

DAWSON GEOPHYSICAL CO

Form 10-Q

February 07, 2011

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

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

**For the Quarterly Period Ended December 31, 2010**

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

**For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_**

**Commission File No. 001-34404  
DAWSON GEOPHYSICAL COMPANY**

**Texas  
(State or other jurisdiction of  
incorporation or organization)**

**75-0970548  
(I.R.S. Employer  
identification No.)**

**508 West Wall, Suite 800, Midland, Texas 79701**

**(Principal Executive Office)**

**Telephone Number: 432-684-3000**

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 preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ○

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ○

Accelerated filer ☐

Non-accelerated filer ○

Smaller reporting  
company ○

(Do not check if a smaller  
reporting company)

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ○ No ○

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ○ No ☐

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

<b>Title of Each Class</b>	<b>Outstanding at February 4, 2011</b>
<b>Common Stock, \$.33 1/3 par value</b>	<b>7,911,285 shares</b>

**DAWSON GEOPHYSICAL COMPANY**  
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**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**  
**DAWSON GEOPHYSICAL COMPANY**  
**STATEMENTS OF OPERATIONS**  
**(UNAUDITED)**

	Three Months Ended December 31,	
	2010	2009
Operating revenues	\$ 72,653,000	\$ 36,330,000
Operating costs:		
Operating expenses	66,160,000	34,719,000
General and administrative	2,178,000	1,854,000
Depreciation	7,132,000	6,477,000
	75,470,000	43,050,000
Loss from operations	(2,817,000)	(6,720,000)
Other income:		
Interest income	25,000	30,000
Other income	559,000	2,000
Loss before income taxes	(2,233,000)	(6,688,000)
Income tax benefit	566,000	2,472,000
Net loss	\$ (1,667,000)	\$ (4,216,000)
Basic loss per common share	\$ (0.21)	\$ (0.54)
Diluted loss per common share	\$ (0.21)	\$ (0.54)
Weighted average equivalent common shares outstanding	7,786,472	7,771,791
Weighted average equivalent common shares outstanding -assuming dilution	7,786,472	7,771,791

*See accompanying notes to the financial statements (unaudited).*

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**DAWSON GEOPHYSICAL COMPANY  
BALANCE SHEETS**

	December 31, 2010 (unaudited)	September 30, 2010
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 23,997,000	\$ 29,675,000
Short-term investments	12,498,000	20,012,000
Accounts receivable, net of allowance for doubtful accounts of \$537,000 and \$639,000 at December 31, 2010 and September 30, 2010, respectively	58,852,000	57,726,000
Prepaid expenses and other assets	13,867,000	7,856,000
Current deferred tax asset	2,529,000	1,764,000
Total current assets	111,743,000	117,033,000
<b>Property, plant and equipment</b>	273,991,000	248,943,000
Less accumulated depreciation	(135,377,000)	(130,900,000)
Net property, plant and equipment	138,614,000	118,043,000
Total assets	\$ 250,357,000	\$ 235,076,000
 <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 22,636,000	\$ 14,274,000
Accrued liabilities:		
Payroll costs and other taxes	3,005,000	3,625,000
Other	8,574,000	7,963,000
Deferred revenue	2,665,000	204,000
Total current liabilities	36,880,000	26,066,000
<b>Deferred tax liability</b>	24,255,000	18,785,000
<b>Stockholders equity:</b>		
Preferred stock-par value \$1.00 per share; 5,000,000 shares authorized, none outstanding		
Common stock-par value \$.33 1/3 per share; 50,000,000 shares authorized, 7,908,335 and 7,902,106 shares issued and outstanding at December 31, 2010 and September 30, 2010, respectively	2,636,000	2,634,000
Additional paid-in capital	91,072,000	90,406,000
Accumulated other comprehensive income, net of tax		4,000

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Retained earnings	95,514,000	97,181,000
Total stockholders' equity	189,222,000	190,225,000
Total liabilities and stockholders' equity	\$ 250,357,000	\$ 235,076,000

*See accompanying notes to the financial statements (unaudited).*

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**DAWSON GEOPHYSICAL COMPANY**  
**STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Three Months Ended December	
	31,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,667,000)	\$ (4,216,000)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation	7,132,000	6,477,000
Noncash compensation	595,000	540,000
Deferred income tax expense	4,708,000	391,000
Provision for bad debts	23,000	106,000
Other	(423,000)	(200,000)
Change in current assets and liabilities:		
(Increase) decrease in accounts receivable	(1,907,000)	4,080,000
Increase in prepaid expenses and other assets	(6,061,000)	(3,440,000)
(Decrease) increase in accounts payable	(1,638,000)	380,000
Decrease in accrued liabilities	(9,000)	(2,572,000)
Increase (decrease) in deferred revenue	2,461,000	(587,000)
Net cash provided by operating activities	3,214,000	959,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures, net of noncash capital expenditures summarized below in noncash investing activities	(17,830,000)	(41,000)
Acquisition of short-term investments	(2,500,000)	(4,984,000)
Proceeds from maturity of short-term investments	10,000,000	5,000,000
Proceeds from disposal of assets	606,000	5,000
Partial proceeds on fire insurance claim	758,000	
Net cash used in investing activities	(8,966,000)	(20,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options	74,000	
Net cash provided by financing activities	74,000	
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(5,678,000)</b>	<b>939,000</b>

<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	29,675,000	36,792,000
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<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	\$ 23,997,000	\$ 37,731,000
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**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid during the period for income taxes	\$	\$ 121,000
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Cash received during the period for income taxes	\$ 202,000	\$
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**NONCASH INVESTING ACTIVITIES:**

Unrealized (loss) gain on investments	\$ (2,000)	\$ 49,000
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Accrued purchases of property and equipment	\$ 10,000,000	\$
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*See accompanying notes to the financial statements (unaudited).*



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**DAWSON GEOPHYSICAL COMPANY  
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**

**1. ORGANIZATION AND NATURE OF OPERATIONS**

Founded in 1952, the Company acquires and processes 2-D, 3-D and multi-component seismic data for its clients, ranging from major oil and gas companies to independent oil and gas operators as well as providers of multi-client data libraries.

**2. OPINION OF MANAGEMENT**

Although the information furnished is unaudited, in the opinion of management of the Company, the accompanying financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results for the periods presented. The results of operations for the three months ended December 31, 2010 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 (the "SEC"). These financial statements should be read with the financial statements and notes included in the Company's Form 10-K for the fiscal year ended September 30, 2010.

**Critical Accounting Policies**

The preparation of the Company's financial statements in conformity with generally accepted accounting principles requires that certain assumptions and estimates be made that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Because of the use of assumptions and estimates inherent in the reporting process, actual results could differ from those estimates.

*Concentrations of Credit Risk.* Financial instruments that potentially expose the Company to concentrations of credit risk at any given time may consist of cash and cash equivalents, money market funds and overnight investment accounts, short-term investments, trade and other receivables and other current assets. At December 31, 2010 and September 30, 2010, the Company had deposits with domestic banks in excess of federally insured limits. Management believes the credit risk associated with these deposits is minimal. Money market funds seek to preserve the value of the investment, but it is possible to lose money investing in these funds. The Company invests funds overnight under a repurchase agreement with its bank which is collateralized by securities of the United States Federal agencies. The Company generally invests in short-term U.S. Treasury Securities. However, during fiscal 2010, the Company also had funds invested in FDIC guaranteed bonds. The Company believes all of its investments are of high credit quality. The Company's sales are to clients whose activities relate to oil and natural gas exploration and production. The Company generally extends unsecured credit to these clients; therefore, collection of receivables may be affected by the economy surrounding the oil and natural gas industry or other economic conditions. The Company closely monitors extensions of credit and may negotiate payment terms that mitigate risk.

*Revenue Recognition.* Services are provided under cancelable service contracts. These contracts are either "turnkey" or "term" agreements. Under both types of agreements, the Company recognizes revenues when revenue is realizable and services have been performed. Services are defined as the commencement of data acquisition or processing operations. Revenues are considered realizable when earned according to the terms of the service contracts. Under turnkey agreements, revenue is recognized on a per unit of data acquired rate as services are performed. Under term agreements, revenue is recognized on a per unit of time worked rate as services are performed. In the case of a cancelled service contract, revenue is recognized and the customer is billed for services performed up to the date of cancellation.

The Company receives reimbursements for certain out-of-pocket expenses under the terms of the service contracts. Amounts billed to clients are recorded in revenue at the gross amount including out-of-pocket expenses that are reimbursed by the client.

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In some instances, customers are billed in advance of the services performed. In those cases, the Company recognizes the liability as deferred revenue. As services are performed, those amounts are reversed and recognized as revenue.

*Allowance for Doubtful Accounts.* Management prepares its allowance for doubtful accounts receivable based on its review of past-due accounts, its past experience of historical write-offs and its current client base. While the collectability of outstanding client invoices is continually assessed, the inherent volatility of the energy industry's business cycle can cause swift and unpredictable changes in the financial stability of the Company's clients.

*Impairment of Long-lived Assets.* Long-lived assets are reviewed for impairment when triggering events occur suggesting deterioration in the assets' recoverability or fair value. Recognition of an impairment charge is required if future expected undiscounted net cash flows are insufficient to recover the carrying value of the assets and the fair value of the assets is below the carrying value of the assets. Management's forecast of future cash flow used to perform impairment analysis includes estimates of future revenues and expenses based on the Company's anticipated future results while considering anticipated future oil and natural gas prices which is fundamental in assessing demand for the Company's services. If the carrying amount of the assets exceeds the estimated expected undiscounted future cash flows, the Company measures the amount of possible impairment by comparing the carrying amount of the assets to their fair value.

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

Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the balance sheet, and any resulting gain or loss is reflected in the results of operations for the period.

*Tax Accounting.* The Company accounts for income taxes by recognizing amounts of taxes payable or refundable for the current year and an asset and liability approach in recognizing the amount of deferred tax assets and liabilities for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Management determines deferred taxes by identifying the types and amounts of existing temporary differences, measuring the total deferred tax asset or liability using the applicable tax rate in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates of deferred tax assets and liabilities is recognized in income in the year of an enacted rate change. The deferred tax asset is reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Management's methodology for recording income taxes requires judgment regarding assumptions and the use of estimates, including determining the effective tax rate and the valuation of deferred tax assets, which can create variances between actual results and estimates and could have a material impact on the Company's provision or benefit for income taxes.

*Stock-Based Compensation.* The Company accounts for stock-based compensation awards, including stock options and restricted stock, using the fair value method and recognizes compensation cost, net of forfeitures, in its financial statements. The Company records compensation expense as operating or general and administrative expense as appropriate in the Statements of Operations on a straight-line basis over the vesting period of the related stock options or restricted stock awards.

**Recently Issued Accounting Pronouncements**

None.

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The components of the Company's short-term investments are as follows:

	As of December 31, 2010 (in 000 \$)			Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments:				
U.S. Treasury bills	\$ 10,000	\$	\$ 2	\$ 9,998
Certificates of Deposit	2,500			2,500
Total	\$ 12,500	\$	\$ 2(a)	\$ 12,498

(a) Accumulated other comprehensive income reflected on the Balance Sheet reflects unrealized gains and losses net of the tax effect of approximately \$2,000.

	As of September 30, 2010 (in 000 \$)			Estimated
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Short-term investments:				
U.S. Treasury bills	\$ 14,991	\$ 2	\$	\$ 14,993
FDIC guaranteed bonds	5,015	4		5,019
Total	\$ 20,006	\$ 6(a)	\$	\$ 20,012

(a) Accumulated other comprehensive income reflected on the Balance Sheet reflects unrealized gains and losses net of the tax effect of approximately \$2,000.

The Company's existing short-term investments have contractual maturities ranging from January 2011 to May 2011. These investments have been classified as available-for-sale.

**4. FAIR VALUE OF FINANCIAL INSTRUMENTS**

At December 31, 2010 and September 30, 2010, the Company's financial instruments included cash and cash equivalents, short-term investments, trade and other receivables, other current assets, accounts payable and other current liabilities. Due to the short-term maturities of cash and cash equivalents, trade and other receivables, other current assets, accounts payable and other current liabilities, the carrying amounts approximate fair value at the respective balance sheet dates.

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including short-term investments.

The fair value measurements of these short-term investments were determined using the following inputs:

As of December 31, 2010 (in 000 \$)		
Fair Value Measurements at Reporting Date Using:		
Quoted Prices in	Significant Other Observable	Significant Unobservable

	<b>Total</b>	<b>Active Markets for Identical Assets (Level 1)</b>	<b>Inputs (Level 2)</b>	<b>Inputs (Level 3)</b>
Short-term investments:				
U.S. Treasury bills	\$ 9,998	\$ 9,998	\$	\$
Certificates of Deposit	2,500	2,500		
<b>Total</b>	<b>\$ 12,498</b>	<b>\$ 12,498</b>	<b>\$</b>	<b>\$</b>

**As of September 30, 2010 (in 000 s)**  
**Fair Value Measurements at Reporting Date Using:**

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Short-term investments:				
U.S. Treasury bills	\$ 14,993	\$ 14,993	\$	\$
FDIC guaranteed bonds	5,019	5,019		
<b>Total</b>	<b>\$ 20,012</b>	<b>\$ 20,012</b>	<b>\$</b>	<b>\$</b>

Investments in U.S. Treasury bills and notes and FDIC guaranteed bonds classified as available-for-sale are measured using unadjusted quoted market prices (Level 1) at the reporting date.

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The Company's revolving line of credit loan agreement is with Western National Bank. The agreement permits the Company to borrow, repay and reborrow, from time to time until June 2, 2011, up to \$20.0 million based on the borrowing base calculation as defined in the agreement. The Company's obligations under this agreement are secured by a security interest in its accounts receivable, equipment and related collateral. Interest on the facility accrues at an annual rate equal to either the 30-day London Interbank Offered Rate ( LIBOR ), plus two and one-quarter percent or the Prime Rate, minus three-quarters percent as the Company directs monthly, subject to an interest rate floor of 4%. Interest on the outstanding amount under the loan agreement is payable monthly. The loan agreement contains customary covenants for credit facilities of this type, including limitations on the disposition of assets, mergers and reorganizations. The Company is also obligated to meet certain financial covenants under the loan agreement, including maintaining specified ratios with respect to cash flow coverage, current assets and liabilities and debt to tangible net worth. The Company was in compliance with all covenants as of December 31, 2010 and February 4, 2011. The Company has not utilized the line of credit loan agreement during the current fiscal year or the fiscal year ended September 30, 2010.

**6. COMMITMENTS AND CONTINGENCIES**

On October 4, 2010, a fire in Eastern Wyoming burned a remote area in which one of the Company's data acquisition crews was operating. The fire destroyed approximately \$35,000 net book value of the Company's equipment, all of which was covered by the Company's liability insurance, net of the deductible. As a result of the loss of equipment in the fire, the Company also lost data worth approximately \$103,000. This data loss was also covered by the Company's liability insurance, net of the deductible. In addition to the loss of equipment and data, a number of landowners in the fire area suffered damage to their grazing lands, livestock, fences and other improvements. The estimated cost to repair fence damages is approximately \$600,000, and the Company believes such amounts will be covered by insurance. The insurance company is coordinating all other exposures as a result of the fire, and the Company believes its coverage will be adequate for this purpose. In December 2010, the Company received insurance proceeds for equipment and data losses sustained by the Company during the fire and for the Company's debris pick-up costs.

During the quarter ended December 31, 2010 the Company settled its claim with a client that had filed for relief under Chapter 11 of the United States Bankruptcy Code in 2009. As part of the settlement, the Company received a cash settlement and ownership in the data gathered on behalf of the client. As of December 31, 2010, there were no outstanding account receivables with this client. The Company capitalized the fair value of the data received and adjusted its allowance for doubtful accounts to reflect the reduction in estimated exposures.

From time to time, the Company is a party to various legal proceedings arising in the ordinary course of business. Although the Company cannot predict the outcomes of any such legal proceedings, management believes that the resolution of pending legal actions will not have a material adverse effect on the Company's financial condition, results of operations or liquidity as the Company believes it is adequately indemnified and insured.

The Company experiences contractual disputes with its clients from time to time regarding the payment of invoices or other matters. While the Company seeks to minimize these disputes and maintain good relations with its clients, the Company has in the past, and may in the future, experience disputes that could affect its revenues and results of operations in any period.

The Company has non-cancelable operating leases for office space in Midland, Houston, Denver, Oklahoma City, Lyon Township, Michigan and Canonsburg, Pennsylvania.

The following table summarizes payments due in specific periods related to the Company's contractual obligations with initial terms exceeding one year as of December 31, 2010.

	Payments Due by Period (in 000 \$)			
	Less than	1-3	3-5	More than
Total	1 Year	Years	Years	5 Years

Operating lease obligations	\$ 1,909	\$ 755	\$ 632	\$ 522	\$
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Some of the Company's operating leases contain predetermined fixed increases of the minimum rental rate during the initial lease term. For these leases, the Company recognizes the related expense on a straight-line basis and records the difference between the amount charged to expense and the rent paid as deferred rent. Rental expense under the Company's operating leases with initial terms exceeding one year was \$179,000 and \$146,000 for the three month periods ended December 31, 2010 and 2009, respectively.

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As of December 31, 2010, the Company had unused letters of credit totaling \$3,580,000. The Company's letters of credit principally back obligations associated with the Company's self-insured retention on workers' compensation claims.

**7. SUBSEQUENT EVENTS**

The Company has evaluated events subsequent to the balance sheet date (December 31, 2010) through the issue date of this Form 10-Q and concluded that no subsequent events have occurred that require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

**8. NET INCOME (LOSS) PER COMMON SHARE**

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares and common share equivalents outstanding during the period.

The following table sets forth the computation of basic and diluted net income (loss) per common share.

	<b>Three Months Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>NUMERATOR:</b>		
Net loss and numerator for basic and diluted net loss per common share-income available to common shareholders	\$ (1,667,000)	\$ (4,216,000)
<b>DENOMINATOR:</b>		
Denominator for basic net loss per common share-weighted average common shares	7,786,472	7,771,791
Effect of dilutive securities-employee stock options and restricted stock grants		
Denominator for diluted net loss per common share-adjusted weighted average common shares and assumed conversions	7,786,472	7,771,791
Basic loss per common share	\$ (0.21)	\$ (0.54)
Diluted loss per common share	\$ (0.21)	\$ (0.54)

The following weighted average numbers of certain securities have been excluded from the calculation of diluted net loss per common share for the periods shown, as their effect would be anti-dilutive.

	<b>Three Months Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Stock options	150,106	152,000
Restricted stock	121,948	40,326

The Company had a net loss in the three months ended December 31, 2010 and 2009. Therefore, the denominator for diluted loss per common share is the same as the denominator for basic loss per common share.

**ITEM 2. 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 and notes thereto included elsewhere in this Form 10-Q.

**Forward Looking Statements**

Statements other than statements of historical fact included in this Form 10-Q that relate to forecasts, estimates or other expectations regarding future events, including without limitation, statements under Management's Discussion and Analysis of Financial Condition and Results of Operations regarding technological advancements and our financial position, business strategy and plans and objectives of our management for future operations, may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). When used in this Form 10-Q, words such as anticipate, believe, estimate, expect, intend and similar



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expressions, as they relate to us or our management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of our management, as well as assumptions made by and information currently available to 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 the volatility of oil and natural gas prices, dependence upon energy industry spending, disruptions in the global economy, industry competition, delays, reductions or cancellations of service contracts, high fixed costs of operations, external factors affecting our crews, such as weather interruptions and inability to obtain land access rights of way, whether we enter into turnkey or day rate contracts, crew productivity, limited number of customers, credit risk related to our customers, the availability of capital resources and operational disruptions. A discussion of these factors, including risks and uncertainties, is set forth under **Risk Factors** in our Annual Report on Form 10-K for the year ended September 30, 2010 and in our other reports filed from time to time with the Securities and Exchange Commission. These forward-looking statements reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategies and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. We assume no obligation to update any such forward-looking statements.

**Overview**

We are the leading provider of onshore seismic data acquisition services in the lower 48 states of the United States as measured by the number of active data acquisition crews. Substantially all of our revenues are derived from the seismic data acquisition services we provide to our clients, mainly domestic oil and natural gas companies. Demand for our services depends upon the level of spending by these companies for exploration, production, development and field management activities, which depends, in part, on oil and natural gas prices. Significant fluctuations in domestic oil and natural gas exploration activities and commodity prices have affected the demand for our services and our results of operations in years past, and such fluctuations continue today to be the single most important factor affecting our business and results of operations.

Beginning in August 2008, the prices of oil and especially natural gas declined significantly from historic highs due to reduced demand from the global economic slowdown. During 2009 many domestic oil and natural gas companies reduced their capital expenditures due to the decrease in market prices and disruptions in the credit markets. These factors led to a severe reduction in demand for our services and in our industry during 2009 as well as downward pressure on the prices we charge our customers for our services. In order to better align our crew capacity with reduced demand, we reduced the number of data acquisition crews we operated from sixteen in January 2009 to nine as of October 2009. Due to the reductions in the number of our active data acquisition crews and lower utilization rates for our remaining operating crews, we experienced a reduction in operating revenues and, to a lesser extent, in operating costs during calendar 2009 and into calendar 2010.

Beginning in the second quarter of fiscal 2010, we began to experience an increase in demand for our services, particularly in the oil basins. In response to this demand increase, we redeployed three seismic data acquisition crews in fiscal 2010, bringing our current crew count to twelve active crews. Demand has continued to increase during the first part of fiscal 2011, and we have seen an increase in requests for proposals. However, demand has not yet returned to the levels we experienced in 2008. Consequently, our revenues remain at a lower level than those we reported in fiscal 2008 and 2009, and may for some time until demand recovers further. In addition, the seismic data acquisition market in the lower 48 United States remains very competitive, which in turn continues to put pressure on the prices we charge for our services. In light of continuing market challenges, we are maintaining our focus on containing costs and maintaining our financial strength. Equipment and key personnel from crews taken out of service continue to be redeployed on remaining crews as needed or otherwise remain available for rapid expansion of crew count as demand and market conditions dictate in the future. Although our clients may cancel their service contracts on short notice, our current order book reflects commitment levels sufficient to maintain operation of our twelve data acquisition crews well into fiscal 2011.

While our revenues are mainly affected by the level of client demand for our services, our revenues are also affected by the pricing for our services that we negotiate with our clients and the productivity of our data acquisition crews, including factors such as crew downtime related to inclement weather, delays in acquiring land access permits,

crew repositioning or equipment failure, whether we enter into turnkey or day rate contracts with our clients and the number and size of crews and the number of recording channels per crew. Consequently, our efforts to negotiate favorable contract terms in our supplemental service agreements, to mitigate access permit delays and to improve overall crew productivity and configuration may contribute to growth in our revenues. During fiscal 2010 and into fiscal 2011, most of our client contracts have been turnkey contracts. The percentage of revenues derived from turnkey contracts has grown in the past few years from approximately half of our revenues in fiscal 2008 to in excess of seventy percent of our revenues during fiscal 2010 and in the first quarter of fiscal 2011. While turnkey contracts allow us to capitalize on improved crew productivity, we also bear more risks related to weather and crew downtime. Weather conditions in January 2011 continued to be difficult in many regions of the country negatively impacting utilization rates on most of our crews.

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While the markets for oil and natural gas have been very volatile and are likely to continue to be so in the future, and we can make no assurances as to future levels of domestic exploration or commodity prices, we believe opportunities exist for us to enhance our market position by responding to our clients' continuing desire for higher resolution subsurface images. If economic conditions were to worsen, our clients were to reduce their capital expenditures, or if there were a significant sustained drop in oil and natural gas prices, it would result in diminished demand for our seismic services, could cause continued downward pressure on the prices we charge and would affect our results of operations. The services we are currently providing are balanced between clients seeking oil and natural gas. In recent years, we have experienced periods in which the services we provided were primarily to clients seeking oil and other periods in which our clients were primarily seeking natural gas.

**Results of Operations**

*Operating Revenues.* Our operating revenues for the first three months of fiscal 2011 increased 100% to \$72,653,000 from \$36,330,000 for the first three months of fiscal 2010. The revenue increase in the quarter ended December 31, 2010 was primarily the result of the previously announced redeployment of three data acquisition crews during fiscal 2010, increasing channel count per crew and improved utilization rates on existing crews, offset by difficult weather and permit conditions during the quarter and the usual first quarter issues of shorter days and holidays. Included in the first quarter revenues are unusually high third-party charges related to the use of helicopter support services, specialized survey technologies and dynamite energy sources. The increased level of these charges is driven by our continued operations in areas with limited access. We are reimbursed for these charges by our clients.

*Operating Costs.* Operating expenses for the three months ended December 31, 2010 increased 91% to \$66,160,000 as compared to \$34,719,000 for the same period of fiscal 2010 primarily as a function of the redeployment of three data acquisition crews discussed above. As we have experienced increases in our active crew count, the expenses of supporting the twelve operating crews and reimbursable expenses have increased.

General and administrative expenses for the quarter ended December 31, 2010 were approximately 3% of revenues as compared to 5% for the comparable quarter of fiscal 2010. The ratio of general and administrative expenses to revenue decreased in the first quarter of fiscal 2011 due to the substantial increase in revenues. The dollar amount increase of \$324,000 to \$2,178,000 during the first quarter of fiscal 2011 from \$1,854,000 during the first quarter of fiscal 2010 reflects the additional employees hired as a result of our increase in crews.

Depreciation for the three months ended December 31, 2010 totaled \$7,132,000 compared to \$6,477,000 for the three months ended December 31, 2009. The increase in depreciation expense is the result of the capital expenditures we made during the second quarter of fiscal 2010 and to date in fiscal 2011. Our depreciation expense is expected to increase during fiscal 2011 reflecting our capital expenditures in fiscal 2010 and in the quarter just ended.

Our total operating costs for the first three months of fiscal 2011 were \$75,470,000, an increase of 75% from \$43,050,000 for the first three months of fiscal 2010. This increase in the first quarter was primarily due to the factors described above.

*Taxes.* The income tax benefit was \$566,000 for the three months ended December 31, 2010 compared to an income tax benefit of \$2,472,000 for the three months ended December 31, 2009. The effective tax rates for the income tax provision for the three months ended December 31, 2010 and 2009 were approximately 25.3% and 37.0%, respectively. Our effective tax rates differ from the statutory federal rate of 35.0% for certain items, such as state and local taxes, non-deductible expenses, expenses related to stock-based compensation that are not expected to result in a tax deduction and changes in reserves for uncertain tax positions.

**Liquidity and Capital Resources**

*Introduction.* Our principal sources of cash are amounts earned from the seismic data acquisition services we provide to our clients. Our principal uses of cash are the amounts used to provide these services, including expenses related to our operations and acquiring new equipment. Accordingly, our cash position depends (as do our revenues) on the level of demand for our services. Historically, cash generated from our operations along with cash reserves and short-term borrowings from commercial banks have been sufficient to fund our working capital requirements, and to some extent, our capital expenditures.

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*Cash Flows.* Net cash provided by operating activities was \$3,214,000 for the first three months of fiscal 2011 and \$959,000 for the first three months of fiscal 2010. These amounts primarily reflect our increase in revenues and the effects of depreciation resulting from our significant capital expenditures over the last few years and the working capital components.

Net cash used in investing activities was \$8,966,000 in the three months ended December 31, 2010 and \$20,000 in the three months ended December 31, 2009. The net cash used in investing activities in fiscal 2011 primarily represents capital expenditures made with cash generated from operations and the proceeds from maturities of short-term investments. In addition during the first quarter of fiscal 2011, we received insurance proceeds as a result of the October 2010 wildfire described in *Commitments and Contingencies* in the Notes to the Financial Statements. In fiscal 2010, we reinvested the proceeds of a matured treasury investment.

During the first quarter of fiscal 2011, employees exercised stock options totaling 3,750 shares and \$74,000 in cash flows from financing activities. We had no cash flows from financing activities in the first quarter of fiscal 2010.

*Capital Expenditures.* Capital expenditures during the first three months of fiscal 2011 were \$27,830,000, which included an additional 2,000-station OYO GSR four-channel recording system along with three-component geophones, 6,800 single-channel OYO GSR recording boxes, additional conventional geophones, additional vehicles to improve our fleet and ten INOVA vibrator energy source units. The 6,800 single-channel OYO GSR recording boxes were received during the first quarter of fiscal 2011 as part of the previously announced order of 10,000 recording boxes.

During the quarter, our Board of Directors increased our fiscal 2011 capital budget by an additional \$5,000,000 to \$35,000,000. The fiscal 2011 capital budget has been used, in part, for the purchase of the previously disclosed OYO recording units and vibrator energy source units. We plan to use the remaining balance of the capital budget for the purchase of 3,200 additional single-channel OYO GSR recording boxes to complete the 10,000 OYO box order and to meet other maintenance capital requirements. We expect the remainder of our most recent OYO purchase to be delivered during the second quarter of fiscal 2011. We believe these expenditures will allow us to maintain our competitive position as we respond to client desire for higher resolution subsurface images.

We continually strive to supply our clients with technologically advanced 3-D seismic data acquisition recording systems and data processing capabilities. We maintain equipment in and out of service in anticipation of increased future demand for our services.

*Capital Resources.* Historically, we have primarily relied on cash generated from operations, cash reserves and short-term borrowings from commercial banks to fund our working capital requirements and, to some extent, our capital expenditures. We have also funded our capital expenditures and other financing needs from time to time through public equity offerings.

Our revolving line of credit loan agreement is with Western National Bank. The agreement permits us to borrow, repay and reborrow, from time to time until June 2, 2011, up to \$20.0 million based on the borrowing base calculation as defined in the agreement. Our obligations under this agreement are secured by a security interest in our accounts receivable, equipment and related collateral. Interest on the facility accrues at an annual rate equal to either the 30-day London Interbank Offered Rate ( LIBOR ), plus two and one-quarter percent or the Prime Rate, minus three-quarters percent as we direct monthly, subject to an interest rate floor of 4%. Interest on the outstanding amount under the loan agreement is payable monthly. The loan agreement contains customary covenants for credit facilities of this type, including limitations on disposition of assets, mergers and reorganizations. We are also obligated to meet certain financial covenants under the loan agreement, including maintaining specified ratios with respect to cash flow coverage, current assets and liabilities and debt to tangible net worth. We were in compliance with all covenants as of December 31, 2010 and February 4, 2011. We have not utilized the line of credit loan agreement during the current fiscal year or the fiscal year ended September 30, 2010.

On March 31, 2009, we filed a shelf registration statement with the SEC covering the periodic offer and sale of up to \$100.0 million in debt securities, preferred and common stock and warrants. The registration statement allows us to sell securities in one or more separate offerings with the size, price and terms to be determined at the time of sale. The terms of any securities offered would be described in a related prospectus to be filed separately with the SEC at the time of the offering. The filing of the shelf registration statement will enable us to act quickly if and when

opportunities arise.

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The following table summarizes payments due in specific periods related to our contractual obligations with initial terms exceeding one year as of December 31, 2010.

	Payments Due by Period (in 000 s)				More than 5 Years
	Total	Within 1 Year	1-3 Years	3-5 Years	
Operating lease obligations	\$ 1,909	\$ 755	\$ 632	\$ 522	\$

We believe that our capital resources and cash flow from operations are adequate to meet our current operational needs. We believe we will be able to finance our capital requirements through cash flow from operations, cash on hand and through borrowings under our revolving line of credit. However, our ability to satisfy our working capital requirements and to fund future capital requirements will depend principally upon our future operating performance, which is subject to the risks inherent in our business including the demand for our seismic services from clients.

**Off-Balance Sheet Arrangements**

As of December 31, 2010, we had no off-balance sheet arrangements.

**Critical Accounting Policies**

Information regarding the Company's critical accounting policies and estimates is included in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

**Recently Issued Accounting Pronouncements**

None.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our primary sources of market risk include fluctuations in commodity prices which affect demand for and pricing of our services as well as interest rate fluctuations. Our revolving line of credit carries a variable interest rate that is tied to market indices and, therefore, our results of operations and our cash flows could be impacted by changes in interest rates. Outstanding balances under our revolving line of credit bear interest at our monthly direction of the lower of the Prime rate minus three-quarters percent or the 30-day LIBOR plus two and one-quarter percent, subject to an interest rate floor of 4%. At December 31, 2010, we had no balances outstanding on our revolving line of credit. The contractual maturities of our short-term investments held at December 31, 2010 range from January to May 2011. Our short-term investments are classified for accounting purposes as available-for-sale. If these short-term investments are not held to maturity, the proceeds obtained when the instruments are sold will be impacted by the current interest rates at the time they are sold. We have not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other derivative financial instruments. We do not currently conduct business internationally, so we are not generally subject to foreign currency exchange rate risk.

**ITEM 4. CONTROLS AND PROCEDURES**

*Management's Evaluation of Disclosure Controls and Procedures.* We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive and principal financial officers, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, our President and Chief Executive Officer and our Executive Vice President, Secretary and Chief Financial Officer concluded that, as of December 31, 2010, our disclosure controls and procedures were effective, in all material respects, with regard to the recording, processing, summarizing and reporting, within the time periods specified in the SEC's rules and forms, for information required to be disclosed by us in the reports that we file or submit under the Exchange Act. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our President and Chief Executive Officer and our Executive Vice President, Secretary and Chief Financial Officer, as appropriate, to allow timely decisions regarding required

disclosure.

*Changes in Internal Control Over Financial Reporting.* There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) during the quarter ending December 31, 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

From time to time, we are a party to various legal proceedings arising in the ordinary course of business. Although we cannot predict the outcomes of any such legal proceedings, our management believes that the resolution of pending legal actions will not have a material adverse effect on our financial condition, results of operations or liquidity.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the fiscal year ended September 30, 2010, which could materially affect our financial condition or results of operations. There have been no material changes in our risk factors from those disclosed in our 2010 Annual Report on Form 10-K.

**ITEM 6. EXHIBITS**

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this Form 10-Q and is hereby incorporated by reference.



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**SIGNATURES**

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

DAWSON GEOPHYSICAL COMPANY

DATE: February 4, 2011

By: /s/ Stephen C. Jumper  
Stephen C. Jumper  
President and Chief Executive Officer

DATE: February 4, 2011

By: /s/ Christina W. Hagan  
Christina W. Hagan  
Executive Vice President, Secretary and  
Chief Financial Officer

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**INDEX TO EXHIBITS**

<b>Number</b>	<b>Exhibit</b>
3.1	Second Restated Articles of Incorporation of the Company, as amended (filed on February 9, 2007 as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2006 (File No. 000-10144) and incorporated herein by reference and filed on November 28, 2007 as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-10144) and incorporated herein by reference).
3.1A	Statement of Resolution Establishing Series of Shares of Series A Junior Participating Preferred Stock of the Company (filed on July 9, 2009 as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-10144) and incorporated herein by reference).
3.2	Second Amended and Restated Bylaws of the Company, as amended (filed July 28, 2010 as Exhibit 3.2 to the Company's Current Report on Form 8-K (File No. 001-34404) and incorporated herein by reference and filed on November 23, 2010 as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010 (File No. 001-34404) and incorporated herein by reference).
4.1	Rights Agreement effective as of July 23, 2009 between the Company and Mellon Investor Services LLC, as Rights Agent, which includes as Exhibit A the form of Statement of Resolution Establishing Series of Shares of Series A Junior Participating Preferred Stock setting forth the terms of the Preferred Stock, as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights to Purchase Preferred Stock (filed on July 9, 2009 as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 000-10144) and incorporated herein by reference). Pursuant to the Rights Agreement, Rights Certificates will not be mailed until after the Distribution Date (as defined in the Rights Agreement).
31.1*	Certification of Chief Executive Officer of Dawson Geophysical Company pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer of Dawson Geophysical Company pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer of Dawson Geophysical Company pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2*	Certification of Chief Financial Officer of Dawson Geophysical Company pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.

\* Filed herewith.