,465
Expenses:				
Depreciation and amortization	68,664	13,974		82,638
Cost of sales	753	75	(13)	815
Selling, general and administrative expenses	26,624	6,479	(3,425)	29,678
Impairment of seismic data library	29,959			29,959
Loss from operations	(13,416)	1,791		(11,625)
Interest expense, net	(18,859)	(1,091)		(19,950)
Gain on extinguishment of liabilities	681			681
Reorganization items	(5,984)			(5,984)
Provision for income taxes	(728)	(1,471)		(2,199)
Income from discontinued operations	1,139			1,139
Net loss	$ (37,167)	$ (771)	$	$ (37,938)

Condensed Consolidating Statements of Cash Flows

For the Year Ended December 31, 2003

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Net cash provided (used) by:				
Operating activities	$ 67,468	$ 12,846	$	$ 80,314
Investing activities	(43,603)	(5,065)		(48,668)
Financing activities	(4,005)	(1,641)		(5,646)
Effect of exchange rate changes		(3,376)		(3,376)
Net cash provided by discontinued operations	221			221
Net increase in cash and equivalents	20,081	2,764		22,845

Cash and equivalents at beginning of period	21,052	465		21,517
Cash and equivalents at end of period	$ 41,133	$ 3,229	$	$ 44,362

Classification of Liabilities as Liabilities Not Subject to Compromise Versus Liabilities Subject to Compromise. Liabilities not subject to compromise include: (1) liabilities incurred after the Petition Date of the Cases; (2) pre-Petition Date liabilities that the Debtors expect to pay in full including priority tax and employee claims, even though these amounts may not be paid until a plan of reorganization is approved; and (3) deferred revenue in connection with customer data agreements.

Liabilities subject to compromise refer to all other pre-Petition Date liabilities of the Debtors. The amounts of the various liabilities that are subject to compromise are set forth below. These amounts represent the Company s estimates of known or probable pre-Petition Date claims that are likely to be resolved in connection with the Cases. Such claims remain subject to future adjustments.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

The amounts subject to compromise at December 31, 2003 consisted of the following items (in thousands):

Accounts payable	$ 734
Accrued interest	12,323
Other accrued liabilities	4,616
Debt	255,446
Total	$ 273,119

The classification of liabilities not subject to compromise versus liabilities subject to compromise is based on currently available information and analysis. As the Cases proceed and additional information and analysis is completed or, as the Court rules on relevant matters, the absolute amount of and the classification of amounts between these two categories may change. The amount of any such changes could be material.

Reorganization Items. Reorganization items under the Cases are expense or income items that are incurred or realized by the Debtors because they are in reorganization. These items include, but are not limited to, professional fees and similar types of expenses incurred directly related to the Cases, loss accruals or gains or losses resulting from activities of the reorganization process, and interest earned on cash accumulated by the Debtors because they are not paying their pre-petition liabilities. For the year ended December 31, 2003, reorganization items were as follows (in thousands):

Professional fees	$ 5,074
Interest Income	(32)
Provision for rejected executory contract	250
Other	692
Total	$ 5,984

NOTE C SEISMIC DATA LIBRARY

The 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 seven years for onshore data and five years for offshore data, applied on a quarterly basis at the individual survey level.

The following table sets forth a summary of the net book value of the Company s seismic data library (in thousands):

	As of December 31,	
	2003	2002
US Onshore:		
Gulf Coast Texas 3D	$ 75,551	$ 81,294
Southern Louisiana/Mississippi 3D	93,966	117,282
Rocky Mountain 3D	5,895	5,197
Northern Louisiana 3D	2,175	3,882
Other US 2D and 3D	3,085	6,365
Canada 2D and 3D	58,317	45,565
US Offshore	8,552	24,811
Total	$ 247,541	$ 284,396

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

At December 31, 2003 and 2002, 5.2% and 2.4%, respectively, of the net book value of the seismic data library were projects in progress.

Costs of Seismic Data Library

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

For data acquired through a non-monetary data exchange, the Company capitalizes an amount equal to the fair value of the data received by the Company or the fair value of the license granted to the customer, whichever is more readily determinable. In the case of any single non-monetary exchange where the fair value recorded is in excess of a specified amount ($500,000 in 2003 and 2002 and $800,000 in 2001), the Company also obtains concurrence from a third party to support the Company s valuation.

For internally created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data. Such costs include salaries and benefits of the Company s processing personnel and certain other costs incurred for the benefit of the processing activity. The Company believes that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for internal data processing were $1,925,000 in 2003, $1,716,000 in 2002 and $1,785,000 in 2001.

In addition, prior to 2002, the Company capitalized an allocated portion of certain other internal costs, such as salaries, benefits and other costs incurred for seismic data project design and management. In 2002, the Company limited such other capitalized costs to salaries and benefits for a small group of employees. Capitalized costs related to this project design and management activity were $428,000 in 2002 and $4,018,000 in 2001. Effective January 1, 2003, the Company no longer capitalizes any portion of these project design and management costs.

Data Library Amortization

Prior to 2002, the Company s created seismic data was amortized on the income forecast method, purchased data constituting more than 5% of the seismic data library was amortized on the greater of the income forecast method or a ten year straight-line schedule and other purchased data was amortized generally on a ten year straight-line schedule.

Effective January 1, 2002 (see *Change in Accounting Principle* below), the Company amortizes its seismic data library using the greater of the amortization that would result from the application of the income forecast method or a straight-line basis over the useful life of the data.

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. In addition, in connection with such reviews and updates, the Company evaluates the recoverability of its seismic data library, and if required under SFAS No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets, records an impairment charge with respect to such data. See discussion on *Seismic Data Library Impairment* below.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

The actual rate of amortization as a percentage of seismic revenue for the past three years was 60%, 84% and 43% for 2003, 2002 and 2001, respectively. The actual rate of amortization in future years will depend on the specific seismic surveys licensed and selected by the Company s customers during the year. The amortization rates vary by component and, effective January 1, 2004, range from a low of 47% to a high of 100% with a weighted average rate of 56% based on the net book value of each component compared with the net book value of the entire seismic data library as of such date.

The 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. As discussed below in *Revision of Useful Life of Data Library,* the Company revised its useful life estimate in the fourth quarter of 2002 from ten years to five years with respect to offshore data and from ten years to seven years with respect to onshore data.

Change in Accounting Principle

In the second quarter of 2002, the Company changed its accounting policy for amortizing its created seismic data library from the income forecast method to the greater of the income forecast method or the straight-line method over the useful life of the data and reported the adoption of the new method as a cumulative effect of a change in accounting principle retroactive to January 1, 2002. The Company changed its accounting policy in an effort to increase the transparency of its methodology and to be more consistent with other industry competitors. Accordingly, the Company recorded a pre-tax charge of $17.2 million (after-tax charge of $11.2 million) as of January 1, 2002. Pro forma net income for the year ended December 31, 2001, assuming the revised amortization policy had been applied retroactively, was as follows (in thousands, except per share amounts):

Description	Year Ended December 31, 2001
Income from continuing operations:	
As reported	$ 9,580
Pro forma	5,178
Income from continuing operations per share:	
As reported, basic	$ .38
Pro forma, basic	.21
As reported, diluted	.37
Pro forma, diluted	.20
Net loss:	
As reported	$ (14,993)
Pro forma	(19,395)

Net loss per share:		
As reported, basic	$	(.60)
Pro forma, basic		(.78)
As reported, diluted		(.58)
Pro forma, diluted		(.75)

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

Revision of Useful Life

In the fourth quarter of 2002, the Company reevaluated its estimate of the useful life of its seismic data library. The Company considered a number of factors, including, among others, the impairment charges it recorded in 2002, the additional amortization charges the Company recorded during the first three quarters of 2002 pursuant to its amortization policy and seismic industry conditions. As a result, in the fourth quarter of 2002, the Company revised the estimated useful life of its seismic data library to reduce the useful life of offshore data from ten to five years and onshore data from ten to seven years. With respect to each survey in the data library, the useful life policy is applied from the time such survey is available for licensing to customers generally, since some data in the library may not be licensed until an exclusivity period (usually nine months or less) has lapsed.

Since certain surveys within the seismic data library were older than the revised estimate of useful life, the Company recorded additional amortization expense of $45.7 million on the date the revision became effective, October 1, 2002. In addition, the Company recorded minimum amortization charges of $8.7 million in the fourth quarter of 2002, pursuant to the revised estimates of useful lives. The effect from this change on reported results was a reduction in net income of $58.8 million or $2.32 per share for the year ended December 31, 2002.

As a result of the adoption of the new accounting principle described above and the revision of the estimates of the useful lives of the seismic data in the fourth quarter of 2002, all of the Company s seismic data library is amortized on the greater of the income forecast method or straight-line amortization over five or seven years, as applicable.

Seismic Data Library Impairment

As events or conditions require, the Company evaluates the recoverability of its seismic data library in accordance with SFAS No. 144. The Company evaluates its seismic data library 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 should be evaluated for impairment.

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

In the fourth quarter of 2002, the Company reevaluated the level which constitutes the lowest level of independently identifiable cash flows. In its reevaluation, the Company considered the results of the comprehensive forecasting process that had been undertaken by management in the fourth quarter of 2002, recent sales trends and management s expectations relative to its ability to attribute revenues to lower survey aggregation levels. The results of management s analysis indicated that the Company could reasonably forecast the future sales at levels lower than previously practicable. Accordingly, in the fourth quarter of 2002, the Company refined its impairment evaluation methodology to evaluate its seismic data library in components based on the Company s operations and geological and geographical trends, and as a result, established the following data library segments for purposes of evaluating impairments: (I) Gulf of Mexico offshore comprised of the following components: (a) multi-component data, (b) value-added products, (c) ocean bottom cable data, (d) shelf data, and (e) deep water data; (II) North America onshore comprised of the following components: (a) Texas Gulf Coast, (b) northern, eastern and western Texas, (c) southern Louisiana/Mississippi, (d) northern

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

Louisiana, (e) Rocky Mountains, (f) North Dakota, (g) other United States, (h) Canada and (i) value-added products, and (III) international data outside North America. The Company believes that these library components constitute the lowest levels of independently identifiable cash flows.

In accordance with SFAS No. 144, the impairment evaluation is based first on a comparison of the undiscounted future cash flows over each component s remaining estimated useful life with the carrying value of each library component. If the undiscounted cash flows are equal to or greater than the carrying value of such 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 is recorded as an impairment loss equal to the difference between the library component s carrying amount and the discounted future value of the expected revenue stream.

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. 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, inherently imprecise and can change materially from period to period based on the factors described in the preceding paragraph, among others. Accordingly, if conditions change in the future, the Company may record further impairment losses relative to its seismic data library, which could be material to any particular reporting period.

In 2003 and 2002, the Company recorded impairment charges totaling $30.0 million and $83.0 million, respectively. These charges related to several different components of our seismic data library. Based on industry conditions and the recent level of cash sales for certain of its library components, the Company revised its estimate of future cash flows for those library components. As a result, the Company determined that the revised estimate of future cash flows would not be sufficient to recover the carrying value of such certain components, and accordingly, recorded impairments based on the fair value of such library components by discounting their estimated cash flows using a risk adjusted rate of return.

NOTE D DISCONTINUED OPERATIONS

In June 2002, the Company s Board of Directors unanimously adopted a plan to dispose of the Company s oil and gas operations by sale. Accordingly, the Company s consolidated financial statements report the oil and gas operations as discontinued operations. During 2002, the Company sold a majority of its oil and gas assets and reflected such assets at their fair value at December 31, 2002. During 2003, the Company revised its estimate of the fair value of its remaining oil and gas properties and increased its estimate of fair value by $985,000. In January 2004, the Company sold a portion of its remaining oil and gas assets for approximately $1,287,000. The Company continues to market its remaining oil and gas assets for sale.

Revenue from the discontinued operations was $328,000, $7,768,000 and $21,091,000 for 2003, 2002 and 2001, respectively. Pre-tax income (losses) from the discontinued operations were $1,139,000, $(62,709,000) and $(37,805,000) for 2003, 2002 and 2001, respectively.

The Company uses the full-cost method of accounting for its oil and gas operations.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

NOTE E INCOME TAXES

The discussion of income taxes herein does not include the income tax effects of discontinued operations as explained in Note D or the cumulative effect of the change in accounting principle explained in Note C of these consolidated financial statements.

Income (loss) from continuing operations before provision for income taxes for each of the three years ended December 31, 2003 is comprised of the following (in thousands):

	2003	2002	2001
U.S.	$ (37,441)	$ (147,196)	$ 15,112
Foreign	563	(9,677)	1,216
	$ (36,878)	$ (156,873)	$ 16,328

The provision (benefit) for income taxes for each of the three years ended December 31, 2003, is comprised of the following (in thousands):

	2003	2002	2001
Current:			
Federal	$ (11,014)	$ (13,563)	$ 11,147
State	(54)	664	202
Foreign	(8)	274	541
	(11,076)	(12,625)	11,890
Deferred:			
Federal	11,779	(4,457)	(5,129)
Foreign	1,496	(1,222)	(13)
	13,275	(5,679)	(5,142)
Tax provision:			
Federal	765	(18,020)	6,018
State	(54)	664	202

Foreign	1,488	(948)	528
	$ 2,199	$ (18,304)	$ 6,748

The differences between the U.S. Federal income taxes computed at the statutory rate (35%) and the Company s income taxes for financial reporting purposes are as follows (in thousands):

	2003	**2002**	**2001**
Statutory Federal income tax	$ (12,907)	$ (54,906)	$ 5,715
State income tax, less Federal benefit	(35)	432	131
Tax difference on foreign earnings	1,334	2,046	525
Reduction in foreign tax rates	(125)		(422)
Change in valuation allowance	7,254	36,566	
Non-deductible expenses and other, net	6,678	(2,442)	799
Income tax expense (benefit)	$ 2,199	$ (18,304)	$ 6,748

The change in valuation allowance in 2002 in the above table does not include the valuation allowance attributable to discontinued operations of $21,948,000.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

The components of the net deferred income tax asset (liability) reflected in the Company s consolidated balance sheets at December 31, 2003 and 2002 were as follows (in thousands):

	Deferred Tax Assets (Liabilities) at December 31,	
	2003	**2002**
Deferred revenue	$ 21,989	$ 21,490
Depreciation, depletion and amortization	29,919	30,727
Alternative minimum tax credit carryforward		5,099
Canadian net operating loss carryforward	9,760	6,141
Foreign tax credits	191	191
Accrued expenses and other	4,880	8,881
Total deferred tax assets	66,739	72,529
Less: Valuation allowance	(66,003)	(58,749)
Deferred tax assets, net of valuation allowance	736	13,780
Deferred expenses and other	(2,689)	(2,458)
Total deferred tax liabilities	(2,689)	(2,458)
Net deferred tax asset (liability)	$ (1,953)	$ 11,322

The Company considered (i) the losses recorded in 2002 and 2003, and (ii) the fact that there is substantial doubt about the Company s ability to continue to recover assets and satisfy liabilities in the normal course of business, as negative evidence relative to the realization of its deferred tax assets. Accordingly, the Company has recorded a valuation allowance for its deferred tax assets that are not assured of realization by either offsetting existing taxable differences or carryback to open tax years. Any deferred tax assets the Company generates in the near future will also be subject to valuation allowances.

The Company anticipates filing its tax return for 2003 and claiming a refund of approximately $9.9 million as a result of carrying back the expected taxable loss for year ended December 31, 2003. This expected refund is recorded in other receivables. As of December 31, 2003, the Company has Canadian net operating loss (NOL) carryforwards of approximately $37.6 million which can be used to offset Canadian income taxes payable in future years. These Canadian NOL carryforwards will expire in periods beginning in 2007 through 2010.

In connection with the exercise of non-qualified stock options and common stock purchase warrants by employees during 2002 and 2001, the Company received $165,000 and $515,000, respectively, in Federal income tax savings which has been reflected as a credit to additional paid-in capital.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

NOTE F DEBT

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

	December 31,	
	2003	2002
Notes	$ 255,000	$ 255,000
Debtor-in-Possession Loan Facility		
Subsidiary revolving line of credit		
Term loan	5,417	6,875
Demand reducing credit facility		1,372
Short-term borrowings		375
Note payable to former executive	446	
	$ 260,863	$ 263,622

Notes: The Company has outstanding Notes totaling $255 million at December 31, 2003 that were issued in various series from December 1995 through December 2001. The Notes bear interest at rates ranging from 7.04% to 7.48% and have maturity dates ranging from June 2003 to October 2011. The financial covenants in the Notes include, among other restrictions, maintenance of minimum net worth and limitations on total debt, interest coverage, liens, debt issuance, dividends and disposition of assets. As a result of the non-payment of interest thereon, the Company s Chapter 11 filing and the restatement of its financial statements prior to January 1, 2002, among other factors, the Company is in default on the Notes.

On June 6, 2003, certain of the holders of the Notes filed involuntary Chapter 11 petitions against the Company and 16 of its subsidiaries that guaranteed the Notes. On June 26, 2003, the Company announced that Ranch had purchased all $255 million of the Notes. Subsequently, the Company and Ranch reached agreements extending the time by which the Company must respond to the involuntary bankruptcy petitions. On July 21, 2003, the Debtors filed voluntary petitions in bankruptcy and the Company and Ranch filed motions to dismiss the involuntary petitions (see Note B). In addition, on or before July 21, 2003, Ranch sold all of the Notes to Berkshire.

Under the terms of the Plan, the Notes will be paid in full, along with accrued interest. As of December 31, 2003, accrued interest totaled $12.3 million and was included in liabilities subject to compromise in the Consolidated Balance Sheet.

Debtor-in-Possession Loan Facility: The Bankruptcy Court approved a $20 million debtor-in-possession loan and security agreement with Wells Fargo Foothill, Inc., as lender, to support the Debtor s operations during the course of the Cases (the DIP Facility). The DIP Facility will terminate upon, among other events, the earlier of June 30, 2004 or the effective date of a plan of reorganization. Advances under the DIP Facility are available pursuant to a formula based on outstanding accounts receivable and the carrying value of the seismic library of the Debtors, subject to certain limitations. If any advance is made under the DIP Facility, the first such advance must be at least in an amount equal to and the proceeds must be used to retire the balance of the term loan payable by Seitel Data Ltd. that is described below. The DIP Facility is secured by a first priority, perfected security on substantially all of the Company s U.S. assets and a pledge of all of the issued and outstanding capital stock of the Company s U.S. subsidiaries. The Debtors have not drawn on the DIP Facility. In connection with the application and approval by the lender of the DIP Facility, the Company paid commitment fees of $200,000 plus certain expenses. In addition, the terms of the DIP Facility include the payment of an unused line fee of .50% per annum payable in arrears.

SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

Subsidiary Revolving Line of Credit: The Company s wholly owned subsidiary, Olympic Seismic Ltd. (Olympic), has a revolving credit facility, which allows it to borrow up to $5 million (Canadian dollars) subject to an availability formula by way of prime-based loans, bankers acceptances or letters of credit. The rate applicable to borrowings is the bank s prime rate plus 0.35% per annum and the bankers acceptances is 1.50% per annum. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The facility is secured by the assets of Olympic, SEIC Trust Administration Ltd. (as sole trustee of, and for and on behalf of, SEIC Business Trust) and SEIC Holdings, Ltd., but is not guaranteed by Seitel, Inc. or any of its other United States subsidiaries. However, all intercompany debt owing by Olympic, SEIC Trust Administration Ltd., SEIC Business Trust or SEIC Holdings, Ltd. to Seitel, SEIC Partners Limited Partnership or to any Seitel U.S. subsidiary (approximately $54,195,000 (Canadian dollars) at December 31, 2003) has been subordinated to the repayment of the revolving credit facility. Available borrowings under the facility are equivalent to a maximum of $5 million (Canadian dollars), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of SEIC Trust Administration, less prior-ranking claims, if any, relating to inventory or accounts. The facility is subject to repayment upon demand and is available from time to time at the Bank s sole discretion. A review of this demand facility is performed annually at the Bank s discretion.

Term Loans: On August 28, 2001, the Company s wholly owned subsidiary, Seitel Data, Ltd., obtained a term loan totaling $10 million for the purchase of certain seismic data, some of which secures the debt. The loan matures on October 1, 2004, and bears interest at the rate of LIBOR plus 2.9% (4.02% at December 31, 2003). Monthly principal payments total $208,000. The Company is not in compliance with the payment terms or covenants of this term loan. Under the terms of the Plan, this term loan will be paid in full, along with accrued interest. As of December 31, 2003, accrued interest totaled $111,000.

On December 9, 2002, the Company s wholly owned subsidiary, SEIC Business Trust (the Trust), entered into a demand reducing credit facility to borrow $2.67 million (Canadian dollars) by way of prime-based loans. Monthly payments total $166,670 (Canadian dollars) plus interest. The facility was paid in full in 2003.

In 2002, the Company entered into short-term financing arrangements in order to finance certain of its insurance premiums. The loans matured and were paid off in February 2003 and June 2003.

Note Payable to Former Executive: In connection with the settlement of certain litigation, the Company entered into a note payable to a former executive consisting of payments of $6,417 per month for 36 months commencing June 2003 and payments of $6,000 per month for 84 months commencing June 2006. The note is non-interest bearing. The note is guaranteed by Olympic Seismic, Ltd., a wholly owned Canadian subsidiary of the Company and a non-Debtor. Under the terms of the Plan, this note payable will be reinstated pursuant to its original terms.

Based on the terms of the Plan and the terms of debt not subject to the Plan, the aggregate maturities of the Company s debt over the next five years and thereafter are as follows: $260,448,000 in 2004, $37,000 in 2005, $38,000 in 2006, $40,000 in 2007, $44,000 in 2008 and $256,000 thereafter.

NOTE G LEASE OBLIGATIONS

Assets recorded under capital lease obligations of $10,096,000 and $9,828,000 at December 31, 2003 and 2002, respectively, are included in property and equipment. Accumulated depreciation related to such assets was $5,087,000 and $3,063,000 at December 31, 2003 and 2002, respectively. Depreciation on the assets recorded under capital leases is included in depreciation expense.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

The Company leases office space under operating leases, some of which include renewal options. Rental expense for 2003, 2002 and 2001 was approximately $901,000, $1,413,000 and $1,170,000, respectively.

Future minimum lease payments for the five years subsequent to December 31, 2003 and in the aggregate are as follows (in thousands):

	Capital Leases	Operating Leases
2004	$ 2,110	$ 1,001
2005	2,885	963
2006	260	679
2007	278	458
2008	287	444
Thereafter	4,290	1,365
Total minimum lease payments	10,110	$ 4,910
Less amount representing interest	3,539	
Present value of net minimum lease payments	$ 6,571	

The Company subleases certain of its office space. Future minimum lease payment receivables under the sublease as of December 31, 2003 are as follows: $113,000 in 2004; $113,000 in 2005 and $47,000 in 2006.

On April 30, 2002, Olympic entered into a sale leaseback agreement on a building and land located in Calgary, Alberta, Canada. Proceeds of the sale were $3.6 million (Canadian dollars). The term of the lease is a 20-year capital lease with lease payments of: $336,000 (Canadian dollars) in years 1-5; $370,860 (Canadian dollars) in years 6-10; $409,500 (Canadian dollars) in years 11-15; and $452,340 (Canadian dollars) in years 16-20. The transaction resulted in a gain on the sale of $737,000, which has been deferred and is being recognized into income over the term of the lease.

NOTE H COMMITMENTS AND CONTINGENCIES

In October 2001, the Company guaranteed an institutional loan totaling $600,000 to its former chief operating officer and general counsel, who later was named chief executive officer and who resigned in November 2002. Under the terms of his separation agreement, a portion of the amount outstanding was paid and the former employee is required to make annual installments of $60,000 with a maturity date of November 13, 2006. The loan is presently current and not in default.

Internal and Securities and Exchange Commission Investigations

In December 2002, after allegations arose regarding the actions of certain of the Company s former officers, the Company became the subject of a formal investigation by the SEC s Division of Enforcement (the Enforcement Division). The Company was also notified by the Enforcement Division that it intended to recommend that the SEC initiate enforcement proceedings against Seitel for alleged books and records and internal control violations. The Company cooperated fully with the SEC during the course of its investigation, and on May 16, 2003, Seitel reached a consensual resolution of the SEC s civil complaint resulting in its consent to a final judgment of permanent injunction being entered against the Company on June 16, 2003 in the United States District Court for the Southern District of Texas, Houston Division. The agreement for the entry of the SEC Injunction was without admission or denial of the allegations in the SEC complaint which had alleged

SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

violations of the reporting, books and records, internal controls and proxy statement sections and regulations of the Exchange Act. In determining to enter into the agreement, the SEC took into consideration the fact that Seitel had promptly undertaken remedial action and fully cooperated with the SEC staff.

Litigation

See Note B Reorganization Proceedings for a detailed discussion of our Chapter 11 reorganization and the Plan.

On February 3, 2003, the former holders of Seitel s senior unsecured notes accelerated the senior unsecured notes and made demand upon the Company and certain of its former and current officers and directors for money damages arising from certain alleged negligent actions and/or misrepresentations of those officers and directors. The holders alleged that money damages arising from the foregoing claims were not fully quantified, but exceeded $20 million and included, without limitation, the lost value of such holders investment in the senior unsecured notes. Notice of the demand has been provided by the Company to our insurance carriers. The holders of the senior unsecured notes did not commence suit. As of June 26, 2003, all of the former holders of senior unsecured notes had sold their senior unsecured notes to Ranch, who subsequently sold the senior unsecured notes to Berkshire. Under the Plan, all of the foregoing claims will be released and discharged.

The Company and certain of its former and current officers and directors have been named as defendants in eleven lawsuits brought as class actions alleging violations of the federal securities laws, all of which were consolidated by an Order entered August 7, 2002, under Cause No. 02-1566, styled *In re Seitel, Inc. Securities Litigation*, in the United States District Court for the Southern District of Texas. The Court appointed a lead plaintiff and lead counsel for plaintiffs, who subsequently filed a consolidated amended complaint, which added the Company s auditors, Ernst & Young LLP, as a defendant. The consolidated amended complaint alleges that during a proposed class period of May 5, 2000 through April 1, 2002, the defendants violated sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 by overstating revenues in violation of generally accepted accounting principles. The plaintiffs seek an unspecified amount of actual and exemplary damages, costs of court, pre- and post-judgment interest and attorneys and experts fees. During the Chapter 11 cases, the Debtors and the representatives of the class negotiated and participated in discovery with respect to the class claim filed with the Bankruptcy Court and in connection with the class objection to confirmation of the initial plan. In the course thereof, the class representatives and the Debtors reached certain agreements. These agreements included the allowance of a class claim to assert the rights of the class in the Chapter 11 cases and, as well, an ultimate settlement for cash to be funded out of the Debtors cash and directors and officers insurance policies. The settlement was approved upon notice and a hearing by order of the Bankruptcy Court dated December 10, 2003. Thus, the claims of the plaintiffs in the class action against the Debtors as well as their officers and directors, and the class claim, have been settled. The treatment of the class claim pursuant to the Plan is consistent with the settlement approved by the Bankruptcy Court. Certain monetary obligations remain, including continuing disclosures and additional documentation.

The Company has been named as a nominal defendant in seven stockholder derivative actions filed in various courts: *Almekinder v. Frame, Valice, Pearlman, Craig, Lerner, Stieglitz, Zeidman, Hoffman, and Seitel, Inc.,* No. H-02-2960, In the United States District Court for the Southern District of Texas; *Basser v. Frame, Valice, Kendrick, Pearlman, Fiur, Zeidman, Stieglitz, Craig, Lerner, and Seitel, Inc.,* No. H-02-1874, In the United States District Court for the Southern District of Texas; *Berger v. Frame, Pearlman, Valice, Craig, Stieglitz, Lerner, Zeidman, Fiur, and Seitel, Inc.,* No. 19534-NC, In the Court of Chancery, State of Delaware, Castle County; *Chemical Valley & North Central West Virginia Carpenters Pension Plan v. Frame, Valice, Hoffman, Pearlman, Craig, Lerner, Stieglitz, Zeidman, Fiur, and Seitel, Inc.,* No.

02-CV-3343, In the United

SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

States District Court for the Southern District of Texas; *Couture v. Frame, Valice, Craig, Lerner, Stieglitz, Zeidman, Hoffman, and Seitel, Inc.,* No. 20002-37065, In the 80th Judicial District Court, Harris County, Texas; *Talley v. Frame, Valice, Pearlman, Craig, Lerner, Stieglitz, Zeidman, Hoffman, and Seitel, Inc.,* In the 151st Judicial District Court, Harris County, Texas; and *Zambie v. Frame, Pearlman, Valice, Craig, Zeidman, Lerner, Stieglitz, Fiur, Ernst & Young LLP, and Seitel, Inc.,* In the 333rd Judicial District Court, Harris County, Texas. The plaintiffs generally allege that the defendants breached and conspired to breach fiduciary duties to the Company s shareholders by failing to maintain adequate accounting controls and by using improper accounting and auditing practices and procedures. Certain of the plaintiffs also assert causes of action for mismanagement, waste of corporate assets and unjust enrichment. The Zambie case also alleges professional negligence against Ernst & Young LLP. The plaintiffs seek judgments for unspecified amounts of compensatory damages, including return of salaries and other payments to the defendants, exemplary damages, attorneys fees, experts fees and costs. The Seitel s Board of Directors appointed a special litigation committee to conduct an independent investigation of the allegations asserted in the derivative lawsuits. The special litigation committee completed its investigation and its report has been delivered to the Company. The Company filed its motion to dismiss in Delaware Chancery court on March 20, 2003. The parties previously agreed to stay the Texas state court cases pending the outcome of the Texas federal court derivative cases. The federal court derivative cases have been consolidated, and the Company has moved to stay the cases pending resolution by the Delaware court. Presently, all cases are stayed as a result of the Debtors Chapter 11 filing. In October 2003, a settlement of all issues in each derivative suit was reached among the parties and a stipulation and motion to approve the terms of such settlement was filed with the Bankruptcy Court. The settlement stipulation provides for payment of $600,000, all of which is covered by insurance, and resolution of all claims against all parties to the litigation. The settlement stipulation was approved by the Bankruptcy Court upon notice and a hearing by order dated November 17, 2003. Pursuant to the settlement, (i) all of the Derivative Claims have been or will be dismissed, (ii) the Debtors will continue certain and from time to time implement new corporate governance policies and procedures, and (iii) the plaintiffs recovered certain costs incurred in prosecuting the Derivative Claims. The cost recovery was paid solely by the Debtors insurance carrier.

On July 18, 2002, the Company s former chief executive officer sued the Company in the 113th Judicial District Court of Harris County, No. 2002-35891. Mr. Frame alleges a breach of his employment contract by virtue of his termination and also alleges defamation. He also seeks a declaratory judgment that certain funds he received from the Company were proper and do not have to be repaid. The Company has answered and asserted various defenses. The Company also filed a counter suit to recover approximately $4,200,000 in corporate funds that the Company believes Mr. Frame inappropriately caused the Company to pay him or for his benefit plus over $800,000 due on two notes that were accelerated pursuant to their respective terms. In addition, the Company also holds a judgment against Mr. Frame in the amount of at least $590,000 relating to a loan made to Mr. Frame by Bank One N.A. (Bank One) and guaranteed by the Company. The Company intends to seek dismissal of the complaint against it, and to pursue its causes of action. The Company also intends to pursue enforcement of its judgment against Mr. Frame. Mr. Frame has filed claims totaling $20.2 million against the Company and the other debtors in the Chapter 11 cases. The Debtors have filed objections to such claims.

The Company is a party to a suit for geophysical trespass entitled *Joy Resources, Inc. v. Seitel Data, Ltd.,* Cause No. 01-02-00828-CV, in the 1st Court of Appeals, Houston, Texas. The plaintiff is appealing a final judgment by the trial court holding that the plaintiff is not entitled to recover an injunction or to recover damages against the Company. The plaintiffs assert that the Company obtained seismic data about mineral interests leased by the plaintiff by placing seismic equipment on property adjacent to the property leased by the plaintiff. The trial court held that no cause of action exists where the seismic equipment is not located on the property leased by the plaintiff. The briefing has been completed in this matter, and oral argument in the 1st Court of Appeals in Houston, Texas was on May 6, 2003. The parties have reached a settlement in the matter and have executed a

SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

settlement stipulation which is pending before the Bankruptcy Court for approval. The settlement stipulation provides that Joy Resources, Inc. (Joy) will be granted an agreed, allowed claim in the amount of $73,000 in the Cases, and further provides that Seitel Data, Ltd. may use certain data upon the payment of additional costs and may acquire certain data owned by Joy on a right of first refusal basis.

The Company and its subsidiary, Seitel Data, Ltd., are parties to a class action lawsuit for geophysical trespass entitled *Juan O. Villarreal v. Grant Geophysical, Inc.*, et al., Cause No. DC-00-214, in the 229th District Court of Starr County, Texas that was initiated on April 1, 2002. The plaintiffs have sued a number of defendants, including Seitel and Seitel Data, Ltd. The plaintiffs allege that certain defendants conducted unauthorized 3-D seismic exploration of the mineral interests, and sold the information obtained to other defendants. The plaintiffs seek an unspecified amount of damages. All of the defendants have obtained summary judgments dismissing the plaintiffs claims, and the case is now on appeal before the San Antonio Court of Appeals under Cause No. 04-02-00674-CV. On July 22, 2003, the Texas Court of Appeals granted appellant motion to proceed against the other appellees. The appeal against Seitel remains stayed. The Company intends to vigorously represent its interests in this appeal. No amounts have been accrued in connection with this litigation.

The Company sued its former in-house counsel and law firm in *Seitel, Inc. v. Cynthia Moulton and Franklin Cardwell & Jones, P.C.,* Cause No. 2003-09151 in the 127th Judicial District Court of Harris County, Texas. The suit alleges negligence, breach of fiduciary duty and breach of contract surrounding the settlement of a personal lawsuit against the former chief executive officer and other aspects of representation. The Company seeks recovery for fees paid and related expenses. Initial pleadings were filed on February 21, 2003. Discovery has not yet commenced.

On March 27, 2003, Seitel was served with a complaint filed by the General Electric Credit Corporation of Tennessee (GE) in the District Court No. 333rd of Harris County, Texas, styled *General Electric Credit Corporation of Tennessee, v. N360X, LLC and Seitel*. The complaint alleged that Seitel, as guarantor, and its wholly owned subsidiary N360X, LLC, as lessee, defaulted on an agreement for the lease of a jet aircraft. GE accelerated the obligation, took possession of the aircraft and demanded payment of amounts GE claims are due pursuant to the termination of the lease. The claim was subsequently reduced to $2.055 million plus interest at 9% from November 18, 2003 and purchased by Berkshire and the amount thereof has been agreed to by the parties. Such amount, including interest, has been accrued at December 31, 2003.

On September 22, 2003, Bass Enterprises Production Co. (Bass) filed a motion with the Bankruptcy Court seeking relief from the automatic stay applicable to the Debtors and requesting permission of the Bankruptcy Court to initiate litigation against the Debtors in a Texas State Court with respect to an alleged breach of certain provisions of a contract entered into in 2001. The Debtors have objected to the motion and a hearing on the motion was scheduled for December 3, 2003. No discovery has been conducted in the matter. On February 23, 2004 the parties entered into a settlement agreement to resolve disputes which involve licensing of certain data and field tapes at a fixed rate.

The Company and its subsidiaries, Energy Venture Holdings LLC, Endeavor Exploration LLC, and DDD Energy, were sued by a former employee, Mark Stover, in Harris County District Court, 269th Judicial District, Cause No. 2002-52120 on October 8, 2002. Mr. Stover alleged breach of his employment contract and wrongful termination. The Company answered and generally denied the complaint on November 8, 2002. The matter was automatically stayed upon the Chapter 11 filing. On October 9, 2003, Mr. Stover filed a proof of claim in the bankruptcy court in the amount of $374,500. The Company has filed an objection to the claim and intends to vigorously seek its disallowance. No amounts have been accrued in connection with this litigation.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

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

It is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At December 31, 2003, the Company had accrued its best estimate of the amounts that are probable of being paid relative to all of the litigation and claims set forth above. However, if one or more of the parties were to prevail against the Company in one or more of the cases described above that have not been settled, the amounts of any judgments against the Company or settlements that the Company may enter into, in addition to liabilities recorded by the Company at December 31, 2003, could be material to the Company s financial statements for any particular reporting period.

NOTE I COMMON STOCK

In December 1997, the Company s Board of Directors approved the expenditure of up to $25 million to repurchase the Company s common stock. As of December 31, 2003, the Company has repurchased 1,110,100 shares of common stock at a cost of $12,529,000 under this plan. The Company has not repurchased any shares of its common stock since June 2001.

On July 21, 1992, the Company granted ten-year loans at an interest rate of 4% to most of its employees for the purchase of an aggregate of 800,000 shares of the Company s common stock at the then market price of $2.69 per share. Payment of 5% of the original principal balance plus accrued interest were due annually August 1, with a balloon payment of the remaining principal and interest due August 1, 2002. All loans were paid in full with the exception of three former employees. The Company provided an allowance for collection of these notes totaling $398,000. On October 2, 1998, the Company granted five-year loans at an interest rate of 4% to most of its employees for the purchase of an aggregate of 794,300 shares of the Company s common stock at the then market price of $10.31 per share. Under the original terms of the loans, payment of 60% of the loan amount plus accrued interest was made in equal monthly, quarterly or annual payments, as applicable, and a balloon payment of the remaining 40% was due on October 2, 2003. The Company provided an allowance for collection on the notes due from certain former employees totaling $1,449,000. Remaining officers of the Company paid their loans in full in accordance with the original terms. The non-officers of the Company who had loans entered into new loan agreements whereby the unpaid balance is being paid in equal monthly payments over 3 years at an interest rate of 1.67% (the then applicable Federal rate). The Company recorded related compensation expense due to the below market interest rate on these loans of $4,000, $59,000, and $65,000 for 2003, 2002 and 2001, respectively. During 2003, 2002 and 2001, the Company received $1,054,000, $751,000, and $1,189,000, respectively, as principal payments on these recourse notes. The stock certificates are held by the Company as collateral until payment is received.

NOTE J PREFERRED STOCK

The Company is authorized by its Amended Certificate of Incorporation to issue 5,000,000 shares of preferred stock, the terms and conditions to be determined by the Board of Directors in creating any particular series. As of December 31, 2003, no preferred stock had been issued.

NOTE K STOCK OPTIONS AND WARRANTS

The Company maintains various stock option plans under which the Company s officers, directors and employees may be granted options or warrants to purchase the Company s common stock. The exercise price,

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

term and other conditions applicable to each option or warrant granted under the Company s plans are generally determined by the Compensation and Stock Option Committee or Board of Directors at the time of grant and may vary with each option or warrant granted. All options and warrants issued under the Company s plans are issued at or above the market price of the Company s common stock as of the date of issuance, have a term of no more than ten years and vest under varying schedules in accordance with the terms of the respective option or warrant agreements. Under the terms of the Plan, any outstanding options will be cancelled on the effective date.

The following summarizes information with regard to the stock option and warrant plans for 2003, 2002 and 2001 (shares in thousands):

	2003		2002		2001	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	5,634	$ 13.28	8,843	$ 13.55	7,226	$ 13.43
Granted			312	4.59	2,437	13.75
Exercised					(504)	9.74
Cancelled	(3,500)	13.85	(3,521)	13.36	(316)	12.96
Outstanding at end of year	2,134	12.36	5,634	13.28	8,843	13.55
Options exercisable at end of year	1,910		4,774		5,919	
Available for grant at end of year	1,619		2,849		1,274	

The following table summarizes information for the options and warrants outstanding at December 31, 2003 (shares in thousands):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options Outstanding at 12/31/03	Weighted Average Remaining Contractual Life in Years	Weighted Average Exercise Price	Number of Options Exercisable at 12/31/03	Weighted Average Exercise Price
$ 2.09 $ 9.97	238	5.90	$ 4.55	224	$ 4.43

$11.00	$11.00	614	6.93	11.00	446	11.00
$11.38	$13.73	713	4.38	12.55	710	12.56
$14.75	$17.11	430	2.42	16.33	427	16.33
$17.40	$21.52	139	6.02	18.50	103	18.61
$ 2.09	$21.52	2,134	4.99	12.36	1,910	12.41

The Company applies APB Opinion No. 25 in accounting for its stock-based compensation plans. Pro forma information regarding net income and earnings per share disclosed in Note A has been determined as if we had accounted for our employee stock options and purchase rights under the fair value method of SFAS 123. No options were granted in 2003. The fair value of each option grant in 2002 and 2001 was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2002		2001	
Range of risk-free interest rates	4.31%	5.32%	2.77%	5.35%
Dividend yields	0%		0%	
Range of expected stock price volatility	237.66%	331.8%	234.55%	399.84%
Range of expected life of options (years)	4.42	10	1.15	10
Weighted-average fair value of options granted	$3.83		$13.51	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

NOTE L NON-EMPLOYEE DIRECTORS PLANS

The Company has a Non-Employee Directors Deferred Compensation Plan which permits each non-employee director to elect to receive annual director fees in the form of stock options and to defer receipt of any director fees in a deferred cash account or as deferred shares. As of December 31, 2003, 60,000 shares have been reserved for issuance under this plan and directors have accumulated 25,359 deferred shares in their accounts of which 1,643 shares have been distributed and 23,716 may be distributed in future years in accordance with the terms of the Deferred Compensation Plan and each director s election thereunder. No shares will be issued to a director until he has resigned, retired or his services as a director have otherwise been terminated. On March 18, 2004, the Bankruptcy Court approved the conversion of these deferred shares to an unsecured claim in the Chapter 11 Cases. As a result, the Company will fund this deferred compensation in cash totaling approximately $71,000 in connection with the payment of other pre-petition unsecured claims.

In 1999, the Company s Board of Directors adopted the Non-Employee Directors Retirement Plan which provides that each non-employee director with 10 or more years of continuous service is eligible to receive a retirement benefit based on a formula defined in the plan. The retirement benefit consists of a fixed amount based on years of service and a portion that fluctuates based on the fair market value of the Company s stock. In October 2002, the Company s Board of Directors terminated this plan. In accordance with the plan, each director became fully vested in his account. In accordance with the terms of the plan, benefits are paid when a director ceases to serve as a director of the Company on or after reaching retirement age. The Company expensed $57,000 related to this plan in 2002. In 2001, the Company recorded a reduction of $32,000 in the retirement benefit related to this plan.

NOTE M RELATED PARTY TRANSACTIONS

The Company paid approximately $764,000 in 2002 and $31,000 in 2001 to Aeroscan International Inc. (Aeroscan) for certain acquisition data services. No amounts were paid to Aeroscan in 2003. Approximately 4% of the equity of Aeroscan is owned by each of Robert Simon, President of Seitel Data, Ltd., a wholly owned subsidiary of the Company, and Kevin Callaghan, Chief Operating Officer of the Company, and an additional approximately 4% of the equity of Aeroscan is owned by other officers and employees of the Company. Mr. Callaghan served as a director of Aeroscan until his resignation in December 2002.

The Company entered into a number of transactions with Helm Capital Group, Inc. and its subsidiaries (Helm), when a Helm executive officer was a director of the Company. As of February 2002, the Helm executive officer ceased being a director of the Company. The Company owed Helm $16,000 as of December 31, 2002, for sales of seismic data and for general and administrative expenses paid by Helm on behalf of the Company. No amounts were owed at December 31, 2003. The Company incurred charges of $88,000 and $175,000, for these general and administrative expenses during 2002 and 2001, respectively. No such costs were incurred in 2003. It is not anticipated that the Company will incur any general and administrative expenses paid by Helm on behalf of the Company in future years.

During 2001, two former executive officers received advances against bonus and commission payments that were contingent upon achieving pre-tax profits goals during 2001. The pre-tax profits goals were not met in 2001. The Company initially determined that advances previously paid but not earned or awarded would be repaid pursuant to promissory notes; however, the repayment of the note from the former chief executive officer and certain other matters are the subject of pending litigation. The repayment of the note from the former chief financial officer and certain other matters were the subject of litigation proceedings which have been settled, resulting in the forgiveness of such debt by the Company. The SEC has informed the Company that it has issued a formal order of investigation relating to the events surrounding the advances and other matters concerning the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

former chief executive officer. The U.S. Attorney s Office for the Southern District of Texas was also investigating these events. For additional information concerning the pending matter involving Seitel and Mr. Frame, please see Note H Commitments and Contingencies.

In October 2001, the Company guaranteed an institutional loan totaling $600,000 to its former chief operating officer and general counsel, who later was named chief executive officer and who resigned in November 2002. Under the terms of his separation agreement, a portion of the amount outstanding was paid and the former employee is required to make annual installments of $60,000 with a maturity date of November 13, 2006. The loan is presently current and is not otherwise in default.

NOTE N MAJOR CUSTOMERS

No single customer accounted for 10% or more of revenue during 2003, 2002 or 2001.

The Company extends credit to various companies in the oil and gas industry for the purchase of their seismic data, which results in a concentration of credit risk. This concentration of credit risk may be affected by changes in economic or other conditions and may accordingly impact the Company s overall credit risk. However, management believes that the risk is mitigated by the number, size, reputation and diversified nature of the companies to which they extend credit. Historical credit losses incurred on receivables by the Company have not been significant relative to sales.

NOTE O STATEMENT OF CASH FLOW INFORMATION

The Company had restricted cash at December 31, 2003 and 2002 of $202,000 and $4.5 million, respectively.

For purposes of the statement of cash flows, the Company considers all highly liquid investments or debt instruments with an original maturity of three months or less to be cash equivalents.

Income taxes paid during 2003, 2002 and 2001 were $1,405,000, $2,166,000 and $13,404,000, respectively. In 2003, the Company received a Federal tax refund of $17,360,000. Interest paid, net of amounts capitalized, during 2003, 2002 and 2001 was $9,598,000, $23,578,000 and $11,975,000, respectively.

Significant non-cash investing and financing activities are as follows:

1. During 2003, 2002 and 2001, the Company had non-cash additions to its seismic data library totaling $14,845,000, $21,111,000 and $60,389,000, respectively. Of these amounts, $13,033,000, $13,551,000, and $57,045,000 resulted from non-monetary exchanges during 2003, 2002 and 2001, respectively. Additionally, in 2002, $6,659,000 resulted from offset of amounts owed to the Company for revenue on jointly owned data against amounts owed to the contractor for data acquisition costs. The balance of $1,812,000, $901,000 and $3,344,000 for 2003, 2002 and 2001, respectively, resulted from certain data creation costs which were offset against amounts due from the customer for data license fees. The offset amounts are also included in non-cash sales in the Consolidated Statements of Cash Flows.

2. During 2002 and 2001, capital lease obligations totaling $7,064,000 and $2,501,000, respectively, were incurred when the Company entered into leases for property and equipment.

3. During 2003, the Company received marketable securities valued at $60,000 in exchange for a license to certain seismic data. This amount is also included in non-cash sales in the Consolidated Statements of Cash Flows.

4. During 2003, the Company issued a note payable in the amount of $469,000 for partial consideration of the settlement of certain litigation with a former executive.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

Operating cash flows resulting from reorganization items for the year ended December 31, 2003 include the following (in thousands):

Interest received on cash accumulated because of the Chapter 11 proceeding	$ (32)
Professional and other fees paid for services rendered in connection with the Chapter 11 proceeding	3,327
	$ 3,295

NOTE P INDUSTRY SEGMENTS

Segment information has been prepared in accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. The Company operates in one business segment, which is made up of seismic data acquisition, seismic data licensing, seismic data processing and seismic reproduction service.

Geographic information for the three years ended December 31, 2003 is as follows (in thousands):

	United States	Canada	Other Foreign Countries	Total
2003				
Revenue	$ 109,729	$ 21,736	$	$ 131,465
Assets	293,489	73,552	48	367,089
2002				
Revenue	$ 113,732	$ 36,063	$	$ 149,795
Assets	338,827	59,223	86	398,136
2001				
Revenue	$ 91,250	$ 23,988	$	$ 115,238
Assets	584,366	75,746	1,357	661,469

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

NOTE Q QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following is a summary of the unaudited quarterly results of operations for the years ended December 31, 2003 and 2002.

	Quarter Ended			
	March 31	**June 30**	**Sept. 30**	**Dec. 31**
	(In thousands, except per share amounts)			
2003				
Revenue	$ 30,324	$ 31,773	$ 39,199	$ 30,169
Operating income (loss)	3,202	5,939	(4,428)	(16,338)
Income (loss) from continuing operations	(1,911)	864	(10,927)	(27,103)
Income (loss) from discontinued operations	(237)	39	19	1,318
Net income (loss)	(2,148)	903	(10,908)	(25,785)
Earnings (loss) per share:(1)				
Basic:				
Income (loss) from continuing operations	$ (.07)	$ .04	$ (.43)	$ (1.07)
Income (loss) from discontinued operations	(.01)			.05
Net income (loss)	$ (.08)	$ .04	$ (.43)	$ (1.02)
Diluted:				
Income (loss) from continuing operations	$ (.07)	$ .04	$ (.43)	$ (1.07)
Income (loss) from discontinued operations	(.01)			.05
Net income (loss)	$ (.08)	$ .04	$ (.43)	$ (1.02)
2002				
Revenue	$ 22,513	$ 47,102	$ 50,604	$ 29,576
Operating income (loss)	(5,701)	(23,186)	12,002	(118,800)
Income (loss) from continuing operations before cumulative effect of change in accounting principle	(6,230)	(21,086)	4,669	(115,922)
Loss from discontinued operations	(876)	(57,835)	(1,490)	(2,508)
Net income (loss)	(18,268)	(78,921)	3,179	(118,430)
Earnings (loss) per share:(1)				
Basic:				
Income (loss) from continuing operations	$ (.25)	$ (.83)	$ .19	$ (4.57)
Loss from discontinued operations	(.03)	(2.28)	(.06)	(.10)
Cumulative effect of change in accounting principle	(.45)			
Net income (loss)	$ (.73)	$ (3.11)	$ .13	$ (4.67)

Diluted:				
Income (loss) from continuing operations	$ (.25)	$ (.83)	$ .19	$ (4.57)
Loss from discontinued operations	(.03)	(2.28)	(.06)	(.10)
Cumulative effect of change in accounting principle	(.45)			
Net income (loss)	$ (.73)	$ (3.11)	$ .13	$ (4.67)

(1) The sum of the individual quarterly earnings per share may not agree with the year to date earnings per share as each period s computation is based on the weighted average number of common shares outstanding during the period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS Continued

In the fourth quarter of 2002, the Company recorded (i) $103 million of adjustments in the carrying value and revisions to the estimated useful life of its seismic data library (see Note C); and (ii) $8.2 million of costs and expenses related to litigation accruals, acceleration of certain lease obligations and allowances for collection of notes receivables.

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CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	(Unaudited) March 31, 2004	December 31, 2003
ASSETS		
Cash and equivalents	$ 48,588	$ 44,362
Restricted cash	161	202
Receivables		
Trade (net)	36,399	37,461
Notes and other	11,308	12,047
Net seismic data library	253,874	247,541
Net property and equipment	14,091	15,431
Oil and gas operations held for sale	544	1,552
Investment in marketable securities	32	99
Prepaid expenses, deferred charges and other	8,118	8,394
Total Assets	$ 373,115	$ 367,089
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities not subject to compromise:		
Accounts payable and accrued liabilities	$ 20,679	$ 17,414
Oil and gas operations held for sale	13	17
Term Loans	5,417	5,417
Obligations under capital leases	6,267	6,571
Deferred income taxes	2,509	1,953
Deferred revenue	58,635	58,876
Liabilities subject to compromise	277,554	273,119
Total Liabilities	371,074	363,367
Commitments and Contingencies		
STOCKHOLDERS EQUITY		
Preferred stock, par value $.01 per share; authorized 5,000,000 shares; none issued		
Common stock, par value $.01 per share; authorized 50,000,000 shares; issued and outstanding 25,811,601 at March 31, 2004 and December 31, 2003	258	258
Additional paid-in capital	166,630	166,630
Retained deficit	(160,929)	(159,731)
Treasury stock, 435,918 shares at cost at March 31, 2004 and December 31, 2003	(5,373)	(5,373)

Notes receivable from officers and employees for stock purchases	(89)	(124)
Accumulated other comprehensive income	1,544	2,062
Total Stockholders Equity	2,041	3,722
Total Liabilities and stockholders Equity	$ 373,115	$ 367,089

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

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SEITEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(In thousands, except per share amounts)

	Three Months Ended March 31,	
	2004	**2003**
Revenue	$ 41,264	$ 30,324
Expenses		
Depreciation and amortization	24,083	18,075
Cost of sales	74	154
Selling, general and administrative	8,539	8,893
	32,696	27,122
Income from operations	8,568	3,202
Interest expense and other, net	(4,948)	(5,078)
Reorganization items	(4,147)	
Loss from continuing operations before income taxes	(527)	(1,876)
Provision for income taxes	706	35
Loss from continuing operations	(1,233)	(1,911)
Income (loss) from discontinued operations, net of tax	35	(237)
Net loss	$ (1,198)	$ (2,148)
Basic and diluted income (loss) per share:		
Loss from continuing operations	$ (.05)	$ (.07)
Income (loss) from discontinued operations		(.01)
Net loss	$ (.05)	$ (.08)
Weighted average number of common and common equivalent shares basic and diluted	25,376	25,376

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

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SEITEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2004	**2003**
Net loss	$ (1,198)	$ (2,148)
Unrealized losses on securities held as available for sale	(65)	
Foreign currency translation adjustments	(453)	1,278
Comprehensive loss	$ (1,716)	$ (870)

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

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SEITEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(In thousands, except share amounts)

	Common Stock				Treasury Stock		Notes Receivable from Officers & Employees	Accumulated Other Comprehensive Income (Loss)
	Shares	Amount	Additional Paid-In Capital	Retained Deficit	Shares	Amount		
Balance, December 31, 2002	25,811,601	$ 258	$ 166,630	$ (121,793)	(435,918)	$ (5,373)	$ (1,178)	$ (1,508)
Payments received on notes receivable from officers and employees							1,054	
Net loss				(37,938)				
Foreign currency translation adjustments								3,499
Unrealized gain on marketable securities								71
Balance, December 31, 2003	25,811,601	258	166,630	(159,731)	(435,918)	(5,373)	(124)	2,062
Payments received on notes receivable from officers and employees							35	
Net loss				(1,198)				
Foreign currency translation adjustments								(453)
Unrealized losses on marketable securities								(65)
Balance, March 31, 2004 (unaudited)	25,811,601	$ 258	$ 166,630	$ (160,929)	(435,918)	$ (5,373)	$ (89)	$ 1,544

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

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SEITEL, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(In thousands)

	Three Months Ended March 31,	
	2004	**2003**
Cash flows from operating activities:		
Reconciliation of net loss to net cash provided by operating activities of continuing operations:		
Net loss	$ (1,198)	$ (2,148)
Loss (income) from discontinued operations, net of tax	(35)	237
Depreciation and amortization	24,083	18,075
Deferred income tax provision	584	2,835
Amortization of deferred financing costs	1,184	71
Allowance for collection of trade receivables	75	75
Non-cash sales	(5,384)	(3,682)
Decrease (increase) in receivables	871	(2,764)
Decrease (increase) in other assets	217	(604)
Decrease in deferred revenue	2,507	1,415
Increase (decrease) in accounts payable and other liabilities	6,634	(1,144)
Net cash provided by operating activities of continuing operations	29,538	12,366
Cash flows from investing activities:		
Cash invested in seismic data	(25,696)	(15,811)
Cash paid to acquire property and equipment	(300)	(101)
Cash received from disposal of property and equipment		5
Decrease in restricted cash	41	4,419
Net cash used in investing activities of continuing operations	(25,955)	(11,488)
Cash flows from financing activities:		
Principal payments on term loans	(8)	(1,113)
Principal payments on capital lease obligations	(266)	(1,110)
Costs of debt and equity transactions	(474)	
Payments on notes receivable from officers and employees	40	57
Net cash used in financing activities of continuing operations	(708)	(2,166)
Effect of exchange rate changes	312	(1,519)
Net cash provided by discontinued operations	1,039	59
Net increase (decrease) in cash and equivalents	4,226	(2,748)
Cash and cash equivalents at beginning of period	44,362	21,517
Cash and equivalents at end of period	$ 48,588	$ 18,769

Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	$ 310	$ 5,533
Income taxes	$	$ 868
Supplemental schedule of non-cash investing activities:		
Additions to seismic data library	$ 3,161	$ 3,159

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

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited)

March 31, 2004

NOTE A BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions of Regulation S-X. Accordingly, they do not include all of the information and notes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain reclassifications have been made to the amounts in the prior year s financial statements to conform to the current year s presentation. Operating results for the three months ended March 31, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. These unaudited financial statements should be read in conjunction with the financial statements and notes thereto for the year ended December 31, 2003 contained in the Company s Annual Report filed on Form 10-K with the Securities and Exchange Commission (SEC).

Substantial Doubt About the Company s Ability to Continue as a Going Concern: The Company s financial statements have been prepared on a basis that assumes the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. On July 21, 2003, the Company filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code (see Note B Reorganization Proceedings). Accordingly, there is substantial doubt about the Company s ability to continue as a going concern, including recovering assets and satisfying liabilities in the normal course of business. On January 17, 2004, the Company filed with the Bankruptcy Court the third amended joint plan of reorganization (the Plan), which subsequently was amended on February 5, 2004. On March 18, 2004, the Bankruptcy Court confirmed the Plan. Under the Plan, all of the Company s outstanding allowed pre-petition claims will be fully paid, in cash, together with post-petition (non-default rate) interest, except with respect to any disputed claims and any claims that are reinstated under the Plan. The Plan further provides that the Company will receive $75 million of new equity as a result of the exercise of the reorganized common stock purchase warrants and/or the private sale of shares under a standby purchase agreement. Payments to creditors under the Plan will be funded utilizing (i) the net proceeds from the new equity, (ii) net proceeds of not less than $180 million from the Company s anticipated institutional offering of new senior unsecured notes, (iii) available cash and equivalents of not less than $35 million, and, if necessary, (iv) available borrowings under the Company s new revolving credit facility provided on the effective date of the Plan. Certain conditions, as fully described in Note B Reorganization Proceedings , are required for the Plan to become effective. The consolidated financial statements reflect the amounts as of March 31, 2004, which the Company believes will ultimately be paid to settle liabilities and contingencies that may be allowed in bankruptcy, including interest. There can be no assurance that the transactions will be consummated in the way contemplated under the Plan, or that the Company will emerge from its reorganization proceedings as contemplated under the Plan.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited) Continued

March 31, 2004

Contractual Obligations: As of March 31, 2004, the Company had approximately $271.8 million of outstanding debt and lease obligations, with aggregate contractual cash obligations summarized as follows (in thousands):

		Payments due by period			
Contractual cash obligations	**Total**	**2004**	**2005**	**2006**	**2007 and thereafter**
Debt obligations(1)	$ 260,855	$ 260,440	$ 37	$ 38	$ 340
Capital lease obligations	6,267	1,209	2,434	34	2,590
Operating lease obligations	4,669	751	960	677	2,281
Total contractual cash obligations	$ 271,791	$ 262,400	$ 3,431	$ 749	$ 5,211

(1) These debt obligations have contractual maturities ranging from 2003 to 2011. The Company is not in compliance with certain of the covenants related to this debt and the holders of $255 million of such debt have accelerated the maturity thereof. Pursuant to the Company s Plan of Reorganization $260.4 million of this debt will be paid in full in 2004; therefore, the maturities have been reflected as due in 2004.

As a result of the bankruptcy filing discussed in Note B below, the rights of and ultimate payments related to certain of these contractual obligations may be substantially altered.

Revision to March 31, 2004 Financial Statements: Effective on March 30, 2004, the Bankruptcy Court allowed the amount of Berkshire Hathaway, Inc. s claims in respect of its senior unsecured notes which previously had been recorded by the Company at a value of $255 million principal amount, plus accrued interest. Under AICPA Statement of Position No. 90-7 (SOP 90-7), Financial Reporting by Entities in Reorganization Under the Bankruptcy Code , which has been followed by the Company since the commencement of its Chapter 11 Cases, once a debt claim is formally allowed by the Bankruptcy Court, any theretofore existing deferred issue costs in respect of such debt is required to be adjusted to the extent necessary to report the debt at the allowed claim amount. At the time the senior unsecured notes were established as an allowed claim, the Company had $1.0 million of deferred issue costs recorded on its balance sheet and characterized as prepaid expenses. Such amount should have been expensed in the quarter ended March 31, 2004 as a non-cash reorganization charge as opposed to being expensed on the effective date of the Plan. Additionally, certain pre-petition liabilities totaling $426,000 are disputed by the Company and, in accordance with SOP 90-7, it is not probable that such pre-petition liabilities will result in allowed claims. Therefore, such liabilities should have been correspondingly reduced as of March 31, 2004. The previously reported first quarter 2004 results have been revised to reflect the accelerated amortization of the remaining $1.0 million deferred issue costs and the reduction in liabilities subject to compromise of $426,000. Such adjustments are reflected in reorganization items in the consolidated statement of income. These revisions did not affect the Company s previously reported income from operations, cash position or cash flows from operations.

NOTE B REORGANIZATION PROCEEDINGS

On July 21, 2003, (the Petition Date), Seitel, Inc., and its wholly owned U.S. subsidiaries filed voluntary petitions under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware (the Bankruptcy Court) (Chapter 11 Case No. 03-12227 (PJW)). Seitel, Inc. and its 30 U.S. subsidiaries that have filed petitions are collectively referred to herein as the Debtors and the Chapter 11 cases of these entities are collectively referred to herein as the Cases. By order of the Bankruptcy Court dated July 25, 2003, the Cases are being jointly administered. On July 22, 2003, the Debtors filed their joint plan of reorganization. Since the Petition Date, the Debtors have continued to operate their business and manage their properties as debtors-in-possession pursuant to Sections 1107(a) and 1108 of the Bankruptcy Code. No trustee has been appointed in the Cases.

SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited) Continued

March 31, 2004

None of the Company s direct or indirect subsidiaries or affiliates incorporated in Canada or other non-U.S. jurisdictions have filed Chapter 11, and none are expected to file for reorganization or protection from creditors under any insolvency or similar law in the U.S. or elsewhere. Such non-filing, non-U.S. based subsidiaries and affiliates are called non-Debtors .

The previously filed involuntary bankruptcy petitions which were pending against the Company were dismissed on July 25, 2003 by order of the Bankruptcy Court pursuant to a joint request for such dismissal filed by the Company and Ranch Capital L.L.C. (Ranch). Ranch previously purchased all of the senior unsecured notes (the Notes) held by the entities which filed the involuntary bankruptcy petitions. Ranch subsequently sold the Notes to Berkshire Hathaway Inc. (Berkshire). An official equity committee (the Official Equity Committee) was appointed on August 11, 2003.

On the Petition Date, the Debtors sought, and thereafter obtained, authority to take a broad range of actions, including to honor and perform under their pre-petition customer data agreements and to promote a business as usual atmosphere with customers and employees. This relief was essential to minimize disruptions to the Debtors businesses as a result of the commencement of the Cases and to assure their customers that the data license agreements for selection of seismic data would be honored pending confirmation of a plan. Additionally, other first day orders were obtained, including authority to pay certain, limited pre-petition employee wages and benefits, providing adequate assurance of future payments to utility companies, continued use of cash management systems, payment of pre-petition sales and use taxes and appointment of a claims and balloting agent.

By order dated September 22, 2003, the Bankruptcy Court approved a $20 million debtor-in-possession loan facility (the DIP Facility) from Wells Fargo Foothill, Inc. (Foothill), subject to certain conditions.

On October 6, 2003, the Debtors filed their first amended joint plan of reorganization, which superseded the joint plan of reorganization. The disclosure statement relating to the first amended joint plan of reorganization was approved upon notice, and a hearing to consider confirmation of the first amended joint plan of reorganization was scheduled in the Bankruptcy Court for November 4, 2003. In October 2003, the Company s stockholders voted to reject the first amended joint plan of reorganization.

On October 27, 2003, the Official Equity Committee moved to adjourn the Bankruptcy Court hearing to consider confirmation of the first amended joint plan of reorganization and to terminate the Debtors statutory exclusivity period. Following a hearing, the Bankruptcy Court ordered the termination of the Debtors exclusivity period, and on November 6, 2003 the Official Equity Committee filed with the Bankruptcy Court its own proposed, initial plan of reorganization (the Committee Plan). The Debtors and the holders of the Notes objected to the Committee Plan on the basis, among others, that the Committee Plan was not feasible within the meaning of Section 1129 of the Bankruptcy Code.

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

On January 17, 2004, the Debtors filed with the Bankruptcy Court the Plan, which subsequently was amended on February 5, 2004. The Plan was agreed to by the Official Equity Committee, as well as Berkshire and Ranch, and was accepted by the holders of more than 99.6% of the shares of the Company s common stock who voted on the Plan. On March 18, 2004, the Bankruptcy Court confirmed the Plan.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited) Continued

March 31, 2004

Under the Plan:

- All of the Company s outstanding allowed pre-petition claims will be fully paid, in cash, together with post-petition (non-default rate) interest, except with respect to any disputed claims and any claims that are reinstated under the Plan.

- All 25,375,683 outstanding shares of the Company s common stock will be cancelled and such shares will be converted into the right to receive and be exchanged for:

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

  - warrants to purchase an aggregate of 125,000,000 shares of reorganized common stock (Stockholder Warrants) at an exercise price of $.60 per share.

- The Standby Purchasers, as defined in the Plan, will, following the expiration of the Stockholder Warrants, purchase in a private transaction up to $75 million worth of reorganized common stock (representing the maximum number of shares subject to the Stockholder Warrants) not purchased upon the exercise of the Stockholder Warrants.

- The Standby Purchasers will receive, as compensation for their standby purchase agreement, separate warrants (the Guarantor Warrants) to purchase up to 15,037,568 shares of reorganized common stock, representing 9.10% of the issued and outstanding shares of reorganized common stock on a fully diluted basis. The Guarantor Warrants will expire seven years after their issuance and have an exercise price of $.72 per share.

Payments to creditors under the Plan will be funded utilizing (i) the net proceeds from the exercise of the Stockholder Warrants and/or the sale of shares under the standby purchase agreement, (ii) net proceeds of not less than $180 million from the Company s anticipated institutional offering of new senior unsecured notes, (iii) available cash and equivalents of not less than $35 million and, if necessary, (iv) available borrowings under the Company s new revolving credit facility.

The effective date of the Plan is anticipated to occur in May 2004 or as soon as practicable thereafter. The Plan will not become effective unless and until the following conditions have occurred:

- the contemplated institutional private placement of new senior notes is consummated resulting in net proceeds to the Company of not less than $180 million, the new revolving credit facility providing for a revolving loan commitment, subject to borrowing base, of not less than $25 million, is closed and is in full force and effect,

the registration statement is declared effective by the SEC, and no stop order has been issued in respect thereof,

the Company s initial board of directors is appointed as set forth in the Plan and each director has agreed to serve as a director of the Company,

the Company has cash or cash equivalents in hand as of the effective date of the Plan and available to satisfy claims under the Plan of not less than $35 million, and

the effective date of the Plan has occurred on or prior to July 31, 2004.

The Company, with the consent of the Official Equity Committee and the Standby Purchasers and in certain cases, Berkshire and Ranch (which consent will not unreasonably be withheld), may waive any of the conditions set forth above, at any time, without notice, without leave or order of the bankruptcy court, and without any formal action other than proceeding to consummate the Plan.

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited) Continued

March 31, 2004

In addition to the conditions precedent under the Plan, Mellon HBV Alternative Strategies LLC (Mellon HBV) has required the Company to satisfy separate conditions under the standby funding commitment entered into between the Company and Mellon HBV on January 5, 2004. Mellon HBV has the right to terminate its standby funding commitment if any of the conditions precedent under the standby commitment letter are not met. Mellon HBV also retains the right to terminate the standby funding commitment upon the occurrence and non-occurrence of certain events. Mellon HBV may, at its option, waive any of the conditions or termination events.

There can be no assurance that the transactions will be consummated in the way contemplated under the Plan, that the Company will consummate the Plan by July 31, 2004, or that the Company will emerge from its reorganization proceedings as contemplated under the Plan.

Generally, pre-Petition Date claims against the Debtors fall into two categories: secured and unsecured, including certain contingent or unliquidated claims. Under the Bankruptcy Code, a creditor s claim is treated as secured only to the extent of the value of the collateral securing such claim, with the balance of such claim being treated as unsecured. The amount and validity of pre-Petition Date contingent or unliquidated claims ultimately may be established by the Bankruptcy Court or by agreement of the parties. As a result of the Cases, additional pre-Petition Date claims and liabilities have been asserted, some of which are significant. The Debtors have objected to many of the asserted claims which the Debtors believe are improper or overstated. No provision has been included in the accompanying financial statements for such contingent or unliquidated claims that have been filed with the Bankruptcy Court except to the extent the Company believes such claims to be probable and estimable.

The accompanying consolidated financial statements have been prepared in accordance with SOP 90-7 and on a going concern basis, which contemplates the realization of assets and the liquidation of liabilities in the ordinary course of business. However, as a result of the Cases, such realization of assets and liquidation of liabilities is subject to a significant number of uncertainties.

The following tables set forth certain financial information for the Debtors and non-Debtors (in thousands):

Condensed Consolidating Balance Sheets

March 31, 2004

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated

Cash and equivalents	$ 47,981	$ 607	$	$ 48,588
Receivables	37,778	9,929		47,707
Investment in subsidiaries	294,708	22,734	(317,442)	
Intercompany receivables (payables)	21,455	(21,455)		
Net seismic data library	193,559	60,315		253,874
Net property and equipment	7,385	6,706		14,091
Other assets	7,678	1,177		8,855
	$ 610,544	$ 80,013	$ (317,442)	$ 373,115
Liabilities not subject to compromise:				
Accounts payable and accrued liabilities	$ 13,147	$ 7,532	$	$ 20,679
Debt, including capital leases	8,988	2,696		11,684
Other liabilities	43,050	18,107		61,157
Liabilities subject to compromise	277,554			277,554
Stockholders equity	267,805	51,678	(317,442)	2,041
	$ 610,544	$ 80,013	$ (317,442)	$ 373,115

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited) Continued

March 31, 2004

Condensed Consolidating Balance Sheets

December 31, 2003

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Cash and equivalents	$ 41,133	$ 3,229	$	$ 44,362
Receivables	41,410	8,098		49,508
Investment in subsidiaries	294,848	22,955	(317,803)	
Intercompany receivables (payables)	16,657	(16,657)		
Net seismic data library	193,826	53,715		247,541
Net property and equipment	8,013	7,418		15,431
Other assets	8,904	1,343		10,247
	$ 604,791	$ 80,101	$ (317,803)	$ 367,089
Liabilities not subject to compromise:				
Accounts payable and accrued liabilities	$ 11,522	$ 5,892		$ 17,414
Debt, including capital leases	9,232	2,756		11,988
Other liabilities	40,729	20,117		60,846
Liabilities subject to compromise	273,119			273,119
Stockholders equity	270,189	51,336	(317,803)	3,722
	$ 604,791	$ 80,101	$ (317,803)	$ 367,089

Condensed Consolidating Statements of Income

For the Three Months Ended March 31, 2004

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Revenue	$ 27,342	$ 16,448	$ (2,526)	$ 41,264
Expenses:				
Depreciation and amortization	14,724	9,359		24,083

Cost of sales	47	27		74
Selling, general and administrative expenses	6,143	4,922	(2,526)	8,539
Income from operations	6,428	2,140		8,568
Interest expense, net	(4,734)	(214)		(4,948)
Reorganization items	(4,147)			(4,147)
Provision for income taxes		(706)		(706)
Income from discontinued operations	35			35
Net income (loss)	$ (2,418)	$ 1,220	$	$ (1,198)

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited) Continued

March 31, 2004

Condensed Consolidating Statements of Cash Flows

For the Three Months Ended March 31, 2004

	Debtors	Non-Debtors	Consolidation/ Elimination Entries	Consolidated
Net cash provided (used) by:				
Operating activities	$ 17,107	$ 12,431	$	$ 29,538
Investing activities	(10,620)	(15,335)		(25,955)
Financing activities	(678)	(30)		(708)
Effect of exchange rate changes		312		312
Net cash provided by discontinued operations	1,039			1,039
Net increase (decrease) in cash and equivalents	6,848	(2,622)		4,226
Cash and equivalents at beginning of period	41,133	3,229		44,362
Cash and equivalents at end of period	$ 47,981	$ 607	$	$ 48,588

Classification of Liabilities as Liabilities Not Subject to Compromise Versus Liabilities Subject to Compromise. Liabilities not subject to compromise include: (1) liabilities incurred after the Petition Date of the Cases; (2) pre-Petition Date liabilities that the Debtors expect to pay in full including priority tax and employee claims, even though these amounts may not be paid until a plan of reorganization is approved; and (3) deferred revenue in connection with customer data agreements.

Liabilities subject to compromise refer to all other pre-Petition Date liabilities of the Debtors. The amounts of the various liabilities that are subject to compromise are set forth below. These amounts represent the Company's estimates of known or probable pre-Petition Date claims that are likely to be resolved in connection with the Cases. Such claims remain subject to future adjustments.

The amounts subject to compromise at March 31, 2004 and December 31, 2003 consisted of the following items (in thousands):

	March 31, 2004	December 31, 2003
Accounts payable	$ 582	$ 734
Accrued interest	17,002	12,323
Other accrued liabilities	4,532	4,616
Debt	255,438	255,446
Total	$ 277,554	$ 273,119

The classification of liabilities not subject to compromise versus liabilities subject to compromise is based on currently available information and analysis. As the Cases proceed and additional information and analysis is completed or, as the Court rules on relevant matters, the absolute amount of and the classification of amounts between these two categories may change. The amount of any such changes could be material.

Reorganization Items. Reorganization items under the Cases are expense or income items that are incurred or realized by the Debtors because they are in reorganization. These items include, but are not limited to, professional fees and similar types of expenses incurred directly related to the Cases, loss accruals or gains or

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited) Continued

March 31, 2004

losses resulting from activities of the reorganization process, and interest earned on cash accumulated by the Debtors because they are not paying their pre-petition liabilities. For the three months ended March 31, 2004, reorganization items were as follows (in thousands):

Professional fees	$ 3,324
Interest Income	(31)
Accelerated amortization of deferred debt issue costs	1,007
Reduction of pre-petition liabilities	(426)
Other	273
Total	$ 4,147

NOTE C REVENUE RECOGNITION

Revenue from Data Acquisition

Revenue from the creation of new seismic data is recognized using the proportional performance method based upon costs incurred and work performed to date as a percentage of total estimated costs and work required. Management believes that this method is the most reliable and representative measure of progress for its data creation projects. The duration of most data creation projects is generally less than one year. Under these contracts, the Company creates new seismic data designed in conjunction with its customers and specifically suited to the geology of the area using the most appropriate technology available. The contracts typically result in one or more customers underwriting a significant portion of the direct creation costs in exchange for a license or licenses to use the resulting data. Customers make periodic payments throughout the creation period, which generally correspond to costs incurred and work performed. These payments are non-refundable. 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. The creation process generally occurs in the following stages: permitting, surveying, drilling, recording and processing. The stages of this work often occur concurrently. Throughout the creation period, the customers receive legally enforceable rights and access to, and the benefits of, the results of all work performed. The customers also receive access to and use of the newly acquired and processed data. The customers may have exclusive access to the work performed and exclusive use of the newly acquired and processed data for a limited term, which is generally less than nine months, after final delivery of the processed data. The customers access to and use of the results of the work performed and of the newly acquired, processed data is governed by a license agreement which is a separate agreement from the acquisition contract. The Company s acquisition contracts require the customer either to have a license agreement in place or to execute one at the time the acquisition contract is signed. The Company maintains sole ownership of the newly acquired data, which is added to its library, and is free to license the data to other customers when the original customers exclusivity period ends.

Revenue from Data Licenses

The Company licenses data from its seismic data library to customers to review for a limited period of time or to hold long-term under four basic forms of contracts.

Under the first form of contract, the customer licenses and selects data from the data library at the time the contract is entered into.

Under the second form of contract, referred to as a review and possession 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.

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Under the third form of contract, referred to as a library card contract, the customer initially receives only access to data. The customer may then select specific data, from the collection of data to which it has access, to hold long-term under its license agreement. The lengths of the selection periods under the library card contracts vary.

Under the fourth form of contract, referred to as a review only 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 usage of all data delivered to the customer, whether for review only or to hold long-term, is governed by a license agreement, which is a separate agreement from the sales contracts that are described above. The Company s contracts require the customer either to have a license agreement in place or to execute one at the time the contract is signed. The license agreement governs all data delivered to the customer during the term. Payment terms under the contracts vary from 30 days to 18 months depending on the size of the transaction. All payments due are non cancelable and all payments made are non-refundable. The customer has access to all available data covered by the contracts on the date the contract is executed. If the contract allows licensing of data that is not currently available, revenue is deferred until such time that the data is available for licensing. The contracts permit selection of the data in its present form, and the Company is under no obligation to make any enhancements, modifications or additions to the data unless specific terms to the contrary are included, in which case revenue with respect to such data would be deferred until performance is met. Copies of the data are available to the customer immediately upon request.

The Company recognizes revenue from licensing of seismic data when the Company has contracted with the customer for a fixed sales price; a licensing agreement is in place; the customer has selected specific data under the terms of the contract or the contract has expired without full selection having occurred; and collectibility of the sales price is reasonably assured. The Company recognizes revenue for the particular data selected as each specific selection of data is made by the customer. If selections are not completed by the expiration date of the contract, the Company recognizes any remaining revenue under that contract. In each case (selection or expiration), the earnings process is complete. The Company does not recognize revenue for amounts billed in advance of being earned until the aforementioned criteria are met. For revenue that is deferred, the Company defers the direct costs (primarily commissions) related to the revenues. Revenue from licensing of seismic data is presented net of revenue shared with other entities.

Revenue from Non-Monetary Data Exchanges

In certain cases, the Company grants its customer a non-exclusive license to selected data from its library in exchange for ownership of seismic data from the customer. Occasionally, in connection with specific data acquisition contracts, the Company receives both cash and ownership of seismic data from the customer as consideration for the underwriting of new data acquisition. The data that the Company receives is distinct from the data that it is licensing to the customer. Because the Company receives ownership of distinct seismic data to be added to its library, and this data may be relicensed by the Company on a continuing basis, in exchange for a data license, the exchange is not a like-kind exchange, which would be accounted for at historical cost. Once data selection or creation is completed, the exchange represents the culmination of the earnings process with the customer and is not merely an exchange between two seismic companies. These exchanges are referred to as non-monetary data exchanges.

In non-monetary exchange transactions, the Company records a data library asset for the seismic data acquired at the time the contract is entered into and recognizes revenue on the transaction in accordance with its policy on revenue from data licenses, that is, when the data is selected by the customer, or revenue from data

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acquisition, as applicable. The data license to the customer is in the form of one of the four basic forms of contracts discussed above. These transactions are valued at the fair value of the data received or delivered, whichever is more readily determinable.

The Company determines fair value of data exchanged by first determining the value of the license granted to the customer. It does so by evaluating the range of cash transactions by the Company for licenses of similar data during the prior six months for licenses in the United States and for the prior twelve months for licenses in Canada. In evaluating the range of cash transactions, the Company does not consider transactions that are disproportionately high or low. The Company then also considers the value of the data 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 as well as the cost that would be required to create the data. In the United States, the Company applies a limitation on the value it assigns per square mile on the data exchanged. In Canada, in the event of a difference greater than 2% between the value of the license granted and the value of the data received, the Company assigns the lower value to the exchange. In significant exchanges, the Company obtains concurrence from an independent third party in order to support the Company s valuation of the data received. The Company obtains third party concurrence on all non-monetary exchanges of $500,000 or more. The Company obtains this concurrence on an annual basis, usually in connection with the preparation of its annual financial statements. The independent third party evaluators concurred with the Company s valuations of all significant exchange transactions during 2003 and 2002.

For the three months ended March 31, 2004 and 2003, the Company recorded seismic data library assets of $3,080,000 and $3,109,000, respectively, from non-monetary exchanges of seismic data. Revenue on a significant portion of the non-monetary data exchange transactions was initially deferred in accordance with the Company s accounting policy. Because of data selections by customers and underwriting from non-monetary exchanges, the Company recognized revenue of $5,303,000 and $3,632,000 for the three months ended March 31, 2004 and 2003, respectively, from this activity.

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

Revenue from Seitel Solutions, Ltd. and Seitel Solutions Canada Ltd., wholly-owned subsidiaries of the Company, (collectively, Solutions) is recognized as the services for reproduction and delivery of seismic data are provided to customers.

NOTE D 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 seven years for onshore data and five years for offshore data, 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 acquired through a non-monetary data exchange, the Company capitalizes an amount equal to the fair value of the data received by the Company or the fair value of the license granted to the customer, whichever is more readily determinable. In the case of any single non-monetary exchange where the fair value recorded is in excess of $500,000, the Company also obtains concurrence from a third party to support the Company s valuation.

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For internally created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs related to processing the created data. Such costs include salaries and benefits of the Company s processing personnel and certain other costs incurred for the benefit of the processing activity. The Company believes that the internal processing costs capitalized are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for internal data processing were $436,000 and $552,000 for the three months ended March 31, 2004 and 2003, respectively.

Data Library Amortization

The Company amortizes its seismic data library using the greater of the amortization that would result from the application of the income forecast method or a straight-line basis over the useful life of the data. The estimated useful life of the Company s seismic data is seven years for onshore data and five years for offshore data. With respect to each survey in the data library, the useful life policy is applied from the time such survey is available for licensing to customers generally, since some data in the library may not be licensed until an exclusivity period (usually nine months or less) has lapsed.

The Company applies the income forecast method by forecasting the ultimate revenue expected to be derived from a particular data library component over the estimated useful life of each survey comprising part of such component. This forecast is made by the Company annually and reviewed quarterly. If, during any such review, the Company determines that the ultimate revenue for a library component is expected to be significantly different than the original estimate of total revenue for such library component, the Company revises the amortization rate attributable to future revenue from each survey in such component. In addition, in connection with such reviews and updates, the Company evaluates the recoverability of its seismic data library, and if required under Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment and Disposal of Long-Lived Assets, records an impairment charge with respect to such data. See discussion on *Seismic Data Library Impairment* below.

The actual rate of amortization depends on the specific seismic surveys licensed and selected by the Company s customers during the year. The amortization rates vary by component and, effective January 1, 2004, range from a low of 47% to a high of 100% with a weighted average rate of 56% based on the net book value of each component compared with the net book value of the entire seismic data library as of such date.

The 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

As events or conditions require, the Company evaluates the recoverability of its seismic data library in accordance with SFAS No. 144. The Company evaluates its seismic data library 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 should be evaluated for impairment.

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The Company evaluates its seismic data library in components based on its operations and geological and geographical trends, resulting in the following data library segments for purposes of evaluating impairments: (I) Gulf of Mexico offshore comprised of the following components: (a) multi-component data, (b) value-added products, (c) ocean bottom cable data, (d) shelf data, and (e) deep water data; (II) North America onshore comprised of the following components: (a) Texas Gulf Coast, (b) northern, eastern and western Texas, (c) southern Louisiana/Mississippi, (d) northern Louisiana, (e) Rocky Mountains, (f) North Dakota, (g) other United States, (h) Canada and (i) value-added products, and (III) international data outside North America. The Company believes that these library components constitute the lowest levels of independently identifiable cash flows.

In accordance with SFAS No. 144, the impairment evaluation is based first on a comparison of the undiscounted future cash flows over each component s remaining estimated useful life with the carrying value of each library component. If the undiscounted cash flows are equal to or greater than the carrying value of such 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. 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, inherently imprecise and can change materially from period to period based on the factors described in the preceding paragraph, among others. Accordingly, if conditions change in the future, the Company may record further impairment losses relative to its seismic data library, which could be material to any particular reporting period.

NOTE E DISCONTINUED OPERATIONS

In June 2002, the Company s Board of Directors unanimously adopted a plan to dispose of the Company s oil and gas operations by sale. Accordingly, the Company s consolidated financial statements report the oil and gas operations as discontinued operations. In 2002, the Company sold substantially all of its oil and gas assets. In January 2004, the Company sold a portion of its remaining oil and gas assets for approximately $1,287,000. The Company continues to market its remaining oil and gas assets for sale.

Revenue from discontinued operations was $72,000 and $81,000 for the three months ended March 31, 2004 and 2003, respectively. Pre-tax income (loss) from discontinued operations was $35,000 and $(237,000) for the three months ended March 31, 2004 and 2003, respectively.

The Company uses the full-cost method of accounting for its oil and gas operations.

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NOTE F DEBT

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

	March 31, 2004	December 31, 2003
Notes	$ 255,000	$ 255,000
Debtor-in-Possession Loan Facility		
Subsidiary revolving line of credit		
Term loan	5,417	5,417
Note payable to former executive	438	446
	$ 260,855	$ 260,863

Notes: The Company has outstanding Notes totaling $255 million at March 31, 2004 that were issued in various series from December 1995 through December 2001. The Notes bear interest at rates ranging from 7.04% to 7.48% and have maturity dates ranging from June 2003 to October 2011. The financial covenants in the Notes include, among other restrictions, maintenance of minimum net worth and limitations on total debt, interest coverage, liens, debt issuance, dividends and disposition of assets. As a result of the non-payment of interest thereon, the Company s Chapter 11 filing and the restatement of its financial statements prior to January 1, 2002, among other factors, the Company is in default on the Notes.

On June 6, 2003, certain of the holders of the Notes filed involuntary Chapter 11 petitions against the Company and 16 of its subsidiaries that guaranteed the Notes. On June 26, 2003, the Company announced that Ranch had purchased all $255 million of the Notes. Subsequently, the Company and Ranch reached agreements extending the time by which the Company must respond to the involuntary bankruptcy petitions. On July 21, 2003, the Debtors filed voluntary petitions in bankruptcy and the Company and Ranch filed motions to dismiss the involuntary petitions (see Note B Reorganization Proceedings). In addition, on or before July 21, 2003, Ranch sold all of the Notes to Berkshire.

Under the terms of the Plan, the Notes will be paid in full, along with accrued interest. As of March 31, 2004, accrued interest totaled $16.9 million and was included in liabilities subject to compromise in the Consolidated Balance Sheet.

Debtor-in-Possession Loan Facility: The Bankruptcy Court approved a $20 million debtor-in-possession loan and security agreement with Wells Fargo Foothill, Inc., as lender, to support the Debtor s operations during the course of the Cases (the DIP Facility). The DIP Facility will terminate upon, among other events, the earlier of June 30, 2004 or the effective date of a plan of reorganization. Advances under the DIP Facility are available pursuant to a formula based on outstanding accounts receivable and the carrying value of the seismic library of the Debtors, subject to certain limitations. If any advance is made under the DIP Facility, the first such advance must be at least in an amount equal to and the proceeds must be used to retire the balance of the term loan payable by Seitel Data Ltd. that is described below. The DIP Facility is secured by a first priority, perfected security on substantially all of the Company s U.S. assets and a pledge of all of the issued and outstanding capital stock of the Company s U.S. subsidiaries. The Debtors have not drawn on the DIP Facility. In connection with the application and approval by the lender of the DIP Facility, the Company paid commitment fees of $200,000 plus certain expenses. In addition, the terms of the DIP Facility include the payment of an unused line fee of .50% per annum payable in arrears.

Subsidiary Revolving Line of Credit: The Company s wholly owned subsidiary, Olympic Seismic Ltd. (Olympic), has a revolving credit facility, which allows it to borrow up to $5 million (Canadian) subject to an

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availability formula by way of prime-based loans, bankers acceptances or letters of credit. The rate applicable to borrowings is the bank s prime rate plus 0.35% per annum and the bankers acceptances is 1.50% per annum. Letter of credit fees are based on scheduled rates in effect at the time of issuance. The facility is secured by the assets of Olympic, SEIC Trust Administration Ltd. (as sole trustee of, and for and on behalf of, SEIC Business Trust) and SEIC Holdings, Ltd., but is not guaranteed by Seitel, Inc. or any of its other U.S. subsidiaries. However, all intercompany debt owing by Olympic, SEIC Trust Administration Ltd., SEIC Business Trust or SEIC Holdings, Ltd. to Seitel, SEIC Partners Limited Partnership or to any Seitel U.S. subsidiary (approximately $60,768,000 (Canadian) at March 31, 2004) has been subordinated to the repayment of the revolving credit facility. Available borrowings under the facility are equivalent to a maximum of $5 million (Canadian), subject to a requirement that such borrowings may not exceed 75% of good accounts receivable (as defined in the agreement) of SEIC Trust Administration, less prior-ranking claims, if any, relating to inventory or accounts. The facility is subject to repayment upon demand and is available from time to time at the Bank s sole discretion. A review of this demand facility is performed annually at the Bank s discretion.

Term Loan: On August 28, 2001, the Company s wholly owned subsidiary, Seitel Data, Ltd., obtained a term loan totaling $10 million for the purchase of certain seismic data, some of which secures the debt. The loan matures on October 1, 2004, and bears interest at the rate of LIBOR plus 2.9%. Monthly principal payments total $208,000. The Company is not in compliance with the payment terms or covenants of this term loan. Under the terms of the Plan, this term loan will be paid in full, along with accrued interest. As of March 31, 2004, accrued interest totaled $164,000.

Note Payable to Former Executive: In connection with the settlement of certain litigation, the Company entered into a note payable to a former executive consisting of payments of $6,417 per month for 36 months commencing June 2003 and payments of $6,000 per month for 84 months commencing June 2006. The note is non-interest bearing. The note is guaranteed by Olympic Seismic, Ltd., a wholly owned Canadian subsidiary of the Company and a non-Debtor. Under the terms of the Plan, this note payable will be reinstated pursuant to its original terms.

NOTE G EARNINGS PER SHARE

In accordance with SFAS No. 128, Earnings per Share, basic earnings per share is computed based on the weighted average shares of common stock outstanding during the periods. Diluted earnings per share is computed based on the weighted average shares of common stock plus the assumed issuance of common stock for all potentially dilutive securities. For the three months ended March 31, 2004 and 2003, the Company did not have any potentially dilutive securities. A weighted average quarter-to-date number of options and warrants to purchase 2,059,000 and 5,482,000 shares of common stock were outstanding during the first quarter of 2004 and 2003, respectively, but were not included in the computation of diluted per share income because they were antidilutive. Material dilution may occur upon consummation of the Plan, see Note B Reorganization Proceedings.

The Company accounts for employee stock-based compensation using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees. APB Opinion No. 25 generally does not require compensation costs to be recorded on options which have exercise prices at least equal to the market price of the stock on the date of grant. Accordingly, no compensation cost has been recognized for the Company s stock-based plans. Had compensation cost for the Company s stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the optional accounting method prescribed by SFAS No. 123, Accounting for Stock-Based

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Compensation and expensed pro-rata over the vesting period of the awards, the Company s net loss and loss per share would have been reduced to the pro forma amounts indicated below (in thousands, except per share data):

	Three Months Ended March 31,	
	2004	2003
Net loss:		
As reported	$ (1,198)	$ (2,148)
Less: Total stock-based employee expense determined under SFAS No. 123, net of tax	(603)	(1,122)
Pro forma	$ (1,801)	$ (3,270)
Basic and diluted loss per share:		
As reported	$ (.05)	$ (.08)
Pro forma	$ (.07)	$ (.13)

NOTE H STATEMENT OF CASH FLOW INFORMATION

The Company had restricted cash at March 31, 2004 and December 31, 2003 of $161,000 and $202,000, respectively.

During the three months ended March 31, 2004 and 2003, the Company had non-cash additions to its seismic data library totaling $3,161,000 and $3,159,000, respectively. Of these amounts, $3,080,000 and $3,109,000 resulted from non-monetary exchanges during the three months ended March 31, 2004 and 2003, respectively. The balance of $81,000 and $50,000 for the three months ended March 31, 2004 and 2003, respectively, resulted from certain data creation costs which were offset against amounts due from the customer for data license fees. The offset amounts are also included in non-cash sales in the Consolidated Statements of Cash Flows.

Operating cash flows resulting from reorganization items for the three months ended March 31, 2004 include the following (in thousands):

Interest received on cash accumulated because of the Chapter 11 proceeding	$ (31)

Professional and other fees paid for services rendered in connection with the Chapter 11 proceeding	3,059
	$ 3,028

NOTE I COMMITMENTS AND CONTINGENCIES

In October 2001, the Company guaranteed an institutional loan totaling $600,000 to its former chief operating officer and general counsel, who later was named chief executive officer and who resigned in November 2002. Under the terms of his separation agreement, a portion of the amount outstanding was paid and the former employee is required to make annual installments of $60,000 with a maturity date of November 13, 2006. We believe the loan is presently current and not in default.

Litigation

See Note B Reorganization Proceedings for a detailed discussion of the Company s Chapter 11 reorganization and the Plan.

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On February 3, 2003, the former holders of the Company s senior unsecured notes accelerated the senior unsecured notes and made demand upon the Company and certain of its former and current officers and directors for money damages arising from certain alleged negligent actions and/or misrepresentations of those officers and directors. The holders alleged that money damages arising from the foregoing claims were not fully quantified, but exceeded $20 million and included, without limitation, the lost value of such holders investment in the senior unsecured notes. Notice of the demand has been provided by the Company to its insurance carriers. The holders of the senior unsecured notes did not commence suit. As of June 26, 2003, all of the former holders of senior unsecured notes had sold their senior unsecured notes to Ranch, who subsequently sold the senior unsecured notes to Berkshire. Under the Plan, all of the foregoing claims will be released and discharged.

The Company and certain of its former and current officers and directors have been named as defendants in eleven lawsuits brought as class actions alleging violations of the federal securities laws, all of which were consolidated by an Order entered August 7, 2002, under Cause No. 02-1566, styled *In re Seitel, Inc. Securities Litigation*, in the United States District Court for the Southern District of Texas. The Court appointed a lead plaintiff and lead counsel for plaintiffs, who subsequently filed a consolidated amended complaint, which added the Company s auditors, Ernst & Young LLP, as a defendant. The consolidated amended complaint alleges that during a proposed class period of May 5, 2000 through April 1, 2002, the defendants violated sections 10(b) and 20(a) of the Securities and Exchange Act of 1934 by overstating revenues in violation of generally accepted accounting principles. The plaintiffs seek an unspecified amount of actual and exemplary damages, costs of court, pre- and post-judgment interest and attorneys and experts fees. During the Chapter 11 cases, the Debtors and the representatives of the class negotiated and participated in discovery with respect to the class claim filed with the Bankruptcy Court and in connection with the class objection to confirmation of the initial plan. In the course thereof, the class representatives and the Debtors reached certain agreements. These agreements included the allowance of a class claim to assert the rights of the class in the Chapter 11 cases and, as well, an ultimate settlement for cash to be funded out of the Debtors cash and directors and officers insurance policies. The settlement was approved upon notice and a hearing by order of the Bankruptcy Court dated December 10, 2003. Thus, the claims of the plaintiffs in the class action against the Debtors as well as their officers and directors, and the class claim, have been settled. The treatment of the class claim pursuant to the Plan is consistent with the settlement approved by the Bankruptcy Court. Certain monetary obligations remain, including continuing disclosures and additional documentation.

The Company has been named as a nominal defendant in seven stockholder derivative actions filed in various courts: *Almekinder v. Frame, Valice, Pearlman, Craig, Lerner, Stieglitz, Zeidman, Hoffman, and Seitel, Inc.*, No. H-02-2960, In the United States District Court for the Southern District of Texas; *Basser v. Frame, Valice, Kendrick, Pearlman, Fiur, Zeidman, Stieglitz, Craig, Lerner, and Seitel, Inc.*, No. H-02-1874, In the United States District Court for the Southern District of Texas; *Berger v. Frame, Pearlman, Valice, Craig, Stieglitz, Lerner, Zeidman, Fiur, and Seitel, Inc.*, No. 19534-NC, In the Court of Chancery, State of Delaware, Castle County; *Chemical Valley & North Central West Virginia Carpenters Pension Plan v. Frame, Valice, Hoffman, Pearlman, Craig, Lerner, Stieglitz, Zeidman, Fiur, and Seitel, Inc.*, No. 02-CV-3343, In the United States District Court for the Southern District of Texas; *Couture v. Frame, Valice, Craig, Lerner, Stieglitz, Zeidman, Hoffman, and Seitel, Inc.*, No. 20002-37065, In the 80th Judicial District Court, Harris County, Texas; *Talley v. Frame, Valice, Pearlman, Craig, Lerner, Stieglitz, Zeidman, Hoffman, and Seitel, Inc.*, In the 151st Judicial District Court, Harris County, Texas; and *Zambie v. Frame, Pearlman, Valice, Craig, Zeidman, Lerner, Stieglitz, Fiur, Ernst & Young LLP, and Seitel, Inc.,* In the 333rd Judicial District Court, Harris County, Texas. The plaintiffs generally allege that the defendants breached and conspired to breach fiduciary duties to the Company s shareholders by failing to maintain adequate accounting controls and by using improper accounting and auditing practices and procedures. Certain of the plaintiffs also assert causes of action for mismanagement, waste of corporate assets and unjust enrichment. The *Zambie* case also alleges professional

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negligence against Ernst & Young LLP. The plaintiffs seek judgments for unspecified amounts of compensatory damages, including return of salaries and other payments to the defendants, exemplary damages, attorneys fees, experts fees and costs. The Company s Board of Directors appointed a special litigation committee to conduct an independent investigation of the allegations asserted in the derivative lawsuits. The special litigation committee completed its investigation and its report has been delivered to the Company. The Company filed its motion to dismiss in Delaware Chancery court on March 20, 2003. The parties previously agreed to stay the Texas state court cases pending the outcome of the Texas federal court derivative cases. The federal court derivative cases have been consolidated, and the Company has moved to stay the cases pending resolution by the Delaware court. Presently, all cases are stayed as a result of the Debtors Chapter 11 filing. In October 2003, a settlement of all issues in each derivative suit was reached among the parties and a stipulation and motion to approve the terms of such settlement was filed with the Bankruptcy Court. The settlement stipulation provides for payment of $600,000, all of which is covered by insurance, and resolution of all claims against all parties to the litigation. The settlement stipulation was approved by the Bankruptcy Court upon notice and a hearing by order dated November 17, 2003. Pursuant to the settlement, (i) all of the Derivative Claims have been or will be dismissed, (ii) the Debtors will continue certain, and from time to time implement new, corporate governance policies and procedures, and (iii) the plaintiffs recovered certain costs incurred in prosecuting the Derivative Claims. The cost recovery was paid solely by the Debtors insurance carrier.

On July 18, 2002, the Company s former chief executive officer sued the Company in the 113th Judicial District Court of Harris County, No. 2002-35891. Mr. Frame alleges a breach of his employment contract by virtue of his termination and also alleges defamation. He also seeks a declaratory judgment that certain funds he received from the Company were proper and do not have to be repaid. The Company has answered and asserted various defenses. The Company also filed a counter suit to recover approximately $4,200,000 in corporate funds that the Company believes Mr. Frame inappropriately caused the Company to pay him or for his benefit plus over $800,000 due on two notes that were accelerated pursuant to their respective terms. In addition, the Company also holds a judgment against Mr. Frame in the amount of at least $590,000 relating to a loan made to Mr. Frame by Bank One N.A. (Bank One) and guaranteed by the Company. The Company intends to seek dismissal of the complaint against it, and to pursue its causes of action. The Company also intends to pursue enforcement of its judgment against Mr. Frame. Mr. Frame has filed claims totaling $20.2 million against the Company and the other debtors in the Chapter 11 cases. The Debtors have filed objections to such claims.

The Company is a party to a suit for geophysical trespass entitled *Joy Resources, Inc. v. Seitel Data, Ltd.*, Cause No. 01-02-00828-CV, in the 1st Court of Appeals, Houston, Texas. The plaintiff is appealing a final judgment by the trial court holding that the plaintiff is not entitled to recover an injunction or to recover damages against the Company. The plaintiffs assert that the Company obtained seismic data about mineral interests leased by the plaintiff by placing seismic equipment on property adjacent to the property leased by the plaintiff. The trial court held that no cause of action exists where the seismic equipment is not located on the property leased by the plaintiff. The briefing has been completed in this matter, and oral argument in the 1st Court of Appeals in Houston, Texas was on May 6, 2003. The parties have reached a settlement in the matter and have executed a settlement stipulation which is pending before the Bankruptcy Court for approval. The settlement stipulation provides that Joy Resources, Inc. (Joy) will be granted an agreed, allowed claim in the amount of $73,000 in the Cases, and further provides that Seitel Data, Ltd. may use certain data upon the payment of additional costs and may acquire certain data owned by Joy on a right of first refusal basis.

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

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited) Continued

March 31, 2004

unauthorized 3-D seismic exploration of the mineral interests, and sold the information obtained to other defendants. The plaintiffs seek an unspecified amount of damages. All of the defendants have obtained summary judgments dismissing the plaintiffs claims, and the case is now on appeal before the San Antonio Court of Appeals under Cause No. 04-02-00674-CV. On July 22, 2003, the Texas Court of Appeals granted appellant motion to proceed against the other appellees. The appeal against Seitel remains stayed. The Company intends to vigorously represent its interests in this appeal.

The Company sued its former in-house counsel and law firm in *Seitel, Inc. v. Cynthia Moulton and Franklin Cardwell & Jones, P.C.*, Cause No. 2003-09151 in the 127th Judicial District Court of Harris County, Texas. The suit alleges negligence, breach of fiduciary duty and breach of contract surrounding the settlement of a personal lawsuit against the former chief executive officer and other aspects of representation. The Company seeks recovery for fees paid and related expenses. Initial pleadings were filed on February 21, 2003. Discovery has not yet commenced.

On March 27, 2003, Seitel was served with a complaint filed by the General Electric Credit Corporation of Tennessee (GE) in the District Court No. 333rd of Harris County, Texas, styled *General Electric Credit Corporation of Tennessee, v. N360X, LLC and Seitel*. The complaint alleged that Seitel, as guarantor, and its wholly owned subsidiary N360X, LLC, as lessee, defaulted on an agreement for the lease of a jet aircraft. GE accelerated the obligation, took possession of the aircraft and demanded payment of amounts GE claims are due pursuant to the termination of the lease. The claim was subsequently reduced to \$2.055 million plus interest at 9% from November 18, 2003 and purchased by Berkshire and the amount thereof has been agreed to by the parties. Such amounts represent unsecured claims and will be fully paid in cash in accordance with the Plan.

On September 22, 2003, Bass Enterprises Production Co. (Bass) filed a motion with the Bankruptcy Court seeking relief from the automatic stay applicable to the Debtors and requesting permission of the Bankruptcy Court to initiate litigation against the Debtors in a Texas State Court with respect to an alleged breach of certain provisions of a contract entered into in 2001. The Debtors have objected to the motion and a hearing on the motion was scheduled for December 3, 2003. On February 23, 2004 the parties entered into a settlement agreement to resolve disputes which involve licensing of certain data and field tapes at a fixed rate.

The Company and its subsidiaries, Energy Venture Holdings LLC, Endeavor Exploration LLC, and DDD Energy, Inc., were sued by a former employee, Mark Stover, in Harris County District Court, 269th Judicial District, Cause No. 2002-52120 on October 8, 2002. Mr. Stover alleged breach of his employment contract and wrongful termination. The Company answered and generally denied the complaint on November 8, 2002. The matter was automatically stayed upon the Chapter 11 filing. On October 9, 2003, Mr. Stover filed a proof of claim in the bankruptcy court in the amount of \$374,500. The Company has filed an objection to the claim, but is currently in settlement discussions with Mr. Stover. If a settlement is reached, it will require Bankruptcy Court approval.

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

It is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At March 31, 2004, the Company had accrued $2.3 million, representing its best estimate of the amounts that are probable of being paid relative to all of the

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SEITEL, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited) Continued

March 31, 2004

litigation and claims set forth above. However, if one or more of the parties were to prevail against the Company in one or more of the cases described above that have not been settled, the amounts of any judgments against the Company or settlements that the Company may enter into, in addition to liabilities recorded by the Company at March 31, 2004, could be material to the Company s financial statements for any particular reporting period.

NOTE J RECENT ACCOUNTING PRONOUNCEMENTS

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

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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 13. Other Expenses of Issuance and Distribution

The following table sets forth the various costs and expenses, payable by the Registrant, in connection with the sale of the Reorganized Common Stock being registered. All the amounts shown are estimates except for the SEC registration fee.

SEC registration fee	$ 10,384.81
Fee to Jefferies & Company, Inc.	$ 1,031,250.00*
Legal fees and expenses	$ 1,379,000.00
Accounting fees and expenses	$ 250,000.00
Transfer/warrant agent fees and expenses	$ 40,000.00
Printing and related expenses	$ 200,000.00
Miscellaneous	$ 23,365.19
Total	$ 2,934,000.00

* Estimated portion of aggregate fee to Jefferies in connection with its role as exclusive dealer-manager in connection with this offering.

Item 14. Indemnification of Officers and Directors

Delaware General Corporation Law. Section 145(a) of the Delaware General Corporation Law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the corporation) by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with such action, suit or proceeding if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe the person s conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction or upon a plea of *nolo contendere* or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which the person reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had reasonable cause to believe that the person s conduct was unlawful.

Section 145(b) of the Delaware General Corporation Law states that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the corporation to procure a judgment in its favor by reason of the fact that the person is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against expenses (including attorneys fees) actually and reasonably incurred by the person in connection with the defense or settlement of such action or suit if the person acted in good faith and in a manner the person reasonably believed to be in or not opposed to the best interests of the corporation and except that no indemnification shall be made in respect of any claim, issue or matter as to which the person shall have been adjudged to be liable to the corporation unless and only to the extent that the Delaware Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for such expenses as the Delaware Court of Chancery or such other court shall deem proper.

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Section 145(c) of the Delaware General Corporation Law provides that to the extent that a present or former director or officer of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in subsections (a) and (b) of Section 145, or in defense of any claim, issue or matter therein, the person shall be indemnified against expenses (including attorneys fees) actually and reasonably incurred by the person in connection therewith.

Section 145(d) of the Delaware General Corporation Law states that any indemnification under subsections (a) and (b) of Section 145 (unless ordered by a court) shall be made by the corporation only as authorized in the specific case upon a determination that indemnification of the present or former director, officer, employee or agent is proper in the circumstances because the person has met the applicable standard of conduct set forth in subsections (a) and (b) of Section 145. Such determination shall be made with respect to a person who is a director or officer at the time of such determination (1) by a majority vote of the directors who are not parties to such action, suit or proceeding, even though less than a quorum, (2) by a committee of such directors designated by majority vote of such directors, even though less than a quorum, (3) if there are no such directors, or if such directors so direct, by independent legal counsel in a written opinion, or (4) by the stockholders.

Section 145(f) of the Delaware General Corporation Law states that the indemnification and advancement of expenses provided by, or granted pursuant to, the other subsections of Section 145 shall not be deemed exclusive of any other rights to which those seeking indemnification or advancement of expenses may be entitled under any bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in such person s official capacity and as to action in another capacity while holding such office.

Section 145(g) of the Delaware General Corporation Law provides that a corporation shall have the power to purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against any liability asserted against such person and incurred by such person in any such capacity or arising out of such person s status as such, whether or not the corporation would have the power to indemnify such person against such liability under the provisions of Section 145.

Section 145(j) of the Delaware General Corporation Law states that the indemnification and advancement of expenses provided by, or granted pursuant to, Section 145 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

Amended and Restated Certificate of Incorporation. The Registrant s amended and restated certificate of incorporation filed as Exhibit 3.1 hereto provides that a director of the Registrant will not be personally liable to the Registrant or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director s duty of loyalty to the Registrant or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the Delaware General Corporation Law or (iv) for any transaction from which the director derived any improper personal benefit.

Bylaws. The Registrant s amended and restated bylaws provide for the indemnification of the officers and directors of the Registrant to the fullest extent permitted by the Delaware General Corporation law. The Registrant s amended and restated bylaws provide that the Registrant will indemnify and hold harmless, to the fullest extent permitted by applicable law as it presently exists or as it may be amended, any person who was or is made or is threatened to be made a party or is otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that he, or a person for whom he is the legal representative, is or was a director or officer of the Registrant or, while a director or officer of the Registrant, is or was serving at the request of the Registrant as a director, officer, employee or agent of another entity, including service with respect to employee benefit plans, against all liability and loss suffered and expenses

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(including attorneys fees) reasonably incurred by such person. The Registrant s amended and restated bylaws provide that the Registrant will indemnify any such person in connection with a proceeding commenced by such person only if the commencement of such proceeding was authorized by the board of directors of the Registrant, except for the commencement of an action by such person to recover the unpaid amount of a claim for indemnification or advancement of expenses that is not paid in full within thirty (30) days after receipt by the Registrant.

Insurance. The Registrant maintains directors and officers liability insurance, which covers directors and officers of the Registrant against certain claims or liabilities arising out of the performance of their duties.

Indemnification Agreements. The Registrant may enter into indemnification agreements with its officers and directors in the future.

Item 15. Recent Sales of Unregistered Securities

The Plan of Reorganization provides that on its effective date, the Registrant will issue 25,375,683 shares of Reorganized Common Stock to its stockholders of record. The issuance of these shares of Reorganized Common Stock is exempt from registration under the Securities Act pursuant to Section 1145 of chapter 11 of the United States Bankruptcy Code, subject to resale restrictions under Section 1145(b) in the case of the issuance of such shares of Reorganized Common Stock to certain affiliates of the Registrant.

The Plan of Reorganization provides that no later than 40 days after its effective date (the Guaranty Performance Date) of the registration statement, the Registrant shall issue to certain entities named in the prospectus as the Standby Purchasers warrants to purchase up to 15,037,568 shares of Reorganized Common Stock. Such warrants will expire on the seventh anniversary of the issue date, will be transferable, and will have an exercise price of 72 cents per share. This transaction is exempt from registration under the Securities Act pursuant to Section 4(2) of and Regulation D, under the Securities Act.

Under the Plan of Reorganization, on the effective date thereof, the net proceeds from the Registrant s private placement of new senior notes pursuant to Section 4(2) of and Rule 144A under the Securities Act will be deposited into escrow pending the release and use thereof on the Guaranty Performance Date. In such transaction, the Registrant will offer and sell the new senior notes to initial purchasers who, in turn, will resell the new senior notes to qualified institutional buyers (within the meaning of and pursuant to Rule 144A). Generally, Rule 144A provides a non-exclusive safe harbor exemption from the registration requirements of the Securities Act for resales to certain qualified institutional buyers of securities which are restricted securities within the meaning of the Securities Act, irrespective of whether the seller of such securities purchased its securities with a view towards reselling such securities pursuant to Rule 144A. Under Rule 144A, a qualified institutional buyer is defined to include, among other persons (e.g., dealers registered as such pursuant to Section 15 of the Securities Exchange Act of 1934, as amended, and banks as defined in Section 3(a)(2) of the Securities Act), any entity which purchases securities for its own account or for the account of another qualified institutional buyer and which, in the aggregate, owns and invests on a discretionary basis at least $100 million worth of portfolio securities of unaffiliated issuers.

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Item 16. Exhibits and Financial Statement Schedules

Exhibit Number	Description of Document
2.1	Third Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code, filed January 17, 2004 (Case No. 03-12227 (PJW)) (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
2.2	Findings of Fact, Conclusions of Law and Order Confirming Debtors Third Amended Joint Plan Reorganization under Chapter 11 of the Bankruptcy Code, as Modified (Case No. 03-12227 (PJW) (incorporated by reference to the annual report filed on Form 10-K for the year ended December 31, 2003, as filed with the SEC on March 30, 2004).
3.1	Certificate of Incorporation of the Registrant filed May 7, 1982 and Amendment to Certificate of Incorporation filed April 25, 1984 (incorporated by reference to the Registration Statement, as amended, on Form S-1, No. 2-92575, as filed with the SEC on August 3, 1984).
3.2	Amendment to Certificate of Incorporation filed August 4, 1987 (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
3.3	Amendment to Certificate of Incorporation filed January 18, 1989 (incorporated by reference to the annual report filed on Form 10-K/A, Amendment No. 3, for the year ended December 31, 2001, as filed with the SEC on August 19, 2002).
3.4	Amendment to Certificate of Incorporation filed July 13, 1989 (incorporated by reference to the annual report filed on Form 10-K/A, Amendment No. 3, for the year ended December 31, 2001, as filed with the SEC on August 19, 2002).
3.5	Amendment to Certificate of Incorporation filed August 3, 1993 (incorporated by reference to the annual report filed on Form 10-K/A, Amendment No. 3, for the year ended December 31, 2001, as filed with the SEC on August 19, 2002).
3.6	Amendment to Certificate of Incorporation filed November 21, 1997 (incorporated by reference to the annual report filed on Form 10-K, for the year ended December 31, 2002, as filed with the SEC on March 31, 2004).
3.7	Amended and Restated Bylaws of the Registrant (incorporated by reference to the quarterly report filed on Form 10-Q for the quarter ended June 30, 2000, as filed with the SEC on August 14, 2000).
4.1	Form of Certificate of Common Stock of the Registrant (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
4.2	Form of Warrant Agent Agreement by and between the Registrant and American Stock Transfer and Trust Company and Form of Warrant Certificate of the Registrant attached as Exhibit A to the Warrant Agent Agreement (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
4.3	Form of Registration Rights Agreement by and between the Registrant and Standby Purchaser (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
5.1*	Opinion of Greenberg Traurig, LLP as to the legality of the securities being registered.
10.1	Form of Guarantor Warrant Agent Agreement by and between the Registrant and American Stock Transfer and Trust Company and Form of Funding Guarantor Warrant attached as Exhibit A to the Guarantor Warrant Agent Agreement (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
10.2	Form of 2004 Stock Option Plan (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).

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Exhibit Number	Description of Document
10.3	Standby Funding Commitment Letter, dated as of January 5, 2004, by and between the Registrant and Mellon HBV Alternative Strategies LLC (incorporated herein by reference to the report filed on Form 8-K, as filed with the SEC on January 12, 2004).
10.4	Loan and Security Agreement, dated as of April 9, 2004, by and between Wells Fargo Foothill, Inc. and the Registrant (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
10.5	Employment Agreement, dated February 17, 2004, by and between Randall D. Stilley and the Registrant (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
10.6	Purchase and Sale Agreement, dated July 3, 2002, by and between DDD Energy, Inc. and Rising Star Energy, L.L.C. (incorporated by reference to the annual report filed on Form 10-K/A, Amendment No. 3, for the year ended December 31, 2001, as filed with the SEC on August 19, 2002).
10.7	Revolving Credit Agreement, dated as of January 12, 2004, by and between Olympic Seismic Ltd. and Royal Bank of Canada (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
10.8	Promissory Note, dated May 13, 2003, issued by the Registrant to Herbert Pearlman in the amount of $735,000 (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
21.1	List of Subsidiaries (incorporated herein by reference to the annual report filed on Form 10-K for the year ended December 31, 2003, as filed with the SEC on March 30, 2004).
23.1*	Consent of Greenberg Traurig, LLP (included in Exhibit 5.1).
23.2*	Consent of Ernst & Young LLP.
24.1	Power of Attorney (incorporated by reference to the signature page of the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
99.1	Form of Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
99.2	Form of Amended and Restated Bylaws of the Registrant (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
99.3*	Form of Letter to the Stockholders and Form of Letter of Transmittal to the Stockholders.
99.4	Final Judgment of Permanent Injunction entered on June 16, 2003, by the United States District Court for the Southern District of Texas (Houston Division) in the civil action titled: Securities and Exchange Commission v. Paul A. Frame and Seitel, Inc., and that certain Consent to Entry of Permanent Injunction relating thereto and executed on May 16, 2003, by the Registrant (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
99.5	Rule 438 Consent of Randall D. Stilley (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
99.6	Rule 438 Consent of Robert Kelley (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
99.7	Rule 438 Consent of J.D. Williams (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).

Exhibit Number	Description of Document
99.8	Rule 438 Consent of Charles H. Mouquin (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
99.9	Rule 438 Consent of Ned S. Holmes (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
99.10	Rule 438 Consent of C. Robert Black (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).

* Filed herewith.

Item 17. Undertakings

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act of 1933;

(ii) To reflect in the prospectus any facts or events arising after the effective date of the registration statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this registration statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than a 20 percent change in the maximum aggregate offering price set forth in the Calculation of Registration Fee table in the effective registration statement; and

(iii) To include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in this registration statement.

Provided, however, that subparagraphs (a)(1)(i) and (a)(1)(ii) above shall not apply if the registration statement is on Form S-3 or Form S-8 and the information required to be included in a post-effective amendment by those paragraphs is contained in periodic reports filed by the registrant pursuant to section 13 or section 15(d) of the Securities Exchange Act of 1934, as amended, that are incorporated by reference in this registration statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered herein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the Registrant has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Houston, State of Texas, on the 2nd day of June, 2004.

SEITEL, INC.

By: /s/ RANDALL D. STILLEY

RANDALL D. STILLEY

President and Chief Executive Officer

POWER OF ATTORNEY

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title(s)	Date
/s/ RANDALL D. STILLEY **RANDALL D. STILLEY**	President and Chief Executive Officer *(Principal Executive Officer)*	June 2, 2004
/s/ ROBERT D. MONSON **ROBERT D. MONSON**	Chief Financial Officer *(Principal Financial Officer)*	June 2, 2004
* **MARCIA H. KENDRICK**	Senior Vice President, Chief Accounting Officer and Assistant Secretary *(Principal Accounting Officer)*	June 2, 2004
* **FRED S. ZEIDMAN**	Director	June 2, 2004
* **WILLIAM LERNER**	Director	June 2, 2004
* **JOHN E. STIEGLITZ**	Director	June 2, 2004

*By: /s/ Randall D. Stilley

Randall D. Stilley

Attorney-in-Fact

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EXHIBIT INDEX

Exhibit Number	Description of Document
2.1	Third Amended Joint Plan of Reorganization under Chapter 11 of the Bankruptcy Code, filed January 17, 2004 (Case No. 03-12227 (PJW)) (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
2.2	Findings of Fact, Conclusions of Law and Order Confirming Debtors Third Amended Joint Plan Reorganization under Chapter 11 of the Bankruptcy Code, as Modified (Case No. 03-12227 (PJW) (incorporated by reference to the annual report filed on Form 10-K for the year ended December 31, 2003, as filed with the SEC on March 30, 2004).
3.1	Certificate of Incorporation of the Registrant filed May 7, 1982 and Amendment to Certificate of Incorporation filed April 25, 1984 (incorporated by reference to the Registration Statement, as amended, on Form S-1, No. 2-92575, as filed with the SEC on August 3, 1984).
3.2	Amendment to Certificate of Incorporation filed August 4, 1987 (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
3.3	Amendment to Certificate of Incorporation filed January 18, 1989 (incorporated by reference to the annual report filed on Form 10-K/A, Amendment No. 3, for the year ended December 31, 2001, as filed with the SEC on August 19, 2002).
3.4	Amendment to Certificate of Incorporation filed July 13, 1989 (incorporated by reference to the annual report filed on Form 10-K/A, Amendment No. 3, for the year ended December 31, 2001, as filed with the SEC on August 19, 2002).
3.5	Amendment to Certificate of Incorporation filed August 3, 1993 (incorporated by reference to the annual report filed on Form 10-K/A, Amendment No. 3, for the year ended December 31, 2001, as filed with the SEC on August 19, 2002).
3.6	Amendment to Certificate of Incorporation filed November 21, 1997 (incorporated by reference to the annual report filed on Form 10-K, for the year ended December 31, 2002, as filed with the SEC on March 31, 2004).
3.7	Amended and Restated Bylaws of the Registrant (incorporated by reference to the quarterly report filed on Form 10-Q for the quarter ended June 30, 2000, as filed with the SEC on August 14, 2000).
4.1	Form of Certificate of Common Stock of the Registrant (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
4.2	Form of Warrant Agent Agreement by and between the Registrant and American Stock Transfer and Trust Company and Form of Warrant Certificate of the Registrant attached as Exhibit A to the Warrant Agent Agreement (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
4.3	Form of Registration Rights Agreement by and between the Registrant and Standby Purchaser (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
5.1*	Opinion of Greenberg Traurig, LLP as to the legality of the securities being registered.
10.1	Form of Guarantor Warrant Agent Agreement by and between the Registrant and American Stock Transfer and Trust Company and Form of Funding Guarantor Warrant attached as Exhibit A to the Guarantor Warrant Agent Agreement (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
10.2	Form of 2004 Stock Option Plan (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
10.3	Standby Funding Commitment Letter, dated as of January 5, 2004, by and between the Registrant and Mellon HBV Alternative Strategies LLC (incorporated herein by reference to the report filed on Form 8-K, as filed with the SEC on January 12, 2004).

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Exhibit Number	Description of Document
10.4	Loan and Security Agreement, dated as of April 9, 2004, by and between Wells Fargo Foothill, Inc. and the Registrant (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
10.5	Employment Agreement, dated February 17, 2004, by and between Randall D. Stilley and the Registrant (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
10.6	Purchase and Sale Agreement, dated July 3, 2002, by and between DDD Energy, Inc. and Rising Star Energy, L.L.C. (incorporated by reference to the annual report filed on Form 10-K/A, Amendment No. 3, for the year ended December 31, 2001, as filed with the SEC on August 19, 2002).
10.7	Revolving Credit Agreement, dated as of January 12, 2004, by and between Olympic Seismic Ltd. and Royal Bank of Canada (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
10.8	Promissory Note, dated May 13, 2003, issued by the Registrant to Herbert Pearlman in the amount of $735,000 (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
21.1	List of Subsidiaries (incorporated herein by reference to the annual report filed on Form 10-K for the year ended December 31, 2003, as filed with the SEC on March 30, 2004).
23.1*	Consent of Greenberg Traurig, LLP (included in Exhibit 5.1).
23.2*	Consent of Ernst & Young LLP.
24.1	Power of Attorney (incorporated by reference to the signature page of the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
99.1	Form of Amended and Restated Certificate of Incorporation of the Registrant (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
99.2	Form of Amended and Restated Bylaws of the Registrant (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
99.3*	Form of Letter to the Stockholders and Form of Letter of Transmittal to the Stockholders.
99.4	Final Judgment of Permanent Injunction entered on June 16, 2003, by the United States District Court for the Southern District of Texas (Houston Division) in the civil action titled: Securities and Exchange Commission v. Paul A. Frame and Seitel, Inc., and that certain Consent to Entry of Permanent Injunction relating thereto and executed on May 16, 2003, by the Registrant (incorporated by reference to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on March 10, 2004).
99.5	Rule 438 Consent of Randall D. Stilley (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
99.6	Rule 438 Consent of Robert Kelley (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
99.7	Rule 438 Consent of J.D. Williams (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
99.8	Rule 438 Consent of Charles H. Mouquin (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
99.9	Rule 438 Consent of Ned S. Holmes (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).
99.10	Rule 438 Consent of C. Robert Black (incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1, No. 333-113446, as filed with the SEC on April 23, 2004).

* Filed herewith.