

DAWSON GEOPHYSICAL CO

Form 10-Q

August 06, 2010

**Table of Contents**

**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 June 30, 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ○ No ○

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

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 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.

**Title of Each Class  
Common Stock, \$.33 1/3 par value**

**Outstanding at August 6, 2010  
7,901,856 shares**

**DAWSON GEOPHYSICAL COMPANY**  
**INDEX**

	<b>Page Number</b>
<b><u>Part I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	1
<u>Statements of Operations for the Three Months and the Nine Months Ended June 30, 2010 and 2009 (unaudited)</u>	1
<u>Balance Sheets at June 30, 2010 (unaudited) and September 30, 2009</u>	2
<u>Statements of Cash Flows for the Nine Months Ended June 30, 2010 and 2009 (unaudited)</u>	3
<u>Notes to Financial Statements (unaudited)</u>	4
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	10
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	15
<u>Item 4. Controls and Procedures</u>	16
<b><u>Part II. OTHER INFORMATION</u></b>	16
<u>Item 1. Legal Proceedings</u>	16
<u>Item 1A. Risk Factors</u>	16
<u>Item 6. Exhibits</u>	16
<u>Signatures</u>	17
<u>Index to Exhibits</u>	18
<u>EX-10.3</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
Certification of CEO Pursuant to Rule 13a-14(a)	
Certification of CFO Pursuant to Rule 13a-14(a)	
Certification of CEO Pursuant to Rule 13a-14(b)	
Certification of CFO Pursuant to Rule 13a-14(b)	

---

**Table of Contents**

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2010	2009	2010	2009
Operating revenues	\$ 61,178,000	\$ 52,319,000	\$ 146,093,000	\$ 197,160,000
Operating costs:				
Operating expenses	54,098,000	46,374,000	133,245,000	151,126,000
General and administrative	1,635,000	1,761,000	5,281,000	6,324,000
Depreciation	7,016,000	6,521,000	20,188,000	19,651,000
	62,749,000	54,656,000	158,714,000	177,101,000
(Loss) income from operations	(1,571,000)	(2,337,000)	(12,621,000)	20,059,000
Other income (expense):				
Interest income	20,000	73,000	78,000	213,000
Other income (expense)	126,000	(12,000)	223,000	298,000
(Loss) income before income taxes	(1,425,000)	(2,276,000)	(12,320,000)	20,570,000
Income tax benefit (expense)	406,000	650,000	4,379,000	(8,292,000)
Net (loss) income	\$ (1,019,000)	\$ (1,626,000)	\$ (7,941,000)	\$ 12,278,000
Net (loss) income per common share	\$ (0.13)	\$ (0.21)	\$ (1.02)	\$ 1.57
Net (loss) income per common share-assuming dilution	\$ (0.13)	\$ (0.21)	\$ (1.02)	\$ 1.57
Weighted average equivalent common shares outstanding	7,779,256	7,810,592	7,776,740	7,802,186
Weighted average equivalent common shares outstanding -assuming dilution	7,779,256	7,810,592	7,776,740	7,839,324

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

**Table of Contents**

**DAWSON GEOPHYSICAL COMPANY  
BALANCE SHEETS**

	June 30, 2010 (Unaudited)	September 30, 2009
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 27,207,000	\$ 36,792,000
Short-term investments	20,056,000	25,267,000
Accounts receivable, net of allowance for doubtful accounts of \$639,000 in June 2010 and \$533,000 in September 2009	52,877,000	40,106,000
Prepaid expenses and other assets	8,183,000	7,819,000
Current deferred tax asset	1,062,000	1,694,000
 Total current assets	 109,385,000	 111,678,000
<b>Property, plant and equipment</b>	<b>245,862,000</b>	<b>240,820,000</b>
Less accumulated depreciation	(124,091,000)	(115,341,000)
 Net property, plant and equipment	 121,771,000	 125,479,000
 Total assets	 \$ 231,156,000	 \$ 237,157,000
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 12,958,000	\$ 6,966,000
Accrued liabilities:		
Payroll costs and other taxes	1,951,000	2,720,000
Other	8,993,000	10,600,000
Deferred revenue		2,230,000
 Total current liabilities	 23,902,000	 22,516,000
<b>Deferred tax liability</b>	<b>16,006,000</b>	<b>16,262,000</b>
<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, 7,817,756 and 7,822,994 shares issued and outstanding in each period	2,606,000	2,608,000
Additional paid-in capital	90,000,000	89,220,000
Accumulated other comprehensive income, net of tax	50,000	18,000
Retained earnings	98,592,000	106,533,000

Total stockholders' equity	191,248,000	198,379,000
Total liabilities and stockholders' equity	\$ 231,156,000	\$ 237,157,000

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

2

---

**Table of Contents**

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

	Nine Months Ended June 30,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$ (7,941,000)	\$ 12,278,000
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Depreciation	20,188,000	19,651,000
Noncash compensation	1,153,000	1,315,000
Deferred income tax expense	360,000	1,129,000
Excess tax benefit from share-based payment arrangement		(4,000)
Provision for bad debts	199,000	1,169,000
Other	(234,000)	32,000
Change in current assets and liabilities:		
(Increase) decrease in accounts receivable	(12,970,000)	21,500,000
Increase in prepaid expenses and other assets	(364,000)	(5,548,000)
Increase (decrease) in accounts payable	5,687,000	(4,101,000)
Decrease in accrued liabilities	(2,376,000)	(6,286,000)
(Decrease) increase in deferred revenue	(2,230,000)	1,373,000
Net cash provided by operating activities	1,472,000	42,508,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures, net of noncash capital additions summarized below in noncash investing activities	(16,585,000)	(4,062,000)
Proceeds from disposal of assets	499,000	101,000
Proceeds from maturity of short-term investments	15,000,000	
Acquisition of short-term investments	(9,971,000)	(20,192,000)
Partial proceeds on fire insurance claim		2,843,000
Net cash used in investing activities	(11,057,000)	(21,310,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from exercise of stock options		407,000
Excess tax benefits from share-based payment arrangement		4,000
Net cash provided by financing activities		411,000

Edgar Filing: DAWSON GEOPHYSICAL CO - Form 10-Q

Net (decrease) increase in cash and cash equivalents	(9,585,000)	21,609,000
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	36,792,000	8,311,000
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>\$ 27,207,000</b>	<b>\$ 29,920,000</b>

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid during the period for income taxes	\$ 797,000	\$ 13,137,000
Cash received during the period for income taxes	\$ 6,000,000	\$

**NONCASH INVESTING ACTIVITIES:**

Accrued purchases of property and equipment	\$ 305,000	\$
Equipment purchase through reduction of insurance proceeds	\$	\$ 638,000
Equipment purchase through asset trade in	\$ 2,170,000	\$
Unrealized gain on investments	\$ 48,000	\$

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



**Table of Contents**

**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 and the nine months ended June 30, 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, 2009.

**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 period. 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 June 30, 2010 and September 30, 2009, 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, the Company currently also has funds invested in FDIC guaranteed bonds. The Company believes all of its investments are low risk investments. 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. 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.

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.

**Table of Contents**

*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 flows 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 lives 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 liabilities and assets 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 and reducing the deferred tax asset 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 annual 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.

*Reclassifications.* Certain prior year amounts have been reclassified in the current year in order to be consistent with the current year presentation.

**Recently Issued Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board (FASB) issued ASC 820-10, Fair Value Measurements and Disclosures. ASC 820-10 clarifies that fair value is the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants. Further, the standard establishes a framework for measuring fair value in generally accepted accounting principles and expands certain disclosures about fair value measurements. ASC 820-10 became effective for all financial assets and financial liabilities as of October 1, 2008, and upon adoption, ASC 820-10 did not have a material impact on our financial statements. In February 2008, the FASB issued ASC 820-10-15-1A, Fair Value Measurements and Disclosures—Transition and Open Effective Date Information, which delayed the effective date of ASC 820-10 for all non-financial assets and non-financial liabilities such as asset impairments, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Effective at the beginning of fiscal 2010, the Company adopted the FASB authoritative guidance for non-financial assets and non-financial liabilities. The adoption for non-financial assets and non-financial liabilities did not have a material impact on the Company's financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06 Fair Value Measurements and Disclosures (Topic 820) as new guidance and clarification for improving disclosures about fair value measurements. ASU 2010-06 requires enhanced disclosures regarding transfers in and out of the levels within the fair value hierarchy.

Separate disclosures are required for transfers in and out of Level 1 and 2 fair value measurements, and the reasons for the transfers must be disclosed. The new disclosures and clarifications of existing disclosures were effective for the Company as of January 1, 2010. The adoption of this guidance did not have a material impact on the Company's financial statements.

**Table of Contents**

In February 2010, the FASB issued Accounting Standards Update 2010-09 Subsequent Events (Topic 855) allowing SEC filers to remove the date through which subsequent events have been reviewed. ASU 2010-09 became effective upon issuance, and the adoption of this guidance did not have a material impact on the Company's financial statements.

**3. SHORT-TERM INVESTMENTS**

The components of the Company's short-term investments for June 30, 2010 and September 30, 2009 are as follows:

	As of June 30, 2010 (in 000's)			Estimated
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Short-term investments:				
U.S. Treasury bills	\$ 9,988	\$ 3	\$	\$ 9,991
U.S. Treasury notes	4,967	55		5,022
FDIC guaranteed bonds	5,021	22		5,043
Total	\$ 19,976	\$ 80(a)	\$	\$ 20,056

(a) Accumulated other comprehensive income reflected on the Balance Sheet reflects unrealized gains and losses net of the tax effect of approximately \$30,000.

	As of September 30, 2009 (in 000's)			Estimated
	Amortized	Unrealized	Unrealized	Fair
	Cost	Gains	Losses	Value
Short-term investments:				
U.S. Treasury bills	\$ 9,987	\$ 7	\$	\$ 9,994
U.S. Treasury notes	10,153	20		10,173
FDIC guaranteed bonds	5,096	4		5,100
Total	\$ 25,236	\$ 31(a)	\$	\$ 25,267

(a) Accumulated other comprehensive income reflected on the Balance

Sheet reflects  
unrealized gains  
and losses net of  
the tax effect of  
approximately  
\$13,000.

The Company's existing short-term investments have contractual maturities ranging from September 2010 to January 2011. These investments have been classified as available-for-sale.

#### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

At June 30, 2010 and September 30, 2009, 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 June 30, 2010 (in 000's)			
	Fair Value Measurements at Reporting Date Using:			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total			
Short-term investments:				
U.S. Treasury bills	\$ 9,991	\$ 9,991	\$	\$
U.S. Treasury notes	5,022	5,022		
FDIC guaranteed bonds	5,043	5,043		
Total	\$ 20,056	\$ 20,056	\$	\$

**Table of Contents**

	As of September 30, 2009 (in 000 \$)			
	Fair Value Measurements at Reporting Date Using:			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Total			
Short-term investments:				
U.S. Treasury bills	\$ 9,994	\$ 9,994	\$	\$
U.S. Treasury notes	10,173	10,173		
FDIC guaranteed bonds	5,100	5,100		
Total	\$ 25,267	\$ 25,267	\$	\$

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.

**5. DEBT**

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 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 June 30, 2010. The Company has not utilized the line of credit loan agreement since it paid off the entire outstanding balance as of September 30, 2008.

**6. STOCK-BASED COMPENSATION**

The Company's stock-based compensation activity for the nine months ended June 30, 2010 and 2009 is summarized below.

*Incentive Stock Options:*

The Company estimates the fair value of each stock option on the date of grant using the Black-Scholes option pricing model. The expected volatility is based on historical volatility. The expected term represents the average period that the Company expects stock options to be outstanding and is determined based on the Company's historical experience. The risk free interest rate used by the Company as the discounting interest rate is based on the U.S. Treasury rates on the grant date for securities with maturity dates of approximately the expected term. As the Company has not historically declared dividends and does not expect to declare dividends over the near term, the dividend yield used in the calculation is zero. Actual value realized, if any, is dependent on the future performance of the Company's common stock and overall stock market conditions. There is no assurance the value realized by an optionee will be at or near the value estimated by the Black-Scholes model. Options granted by the Company vest in equal installments annually over four years from the date of grant and expire ten years from the date of the grant. Compensation cost is recognized on a straight-line basis as the options vest.

No options were granted during the nine months ended June 30, 2010. The Company granted 152,000 stock option awards to officers and employees during the nine months ended June 30, 2009. There were no options exercised during the nine months ended June 30, 2010. The intrinsic value of options exercised during the nine months ended

June 30, 2009 was \$199,000 representing the exercise of 22,750 shares.

Stock options issued under the Company's stock-based compensation plans are incentive stock options. No tax deduction is recorded when options are awarded. If an exercise and sale of vested options results in a disqualifying disposition, a tax deduction for the Company occurs. For the nine months ended June 30, 2010 there was no excess tax benefits from disqualifying dispositions of options. For the nine months ended June 30, 2009, there was \$4,000 in excess tax benefits from disqualifying dispositions of options.



**Table of Contents**

The Company recognized compensation expense associated with stock option awards of \$273,000 and \$222,000 during the nine months ended June 30, 2010 and 2009, respectively. This amount is included in operating expenses and general and administrative costs in the Statements of Operations.

*Stock Awards:*

There were no restricted stock awards granted to employees during the nine months ended June 30, 2010 or 2009.

The Company's tax benefit with regards to restricted stock awards is consistent with the tax election of the recipient of the award. No elections under IRC Section 83(b) have been made for the restricted stock awards granted by the Company. As a result, the compensation expense recorded for restricted stock resulted in a deferred tax asset for the Company equal to the tax effect of the amount of compensation expense recorded.

The Company recognized compensation expense associated with restricted stock of \$700,000 and \$1,002,000 during the nine months June 30, 2010 and 2009, respectively. This amount is included in operating expenses and general and administrative costs in the Statements of Operations.

The Company granted 8,140 shares with immediate vesting to outside directors during fiscal 2010 and 5,000 shares with immediate vesting to outside directors during fiscal 2009. The grant date fair value equaled \$22.11 and \$18.19 in each period, respectively. The Company recognized compensation expense of \$180,000 and \$91,000 during the quarters ended June 30, 2010 and 2009, respectively. These amounts are included in general and administrative costs in the Statements of Operations.

On July 26, 2010 the Company granted 84,100 shares of restricted stock to employees under the 2006 Stock and Performance Incentive Plan. The fair value of the restricted stock granted was \$23.33 per share. The restricted stock awards vest after three years.

**7. COMMITMENTS AND CONTINGENCIES**

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.

On March 14, 2008, a wildfire in West Texas burned a remote area in which one of the Company's data acquisition crews was operating. The fire destroyed approximately \$2,900,000 net book value of the Company's equipment, all of which was covered by the Company's liability insurance, net of the deductible. In addition to the loss of equipment, a number of landowners in the fire area suffered damage to their grazing lands, livestock, fences and other improvements. The total cost to repair landowner damages was approximately \$1,800,000. In November 2008 and February 2009, the Company received insurance proceeds for equipment losses sustained by the Company during the fire and for the Company's debris pick-up costs. In December 2009, the Company received insurance proceeds for all costs incurred to repair landowner damages.

During the quarter ended March 31, 2009, one of the Company's clients filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. The Company increased its allowance for doubtful accounts during the second quarter of fiscal 2009 to cover estimated exposures related to this bankruptcy. As of June 30, 2010 this client had an accounts receivable balance with the Company of approximately \$1.0 million, and the estimated exposure remains unchanged.

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

As of June 30, 2010, the Company had unused letters of credit totaling \$4,080,000. The Company's letters of credit principally back obligations associated with the Company's self-insured retention on workers' compensation claims.

**Table of Contents****8. SUBSEQUENT EVENTS**

The Company has evaluated events subsequent to the balance sheet date (June 30, 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.

**9. 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 June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>NUMERATOR:</b>				
Net (loss) income and numerator for basic and diluted net (loss) income per common share-income available to common shareholders	\$(1,019,000)	\$(1,626,000)	\$(7,941,000)	\$12,278,000
<b>DENOMINATOR:</b>				
Denominator for basic net (loss) income per common share-weighted average common shares	7,779,256	7,810,592	7,776,740	7,802,186
Effect of dilutive securities-employee stock options and restricted stock grants				37,138
Denominator for diluted net (loss) income per common share-adjusted weighted average common shares and assumed conversions	7,779,256	7,810,592	7,776,740	7,839,324
Net (loss) income per common share	\$ (0.13)	\$ (0.21)	\$ (1.02)	\$ 1.57
Net (loss) income per common share-assuming dilution	\$ (0.13)	\$ (0.21)	\$ (1.02)	\$ 1.57

**Table of Contents**

**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 of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-Q, words such as anticipate, believe, estimate, expect, intend, and similar 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, disruptions in the global economy, dependence upon energy industry spending, delays, reductions or cancellations of service contracts, high fixed costs of operations, weather interruptions, inability to obtain land access rights of way, industry competition, limited number of customers, credit risk related to our customers, asset impairments, 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, 2009 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.

Our strong results from 2004 through 2008 were directly related to increases in exploration activities for domestic oil and natural gas reserves by the petroleum industry during this period. The increased level of exploration was a function of higher prices for oil and natural gas. As a result of the increase in domestic exploration spending, we experienced an increased demand for our seismic data acquisition and processing services during this period, particularly from entities seeking natural gas reserves. 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, and 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 in general 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 and to reduce short term-utilization issues, we reduced the number of data acquisition crews we operated from sixteen at the end of fiscal 2008 to nine in October 2009. During the end of calendar 2009, we began to experience an increase in demand for our services across a number of oil and natural gas basins. While the Company remains in a competitive pricing environment and the pace of future economic activity remains uncertain, the recent increase in demand has somewhat mitigated our short-term

utilization issues and allowed us to redeploy two previously out of service data acquisition crews during January 2010 and an additional one in June 2010, bringing the number of currently operating crews to twelve.

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 operating costs during calendar 2009. We anticipate that, despite the recent increase in demand from the low levels of 2009, such reductions may continue through calendar 2010, and possibly beyond, depending on future market prices for oil and natural gas and the level of domestic exploration spending. In light of continuing market

**Table of Contents**

challenges, we are maintaining our focus and efforts on reducing 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 twelve data acquisition crews into calendar 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, the productivity of our data acquisition crews, including factors such as crew downtime related to inclement weather, delays in acquiring land access permits or equipment failure, and whether we enter into turnkey or day rate contracts with our clients. Consequently, our efforts to negotiate favorable contract terms in our supplemental service agreements, to mitigate access permit delays and to improve overall crew productivity may partially offset the impact of reduced demand and anticipated contract price weaknesses. During the third quarter, a majority of our client contracts were turnkey contracts. While turnkey contracts allow us to capitalize on improved crew productivity, we also bear more risks related to weather and other crew downtime.

During the years prior to the 2009 economic slowdown, we made significant investments in seismic data acquisition equipment, with much of that equipment incorporating new and improved technologies. As we continue to integrate the new equipment into our operations we will continue to closely monitor our entire equipment base for the purpose of evaluating the remaining useful lives of our older equipment and to assess possible impairment. There are numerous uncertainties factored into the estimates of the life cycle of a seismic recording system including the future cash flows estimated to be generated by a particular system. Estimated cash flows can be affected by changes in oil and natural gas prices, reduced demand for our services, a competitive pricing environment as we have experienced since the beginning of 2009, technological advances in seismic data acquisition equipment and reductions in future utilization resulting from the expected size and geographical location of future prospects.

While the markets for oil and natural gas have been very volatile and are likely to continue to be volatile 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 do not improve or were to worsen, our customers do not increase their capital expenditures or there is a significant sustained drop in oil and natural gas prices, it could result in continued diminished demand for our seismic services, may cause continued downward pressure on the prices we charge and could continue to affect our results of operations. Because a majority of our current clients are focused on the exploration for and production of natural gas, a continued pressure on the price of natural gas in particular could have a negative effect on the demand for our services. In recent quarters, this risk has been mitigated somewhat as we have experienced increased demand for our services in several oil producing basins based on oil prices that began to rebound in the second and third quarters of fiscal 2009.

**Results of Operations**

*Operating Revenues.* Our operating revenues for the first nine months of fiscal 2010 decreased 26% to \$146,093,000 from \$197,160,000 for the first nine months of fiscal 2009. For the three months ended June 30, 2010, operating revenues totaled \$61,178,000 as compared to \$52,319,000 for the same period of fiscal 2009, a 17% increase. The revenue decrease in the first nine months of fiscal 2010 compared to the same period of fiscal 2009 was primarily the result of reductions in active crew count from 16 crews in the beginning of fiscal 2009 to nine in the first fiscal quarter of 2010, a more competitive pricing environment, substantially lower utilization rates of remaining crews and increased downtime for weather during the winter months of 2010. The revenue increase in the third quarter of fiscal 2010 compared to the same quarter of fiscal 2009 was primarily the result of increased demand for our services which led to the redeployment of two seismic data acquisition crews during the second quarter of this fiscal year and higher utilization of existing crews despite wet conditions during May and June. As a result of the improving demand for our services during the third quarter of fiscal 2010, we redeployed an additional data acquisition crew in June 2010 bringing the number of currently active crews to twelve. Revenues in the quarter continued to include relatively high third-party charges related to the use of helicopter support services, specialized survey technologies and dynamite energy sources. The high level of these charges during the third quarter was driven by increased demand

levels for our services in areas with limited access. We are reimbursed for these charges by our clients.

**Table of Contents**

*Operating Costs.* Operating expenses for the nine months ended June 30, 2010 totaled \$133,245,000 as compared to \$151,126,000 for the same period of fiscal 2009, a decrease of 12%. Operating expenses for the three months ended June 30, 2010 increased 17% to \$54,098,000 as compared to \$46,374,000 for the same period of fiscal 2009. The decrease for the nine months ended June 30, 2010 compared to the nine months ended June 30, 2009 was primarily due to reductions in field personnel and other expenses associated with operating data acquisition crews taken out of service during 2009 and 2010. The increase for the three months ended June 30, 2010 compared to the three months ended June 30, 2009, reflects the operations of the two data acquisition crews that were placed into service during the second quarter of fiscal 2010. As discussed above, reimbursed expenses have a similar impact on operating costs.

General and administrative expenses were 3.6% of revenues in the first nine months of fiscal 2010, as compared to 3.2% of revenues in the same period of 2009. For the quarter ended June 30, 2010 general and administrative expenses were 2.7% as compared to 3.4% for the quarter ended June 30, 2009. The ratio of general and administrative expenses to revenue increased in the first nine months of fiscal 2010 compared to the same period of fiscal 2009 due to the decrease in revenues between the two periods which outpaced the decline in general and administrative expenses over the same period. The ratio decreased for the quarters ended June 30, 2009 to June 30, 2010 as a result of increased revenues during the comparable quarters and our lower level of bad debt costs during the current year.

Depreciation for the nine months ended June 30, 2010 totaled \$20,188,000 compared to \$19,651,000 for the nine months ended June 30, 2009. We recognized \$7,016,000 of depreciation expense in the third quarter of fiscal 2010 as compared to \$6,521,000 in the comparable quarter of fiscal 2009. The increases in depreciation expense in both the nine month and three month periods were the result of the relatively modest capital expenditures we made during fiscal 2009 and the somewhat larger expenditures we made during the second quarter of fiscal 2010 as discussed below in *Liquidity and Capital Resources* *Capital Expenditures*. We expect our depreciation expense to increase only slightly during fiscal 2010 reflecting these capital expenditures in fiscal 2009 and fiscal 2010.

Our total operating costs for the first nine months of fiscal 2010 were \$158,714,000, a decrease of 10% from the first nine months of fiscal 2009. For the quarter ended June 30, 2010, our operating expenses were \$62,749,000 representing a 15% increase from the comparable quarter of fiscal 2009. These decreases in the first nine months and the increase in the third quarter were primarily due to the factors described above.

*Taxes.* We provide for income taxes during interim periods based on our estimate of the effective tax rate for the year. Discrete items and changes in our estimate of the annual effective tax rate are recorded in the period in which they occur. We recognize interest and penalties related to uncertain tax positions as part of income tax expense.

Income tax benefit was \$4,379,000 for the nine months ended June 30, 2010 compared to income tax expense of \$8,292,000 for the nine months ended June 30, 2009. The effective tax rates for the income tax provision for the nine months ended June 30, 2010 and 2009 were approximately 35.5% and 40.3%, 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 share-based compensation that were 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.

*Cash Flows.* Net cash provided by operating activities was \$1,472,000 for the first nine months of fiscal 2010 and \$42,508,000 for the first nine months of fiscal 2009. These amounts primarily reflect our decline in revenues during 2009 and the effects of depreciation resulting from our significant capital expenditures over the last few years, while the working capital components in fiscal 2009 include a decrease in accounts receivable and in fiscal 2010 include an increase in accounts receivable. Although our cash flows from accounts receivable fluctuated during this period, this did not reflect any change in our collection experience during the period as the average number of days in accounts receivable has remained at approximately fifty-five over the last twelve months. Amounts in our trade accounts

receivable that are over sixty days as of June 30, 2010 represent approximately 19.73% of our total trade accounts receivables, which is relatively high compared to historical levels. The remaining outstanding trade account balances after taking into consideration payments received subsequent to June 30, 2010 and additional payments anticipated by management, is more representative of historical levels. We believe our allowance for doubtful accounts of \$639,000 at June 30, 2010 is adequate to cover exposures related to



**Table of Contents**

the remaining trade account balances. As discussed above, the decrease in revenues during the first nine months of fiscal 2010 was not matched by a decrease in operating expenses, and as a result, our margins and net results from operating activities were negatively affected.

Net cash used in investing activities was \$11,057,000 in the nine months ended June 30, 2010 and \$21,310,000 in the nine months ended June 30, 2009. In fiscal 2010, we reinvested proceeds of matured treasury investments. At June 30, 2010 a treasury note for \$5,000,000 had matured and was reflected as cash on cash equivalents on our balance sheet. These funds were subsequently reinvested in a treasury bill on July 2, 2010. Capital expenditures in fiscal 2010 are discussed below. Due to market conditions, our capital expenditures in fiscal 2009 were limited to necessary maintenance capital requirements rather than investing in additional equipment as in the past few years. In fiscal 2009, cash generated from operations in excess of capital expenditures was used in the acquisition of short-term investments during the quarter ended June 30, 2009. Our short-term investments consisted of four U.S. Treasury instruments of approximately \$5,000,000 each, with maturity dates ranging from December 2009 to September 2010. In fiscal 2009, we collected proceeds from an insurance claim on our equipment burned in a March 2008 wildfire.

We had no cash flows from financing activities in the first nine months of fiscal 2010. For the nine months ended June 30, 2009, net cash provided by financing activities reflects proceeds from the exercise of stock options and the excess tax benefits from disqualifying dispositions.

*Capital Expenditures.* The Company's Board of Directors approved a \$20,000,000 capital budget for fiscal 2010. Total capital expenditures for the fiscal year to date are \$16,890,000, including the purchase of the 2,000 stations of OYO GSR four channel three-component recording equipment reported in the first fiscal quarter and the purchase of additional ARAM and I/O RSR channels at the end of the second fiscal quarter. The purchase of additional channels reflects our clients' continuing desire for increased channel count to provide higher resolution images and improved operational efficiencies. The balance of the fiscal 2010 capital budget will be used for maintenance capital requirements and the purchase of additional geophones.

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 June 30, 2010 and August 6, 2010. We have not utilized the line of credit loan agreement since we paid off the entire outstanding balance as of September 30, 2008.

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 as opportunities arise.

The following table summarizes payments due in specific periods related to our contractual obligations with initial terms exceeding one year as of June 30, 2010.

	<b>Total</b>	<b>Payments Due by Period (in 000 s)</b>			<b>After 5 Years</b>
		<b>Within 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	
Operating lease obligations	\$ 1,562	\$ 586	\$ 597	\$ 324	\$ 55

## **Table of Contents**

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 June 30, 2010, we had no off-balance sheet arrangements.

### **Critical Accounting Policies**

The preparation of our financial statements in conformity with generally accepted accounting principles requires us to make certain assumptions and estimates that affect the reported amounts of assets and liabilities at the date of our financial statements and the reported amounts of revenues and expenses during the reporting period. 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 us 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 June 30, 2010 and September 30, 2009, we had deposits with domestic banks in excess of federally insured limits. We believe 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. We invest funds overnight under a repurchase agreement with our bank which is collateralized by securities of the United States Federal agencies. We generally invest in short-term U.S. Treasury Securities; however, currently we also have funds invested in FDIC guaranteed bonds. We believe all of our investments are low risk investments. Our sales are to clients whose activities relate to oil and natural gas exploration and production. We generally extend unsecured credit to these clients; therefore, collection of receivables may be affected by the economy surrounding the oil and natural gas industry. We closely monitor extensions of credit and may negotiate payment terms that mitigate risk.

*Revenue Recognition.* Our services are provided under cancelable service contracts. These contracts are either turnkey or term agreements. Under both types of agreements, we recognize revenues when revenue is realizable and services are 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, we recognize revenue and bill our client for services performed up to the date of cancellation.

We also receive reimbursements for certain out-of-pocket expenses under the terms of our service contracts. We record amounts billed to clients in revenue at the gross amount, including out-of-pocket expenses that are reimbursed by the client.

In some instances, we bill clients in advance of the services performed. In those cases, we recognize the liability as deferred revenue. As services are performed, those amounts are reversed and recognized as revenue.

*Allowance for Doubtful Accounts.* We prepare our allowance for doubtful accounts receivable based on our review of past-due accounts, our past experience of historical write-offs and our current customer 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 our customers.

*Impairment of Long-Lived Assets.* We review long-lived assets 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. Our forecast of future cash flows used to perform impairment analysis includes estimates of future revenues and expenses based on our anticipated future results while considering anticipated future oil and gas prices, which is fundamental in assessing demand for our services. If the carrying amount of the assets exceeds the estimated expected undiscounted future cash flows, we measure the amount of possible impairment by comparing the carrying amount of the assets to their fair value.



**Table of Contents**

*Depreciable Lives of Property, Plant and Equipment.* Our property, plant and equipment are capitalized at historical cost and depreciated over the useful lives of the assets. Our estimation of useful lives 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.* We account for our 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 liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. We determine 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 and reducing the deferred tax asset 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. Our methodology for recording income taxes requires judgment regarding assumptions and the use of estimates, including determining our annual effective tax rate and the valuation of deferred tax assets, which can create a variance between actual results and estimates and could have a material impact on our provision or benefit for income taxes.

*Stock-Based Compensation.* We measure all employee stock-based compensation awards, including stock options and restricted stock, using the fair value method and recognize compensation cost, net of forfeitures, in our financial statements. We record 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**

In September 2006, the Financial Accounting Standards Board (FASB) issued ASC 820-10, Fair Value Measurements and Disclosures. ASC 820-10 clarifies that fair value is the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants. Further, the standard establishes a framework for measuring fair value in generally accepted accounting principles and expands certain disclosures about fair value measurements. ASC 820-10 became effective for all financial assets and financial liabilities as of October 1, 2008, and upon adoption, ASC 820-10 did not have a material impact on our financial statements. In February 2008, the FASB issued ASC 820-10-15-1A, Fair Value Measurements and Disclosures Transition and Open Effective Date Information, which delayed the effective date of ASC 820-10 for all non-financial assets and non-financial liabilities such as asset impairments, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Effective at the beginning of fiscal 2010, we adopted the FASB authoritative guidance for non-financial assets and non-financial liabilities. The adoption for non-financial assets and non-financial liabilities did not have a material impact on our financial statements.

In January 2010, the FASB issued Accounting Standards Update 2010-06 Fair Value Measurements and Disclosures (Topic 820) as new guidance and clarification for improving disclosures about fair value measurements. ASU 2010-06 requires enhanced disclosures regarding transfers in and out of the levels within the fair value hierarchy. Separate disclosures are required for transfers in and out of Level 1 and 2 fair value measurements, and the reasons for the transfers must be disclosed. The new disclosures and clarifications of existing disclosures were effective for us as of January 1, 2010. The adoption of this guidance did not have a material impact on our financial statements.

In February 2010, the FASB issued Accounting Standards Update 2010-09 Subsequent Events (Topic 855) allowing SEC filers to remove the date through which subsequent events have been reviewed. ASU 2010-09 became effective upon issuance, and the adoption of this guidance did not have a material impact on our financial statements.

**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 June 30, 2010, we had no balances outstanding on our revolving line of credit. The contractual maturities of our short-term investments range from September 2010 to January 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.

**Table of Contents**

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 June 30, 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 June 30, 2010 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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, 2009, 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 2009 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.

**Table of Contents**

**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: August 6, 2010

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

DATE: August 6, 2010

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



**Table of Contents**

**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 (filed on July 28, 2010 as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-34404) 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).
10.3†*	Form of Restricted Stock Agreement for the Dawson Geophysical Company 2006 Stock and Performance Incentive Plan.
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.

† Management contract or compensatory plan or arrangement.