DAWSON GEOPHYSICAL CO
Form 10-Q
February 11, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTER ENDED DECEMBER 31, 2003 COMMISSION FILE NO. 2-71058

DAWSON GEOPHYSICAL COMPANY

INCORPORATED IN THE STATE OF TEXAS 75-0970548 (I.R.S. EMPLOYER IDENTIFICATION NO.)

508 WEST WALL, SUITE 800, MIDLAND, TEXAS 79701
(PRINCIPAL EXECUTIVE OFFICE)
TELEPHONE NUMBER: 915-684-3000

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the 12 preceding months, and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

CLASS	Outstanding at December 31, 2003
COMMON STOCK, $.33 1/3 PAR VALUE	5,487,794 SHARES

DAWSON GEOPHYSICAL COMPANY

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DAWSON GEOPHYSICAL COMPANY
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended December 31,	
	2003	2002
Operating revenues	$ 15,475,000	$ 11,410,000
Operating costs:		
Operating expenses	13,311,000	10,836,000
General and administrative	618,000	578,000
Depreciation	1,108,000	1,003,000
	15,037,000	12,417,000
Income (loss) from operations	438,000	(1,007,000)
Other income:		
Interest income	69,000	99,000
Gain (loss) on disposal of assets	(3,000)	10,000
Other	2,000	5,000
Income (loss) before income tax	506,000	(893,000)
Income tax (expense) benefit:		
Current		--
Deferred		--
		--
Net income (loss)	$ 506,000	$ (893,000)
Net income (loss) per common share	$ 0.09	$ (0.16)
Net income (loss) per common share-assuming dilution	$ 0.09	$ (0.16)
Weighted average equivalent common shares outstanding	5,487,794	5,475,093

Weighted average equivalent common shares outstanding-assuming dilution	5,521,243	5,475,093

See accompanying notes to the financial statements.

Dawson Geophysical Company
Balance Sheets

	December 31, 2003 (Unaudited)
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	$ 5,360,000
Short-term investments	8,581,000
Accounts receivable, net of allowance for doubtful accounts of $127,000 in each period	10,473,000
Prepaid expenses	987,000
Total current assets	25,401,000
PROPERTY, PLANT AND EQUIPMENT	82,163,000
Less accumulated depreciation	(60,904,000)
Net property, plant and equipment	21,259,000
	$ 46,660,000
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Accounts payable	$ 4,367,000
Accrued liabilities:	
Payroll costs and other taxes	779,000
Other	404,000
Total current liabilities	5,550,000
STOCKHOLDERS' EQUITY:	
Preferred stock-par value $1.00 per share; 5,000,000 shares authorized, none outstanding	--
Common stock-par value $.33 1/3 per share;	

10,000,000 shares authorized, 5,487,794 and 5,487,794 shares issued and outstanding in each period	1,829,000
Additional paid-in capital	38,931,000
Other comprehensive income, net of tax	(21,000)
Retained earnings (deficit)	371,000
Total stockholders' equity	41,110,000
	$ 46,660,000

See accompanying notes to the financial statements.

DAWSON GEOPHYSICAL COMPANY
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three Months Ended December 31,	
	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 506,000	$ (893,000)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	1,108,000	1,003,000
Non-cash compensation	--	75,000
Other	16,000	15,000
Change in current assets and liabilities:		
Increase in accounts receivable	(760,000)	(3,491,000)
Decrease (increase) in prepaid expenses	(700,000)	12,000
Increase in accounts payable	3,130,000	491,000
Increase in accrued liabilities	290,000	303,000
Net cash provided (used) by operating activities	3,590,000	(2,485,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from disposal of assets	--	14,000
Capital expenditures	(1,602,000)	(1,413,000)
Proceeds from sale of short-term investments	--	1,927,000
Proceeds from maturity of short-term investments	4,000,000	4,000,000
Acquisition of short-term investments	(4,017,000)	(3,002,000)
Net cash provided by (used in) investing activities	(1,619,000)	1,526,000
Net increase (decrease) in cash and cash equivalents	1,971,000	(959,000)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	3,389,000	1,309,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	5,360,000	350,000

See accompanying notes to the financial statements.

DAWSON GEOPHYSICAL COMPANY

NOTES TO FINANCIAL STATEMENTS

1. OPINION OF MANAGEMENT

Although the information furnished is unaudited, in the opinion of management of the Registrant, the accompanying financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the financial condition and results of operations necessary for the periods presented. The results of operations for the three months ended December 31, 2003, are not necessarily indicative of the results to be expected for the fiscal year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in this Form 10-Q report pursuant to certain rules and regulations of the Securities and Exchange Commission. These financial statements should be read with the financial statements and notes included in the Company's 2003 Form 10-K.

CRITICAL ACCOUNTING POLICIES

The following accounting policies require management assumptions and estimates which could result in materially different amounts to be reported if conditions or underlying circumstances were to change.

Revenue Recognition

The Company recognizes revenues when services are performed. The Company also receives reimbursements for certain out-of-pocket expenses under the terms of its master contracts. Amounts billed to clients are recorded in revenue at the gross amount including out-of-pocket expenses which will be reimbursed by the client.

Allowance for Doubtful Accounts

Management prepares its allowance for doubtful accounts receivable based on its past experience of historical write-offs and review of past due accounts. The inherent volatility of the energy industry's business cycle can cause swift and unpredictable changes in the financial stability of the Company's customers.

Impairment of Long-lived Assets

Long-lived assets are reviewed for impairment when triggering events occur suggesting a deterioration in the asset's recoverability or fair value. Recognition of an impairment is required if future expected net cash flows are insufficient to recover the carrying value of the amounts. Management's forecast of future cash flow used to perform impairment analysis includes estimates of future revenues and future gross margins. If the Company is unable to achieve these cash flows, management's estimates would be revised, potentially resulting in an impairment charge in the period of revision.

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Depreciable Lives of Property, Plant and Equipment

Property, Plant and Equipment is capitalized at historical cost and depreciated over the useful life of the asset. Management's estimation of this useful life is based on circumstances that exist in the seismic industry and information available at the time of the purchase of the asset. As circumstances change and new information becomes available these estimates could change.

Stock-Based Compensation

In accordance with the Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", no compensation is recorded for stock options or other stock-based awards that are granted to employees or non-employee directors with an exercise price equal to or above the common stock price on the grant date. There were no stock-based awards granted in the current quarter.

The Company accounts for stock-based compensation utilizing the intrinsic value method prescribed by Accounting Principles Board Opinion No. 25 "Accounting for Stock Issued to Employees" ("APB 25") and related interpretations. The following pro forma information, as required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by Statement of Financial Accounting Standards No. 148 ("SFAS 148"), presents net income and earnings per share information as if the stock options issued since February 2, 1999 were accounted for using the fair value method. The fair value of stock options issued for each year was estimated at the date of grant using the Black-Scholes option pricing model.

The SFAS 123 pro forma information for the three months ended December 31, 2003 and 2002 is as follows:

	Three Months Ended December 31,	
	2003	2002
Net income (loss), as reported	$ 506,000	$ (893,000)
Add: Stock-based employee compensation expense included in net income (loss), net of tax	--	(75,000)
Deduct: Stock-based employee compensation expense determined under fair value based method (SFAS 123), net of tax	(78,000)	(117,000)
Net income (loss), pro forma	$ 428,000	$ (1,085,000)
Basic:		
Net income (loss) per common share, as reported	$ 0.09	$ (0.16)
Net income (loss) per common share, pro forma	$ 0.08	$ (0.20)
Diluted:		

Net income (loss) per common share, as reported	$ 0.09	$ (0.16)
Net income (loss) per common share, pro forma	$ 0.08	$ (0.20)

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

On April 22, 2003, the FASB announced its decision to require all companies to expense the value of employee stock options. Companies will be required to measure the cost according to the fair value of the options. The new guidelines have not been released but are expected to be finalized and to become effective in 2004. When final rules are announced, the Company will assess the impact to its financial statements.

2. NET INCOME PER COMMON SHARE

The Company accounts for earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" (Statement 128"). Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and when appropriate, restated to conform to the Statement 128 requirements.

The following table sets forth the computation of basic and diluted net income per common share:

	Three Months Ended December 31,	
	2003	2002
NUMERATOR:		
Net income and numerator for basic and diluted net income per common share-income available to common stockholders	$ 506,000	$ (893,000)
DENOMINATOR:		
Denominator for basic net loss per common share-weighted average common shares	5,487,794	5,475,093
Effect of dilutive securities-employee stock options	33,449	--
Denominator for diluted net income per common share-adjusted weighted average common shares and assumed conversions	5,521,243	5,475,093

Net income (loss) per common share	$ .09	$ (.16)
Net income (loss) per common share-assuming dilution	$ .09	$ (.16)

Employee stock options to purchase shares of common stock were outstanding during fiscal year 2003 and 2002 but were not included in the computation of diluted net loss per share because either (i) the employee stock options' exercise price was greater than the average market price of the common stock of the Company, or (ii) the Company had a net loss from continuing operations and, therefore, the effect would be antidilutive.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's financial statements. In addition, in reviewing the Company's financial statements it should be noted that the Company's revenues fluctuate in response to activity levels in the oil and gas exploration and production sector and additionally fluctuations in the Company's results of operations may occur due to commodity prices, weather, land use permitting and other factors.

FORWARD LOOKING STATEMENTS

All statements other than statements of historical fact included in this report, including without limitation, statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding the Company's financial position, business strategy and plans and objectives of management of the Company for future operations, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this report, words such as "anticipate", "believe", "estimate", "expect", "intend", and similar expressions, as they relate to the Company or its management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of the Company's management as well as assumptions made by and information currently available to the Company's management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to dependence upon energy industry spending, weather problems, inability to obtain land use permits, the volatility of oil and gas prices, and the availability of capital resources. Such statements reflect the current views of the Company with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to the operations, results of operations, growth strategy and liquidity of the Company. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by this paragraph. The Company assumes no obligation to update any such forward-looking statements.

OVERVIEW

The Company's improved performance was due to increased petroleum industry demand for the Company's high resolution 3-D seismic surveys, exploration for reserves of crude oil and natural gas, more favorable weather conditions than in most recent quarters along with modest price increases. The Company has been and is currently involved in the application of high resolution techniques over previously surveyed areas.

The Company's order book continues on an increasing trend and now stands at approximately six months of operations. The increase in the order book is the result of improving market conditions, the Company's reputation throughout the industry as a quality provider of leading edge technology, technical expertise and experience in the field of geophysics, and an industry model Health, Safety and Environmental program. All six data acquisition crews operated continuously throughout the fiscal first quarter, employing all the Company's data channels and supporting equipment. In response to this demand, the Company will field a seventh acquisition crew during the current quarter.

By responding to opportunities to acquire equipment from the open market at reduced prices, the Company's capital expenditures increased in fiscal 2003 and are on a comparable track in fiscal 2004 to satisfy client demand for increased channel count. The Company has increased its data channel capacity more than 50 percent in the last five years. Even though demand for the Company's services is related to crude oil and natural gas prices, production results are enhanced by favorable weather and timely permits for rights-of-way.

RESULTS OF OPERATIONS

The Company's operating revenues for the first quarter of fiscal 2004 increased 35.6% to $15,475,000 from $11,410,000 in fiscal 2003. Revenues have been positively impacted in fiscal 2004 by continued stable pricing and favorable weather as compared to the same period of fiscal 2003. The Company estimated last year that it had lost revenues in excess of $2,000,000 due to weather during the quarter.

Operating expenses increased 22.8% in the first quarter of fiscal 2004 as compared to the same period of fiscal 2003 as a result of increased demand for the Company's services. In fiscal 2003 the Company began with five crews in operation and expanded to six in November 2002. By comparison, the Company has fully utilized its six crews throughout the first quarter of fiscal 2004. The increase in operating expenses consists primarily of costs associated with the increase in personnel necessary to operate six crews.

General and administrative expenses for the quarter ended December 31, 2003 totaled $618,000, an increase of $40,000 from the same period of fiscal 2003. The increase primarily reflects compliance with the Sarbanes-Oxley Act of 2002. General and administrative expenses represent four percent of the revenues of the quarter ended December 31, 2003 and five percent of the revenues for the same period of the prior fiscal year.

Depreciation for the quarter ended December 31, 2003 totaled $1,108,000, as compared to $1,003,000 for the same period of fiscal 2003. The increase is due to capital expenditures of fiscal 2003 and to date in fiscal 2004.

Total operating costs for the first quarter of fiscal 2004 totaled $15,037,000, an increase of 21.1% from the same period of fiscal 2003 due to the factors described above. There is a high proportion of relatively fixed total operating costs (including personnel costs of active crews and depreciation costs) inherent in the Company's business.

No income tax expense was recorded for the first quarter of fiscal 2004 or 2003. The Company has no income tax benefit remaining due to the establishment of a valuation allowance.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

Net cash provided by operating activities of $3,590,000 in the quarter ended December 31, 2003 reflects the net income for the quarter and changes in working capital components, primarily the increase in accounts payable. An increase in reimburseable expenses combined with prebilled and collected contracts existed at December 31, 2003. The Company considers the net value of its accounts receivable collectible.

Net cash used by investing activities in the first quarter of fiscal 2004 represents management of short-term investments and capital expenditures. The Company purchased additional data acquisition recording equipment with working capital.

There are no cash flows resulting from financing activities for the first quarters of fiscal 2004 or 2003.

CAPITAL EXPENDITURES

The Company continually strives to supply market demand with technologically advanced 3-D data acquisition recording systems and leading edge data processing capabilities. The Company maintains equipment in and out of service in anticipation of increased future demand of the Company's services. In addition, the Company continues to monitor the development of the three-component seismic approach. The Company believes that it is in position to respond to demand for this technological advancement of the seismic industry.

CAPITAL RESOURCES

The Company believes that its capital resources, including its short-term investments and cash flow from operations are adequate to meet its current operational needs and finance capital needs as determined by market demand and technological developments. The Company is currently not subject to any financing arrangements; however, it believes that financing through traditional sources is available.

CRITICAL ACCOUNTING POLICIES

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RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

In May 2003, the FASB issued Statement No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classified and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The Company does not expect the adoption of FAS 150 to have a material impact on its financial statements.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

The primary sources of market risk include fluctuations in commodity prices which effect demand for and pricing of the Company's services and interest rate fluctuations. At December 31, 2003 the Company had no indebtedness. The Company's short-term investments were fixed-rate and the Company does not necessarily intend to hold them to maturity, and therefore, the short-term investments expose the Company to the risk of earnings or cash flow loss due to changes in market interest rates. As of December 31, 2003, the carrying value of the investments approximate fair value. The Company has not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other derivative financial instruments. The Company does not currently conduct business internationally so it is generally not subject to foreign currency exchange rate risk.

Item 4. CONTROLS AND PROCEDURES

Within the 90 day period prior to the filing date of this Quarterly Report on Form 10-Q, the Company, under the supervision, and with the participation, of its management, including its principal executive officer and principal financial officer, performed an evaluation of the design and operation of the Company's disclosure controls and procedures (as defined in Securities and Exchange Act Rule 13a-14(c)). Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that such disclosure controls and procedures are effective to ensure that material information relating to the Company is accumulated and communicated to the Company's management and made known to the principal executive officer and principal financial officer, particularly during the period for which this periodic report was being prepared.

No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date the controls were evaluated as discussed above.

Part II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the quarter ended December 31, 2003.

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SIGNATURE

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

DAWSON GEOPHYSICAL COMPANY
(REGISTRANT)

By: /s/ L. Decker Dawson

L. Decker Dawson
Chairman of the Board of Directors and
Chief Executive Officer

By: /s/ Christina W. Hagan

Christina W. Hagan
Senior Vice President, Treasurer,
Secretary and Chief Financial Officer

DATE: January 23, 2004

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