

DAWSON GEOPHYSICAL CO

Form 10-Q

February 08, 2010

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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, 2009**

☐ **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. 0-34404  
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 ☐  
(Do not check if a smaller reporting  
company)

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.

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

**Outstanding at February 8, 2010  
7,817,756 shares**

**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,	
	2009	2008
Operating revenues	\$ 36,330,000	\$ 80,216,000
Operating costs:		
Operating expenses	34,719,000	59,015,000
General and administrative	1,854,000	2,155,000
Depreciation	6,477,000	6,601,000
	43,050,000	67,771,000
Income (loss) from operations	(6,720,000)	12,445,000
Other income:		
Interest income	30,000	78,000
Other income	2,000	38,000
Income (loss) before income tax	(6,688,000)	12,561,000
Income tax benefit (expense)	2,472,000	(4,827,000)
Net income (loss)	\$ (4,216,000)	\$ 7,734,000
Net income (loss) per common share	\$ (0.54)	\$ 1.00
Net income (loss) per common share-assuming dilution	\$ (0.54)	\$ 0.99
Weighted average equivalent common shares outstanding	7,771,791	7,701,766
Weighted average equivalent common shares outstanding-assuming dilution	7,771,791	7,805,209

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

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**DAWSON GEOPHYSICAL COMPANY  
BALANCE SHEETS**

	December 31 2009 (unaudited)	September 30, 2009
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 37,731,000	\$ 36,792,000
Short-term investments	25,192,000	25,267,000
Accounts receivable, net of allowance for doubtful accounts of \$639,000 in December 2009 and \$533,000 in September 2009	35,920,000	40,106,000
Prepaid expenses and other assets	11,259,000	7,819,000
Current deferred tax asset	1,149,000	1,694,000
 Total current assets	 111,251,000	 111,678,000
<b>Property, plant and equipment</b>	<b>240,546,000</b>	<b>240,820,000</b>
Less accumulated depreciation	(121,606,000)	(115,341,000)
 Net property, plant and equipment	 118,940,000	 125,479,000
 Total assets	 \$ 230,191,000	 \$ 237,157,000
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 7,346,000	\$ 6,966,000
Accrued liabilities:		
Payroll costs and other taxes	1,988,000	2,720,000
Other	8,760,000	10,600,000
Deferred revenue	1,643,000	2,230,000
 Total current liabilities	 19,737,000	 22,516,000
<b>Deferred tax liability</b>	<b>16,113,000</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	89,387,000	89,220,000
Other comprehensive income, net of tax	31,000	18,000
Retained earnings	102,317,000	106,533,000

Total stockholders' equity	194,341,000	198,379,000
Total liabilities and stockholders' equity	\$ 230,191,000	\$ 237,157,000

*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,	
	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income (loss)	\$ (4,216,000)	\$ 7,734,000
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	6,477,000	6,601,000
Noncash compensation	540,000	424,000
Deferred income tax expense (benefit)	391,000	(348,000)
Provision for bad debts	106,000	245,000
Other	(200,000)	51,000
Change in current assets and liabilities:		
Decrease in accounts receivable	4,080,000	2,610,000
Increase in prepaid expenses and other assets	(3,440,000)	(763,000)
Increase (decrease) in accounts payable	380,000	(7,495,000)
Decrease in accrued liabilities	(2,572,000)	(440,000)
(Decrease) increase in deferred revenue	(587,000)	1,742,000
Net cash provided by operating activities	959,000	10,361,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Acquisition of short-term investments	(4,984,000)	
Proceeds from maturity of short-term investments	5,000,000	
Proceeds from disposal of assets	5,000	14,000
Partial proceeds on fire insurance claim		1,000,000
Capital expenditures	(41,000)	(3,957,000)
Net cash used in investing activities	(20,000)	(2,943,000)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net increase in cash and cash equivalents	939,000	7,418,000
<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>	\$ 37,731,000	\$ 15,729,000

**SUPPLEMENTAL CASH FLOW INFORMATION:**

Cash paid during the period for income taxes	\$	121,000	\$	538,000
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**NONCASH INVESTING ACTIVITIES:**

Unrealized gain on investments	\$	49,000	\$	
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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, 2009 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 December 31, 2009 and 2008, 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, 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.

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*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 this 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 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 the Company's 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, 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.

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The components of the Company's short-term investments for September 30, 2009 and December 31, 2009 are as follows:

As of September 30, 2009 (in 000's)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair 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) Other comprehensive income reflected on the Balance Sheet reflects unrealized gains net of the tax effect of approximately \$13,000.

As of December 31, 2009 (in 000's)

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
U.S. Treasury bills	\$ 9,981	\$ 1	\$	\$ 9,982
U.S. Treasury notes	10,091	34		10,125
FDIC guaranteed bonds	5,071	14		5,085
Total	\$ 25,143	\$ 49(a)	\$	\$ 25,192

(a) Other comprehensive income reflected on the Balance Sheet reflects unrealized gains net of the tax effect of

approximately  
\$18,000.

The Company's existing short-term investments have contractual maturities ranging from April 2010 to December 2010. One of the Company's U.S. Treasury bills matured during the quarter ended December 31, 2009. The maturity value of \$5,000,000 was used to purchase a new U.S. Treasury bill at a cost of approximately \$4,984,000. These investments have been classified as available-for-sale.

#### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

At September 30, 2009 and December 31, 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 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	\$	\$

As of December 31, 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	\$ 9,982	\$ 9,982	\$	\$
U.S. Treasury notes	10,125	10,125		
FDIC guaranteed bonds	5,085	5,085		
Total	\$ 25,192	\$ 25,192	\$	\$

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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 December 31, 2009 and February 8, 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 quarters ended December 31, 2009 and 2008 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 quarter ended December 31, 2009. The Company granted 152,000 stock option awards to officers and employees during the quarter ended December 31, 2008. There were no options exercised during the three months ended December 31, 2009 and 2008.

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 three months ended December 31, 2009 and 2008, there were no excess tax benefits from disqualifying dispositions of options.

The Company recognized compensation expense associated with stock option awards of \$93,000 and \$41,000 during the three months ended December 31, 2009 and 2008, 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 in the first quarter of fiscal 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.

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The Company recognized compensation expense of \$262,000 during the quarter ended December 31, 2009 and \$292,000 during the quarter ended December 31, 2008 related to restricted stock awards. 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 the quarter ended December 31, 2009 as compensation and 5,000 shares with immediate vesting to outside directors during the quarter ended December 31, 2008 as compensation. The grant date fair value equaled \$22.11 and \$18.19 in each quarter, respectively. The Company recognized expense of \$180,000 and \$91,000 during the quarters ended December 31, 2009 and 2008, respectively. These amounts are included in general and administrative costs in the Statements of Operations.

**7. COMMITMENTS AND CONTINGENCIES**

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.

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.

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. As of December 31, 2009 this client had an accounts receivable balance with the Company of approximately \$1.0 million. The Company increased its allowance for doubtful accounts during the second quarter of fiscal 2009 to cover estimated exposures related to this bankruptcy.

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

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, 2009.

	<b>Payments Due by Period (in 000 \$)</b>				
	<b>Total</b>	<b>Less than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	<b>More than 5 Years</b>
Operating lease obligations	\$ 1,063	\$ 546	\$ 505	\$ 12	\$

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 \$146,000 and \$140,000 for the periods ended December 31, 2009 and 2008, respectively.

As of December 31, 2009, the Company recognized 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.

#### **8. SUBSEQUENT EVENTS**

The Company has evaluated events subsequent to the balance sheet date (December 31, 2009) through the issue date of this Form 10-Q (February 8, 2010) and concluded that no subsequent events have occurred that require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.



**Table of Contents****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 December 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>NUMERATOR:</b>		
Net income (loss) and numerator for basic and diluted net income (loss) per common share-income available to common shareholders	\$ (4,216,000)	\$ 7,734,000
<b>DENOMINATOR:</b>		
Denominator for basic net income (loss) per common share-weighted average common shares	7,771,791	7,701,766
Effect of dilutive securities-employee stock options and restricted stock grants		103,443
Denominator for diluted net income (loss) per common share-adjusted weighted average common shares and assumed conversions	7,771,791	7,805,209
Net income (loss) per common share	\$ (0.54)	\$ 1.00
Net income (loss) per common share-assuming dilution	\$ (0.54)	\$ 0.99

**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.

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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 mitigated somewhat our short-term utilization issues and allowed us to redeploy two previously out of service data acquisition crews during January 2010, bringing the number of currently operating crews to eleven.

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, and we anticipate that, despite the recent increase in demand from the low levels of 2009, such reductions will continue into 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 difficulties, we are maintaining our focus and efforts on reducing costs, limiting capital expenditures and maintaining our financial strength. Equipment and key personnel from crews taken out of service will 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. 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 or equipment failure. 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. Although our clients may cancel their service contracts on short notice, our current order book reflects commitment levels sufficient to maintain operation of eleven data acquisition crews into the middle of calendar 2010.

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, including the OYO GSR recording equipment purchased in February 2010, we will continue to closely monitor our entire equipment base for the purpose of evaluating the remaining useful life 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 the decreases in oil and natural gas prices, reduced demand for our services and competitive pricing environment that we have experienced since the beginning of 2009 as well as by technological advances in seismic data acquisition equipment and reductions in future utilization resulting from the expected size and geographical location of future prospects. If we were to determine that the useful life of our older equipment, particularly our MRX equipment, is shorter than the remaining expected life currently recorded, or if we were to determine that the future undiscounted cash flows of any recording system were less than current net book value, we would be required to accelerate depreciation on the equipment or write down the value of the equipment. At December 31, 2009, we determined that no write down of value related to our equipment was necessary. While we do not currently anticipate a full impairment of our MRX equipment, the full net book value of our MRX equipment at December 31, 2009 was approximately \$3.5 million. Any write down or any accelerated depreciation of our equipment would have a negative affect on our results of operations in the period in which the

write down was recorded or the accelerated depreciation taken. See Impairment of Long-Lived Assets included in Critical Accounting Policies.

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 would result in continued diminished demand for our seismic services, may cause continued downward pressure on the prices we charge and would 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 would 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.

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*Operating Revenues.* Our operating revenues for the first three months of fiscal 2010 decreased 55% to \$36,330,000 from \$80,216,000 for the first three months of fiscal 2009. The revenue decrease in the quarter was primarily the result of previously announced reductions in active crew count during the second quarter of fiscal 2009 (four crews), the third quarter of fiscal 2009 (two crews) and an additional crew reduction in the first quarter of fiscal 2010, a more competitive pricing environment, substantially lower utilization rates for remaining crews and increased downtime for weather interruptions, especially in October and December. Included in the first quarter revenues are continued high third-party charges related to the use of helicopter support services, specialized survey technologies and dynamite energy sources. The sustained 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, 2009 decreased 41% to \$34,719,000 as compared to \$59,015,000 for the same period of fiscal 2009 primarily as a function of the decrease in revenue discussed above. As we have experienced reductions in our active crew count, we have retained our key technical and operational employees to allow us to capitalize on opportunities as they emerge. As discussed above, reimbursed expenses have a similar impact on operating costs.

General and administrative expenses for the quarter ended December 31, 2009 were approximately 5.1% of revenues as compared to 2.7% for the comparable quarter of fiscal 2009. The ratio of general and administrative expenses to revenue increased in the first quarter of fiscal 2010 due to the substantial decrease in revenues compared to the same quarter of the prior year which outpaced the decline in general and administrative expenses over the same period. The dollar amount decrease to \$1,854,000 during the first quarter of fiscal 2010 from \$2,155,000 during the first quarter of fiscal 2009 reflects our lower level of operating costs during the quarter. Included in general and administrative expense in the current period is an increase of \$106,000 in the allowance for doubtful accounts primarily reflecting an increased number of days in accounts receivable.

Depreciation for the three months ended December 31, 2009 totaled \$6,477,000 compared to \$6,601,000 for the three months ended December 31, 2008. The decrease in depreciation expense is the result of limiting capital expenditures to necessary maintenance capital requirements in the last three quarters of fiscal 2009 and the first quarter of fiscal 2010. In the current environment of limited capital expenditures, depreciation expense is expected to remain relatively constant throughout fiscal 2010.

Our total operating costs for the first three months of fiscal 2010 were \$43,050,000, a decrease of 36.5% from \$67,771,000 for the first three months of fiscal 2009. This decrease in the first quarter was 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 \$2,472,000 for the three months ended December 31, 2009 compared to income tax expense of \$4,827,000 for the three months ended December 31, 2008. The effective tax rates for the income tax provision for the three months ended December 31, 2009 and 2008 were approximately 37.0% and 38.4%, 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 was 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 \$959,000 for the first three months of fiscal 2010 and \$10,361,000 for the first three months of fiscal 2009. These amounts primarily reflect our revenues and the effects of

depreciation resulting from our significant capital expenditures over the last few years and the working capital components including a decrease in accounts receivable. The decrease in revenues during the first quarter of fiscal 2010, as discussed above, was not matched by a decrease in operating expenses such that margins and net results from operating activities were negatively affected.

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Net cash used in investing activities was \$20,000 in the three months ended December 31, 2009 and \$2,943,000 in the three months ended December 31, 2008. In fiscal 2010, we reinvested the proceeds of a matured treasury investment. The net cash used in investing activities in fiscal 2009 primarily represents capital expenditures made with cash generated from operations.

We had no cash flows from financing activities in the first quarter of fiscal 2010 or the first quarter of fiscal 2009.

*Capital Expenditures.* Capital expenditures of \$41,000 during the first three months of fiscal 2010 represented maintenance capital items. Capital expenditures during the first three months of fiscal 2009 of \$3,575,000 represented the purchase of an ARAM ARIES II recording system.

Our Board of Directors approved an initial fiscal 2010 budget of \$10,000,000, \$6,100,000 of which was used to purchase a 2,000-station OYO GSR four-channel recording system along with three-component geophones and the remainder to meet necessary maintenance requirements during fiscal 2010. The addition of the OYO GSR recording equipment will allow us to record 6,000 channels of cable-less multi-component data or up to 8,000 channels of conventional seismic data, either as a stand-alone system or as added channel count and increased flexibility for our ARAM recording systems. We believe these additions will allow us to maintain our competitive position as we respond to client desire for higher resolution subsurface images. The Company took delivery of the OYO equipment on February 1, 2010 and deployed the system in the first week of February in a multi-component mode as part of a larger conventional 3-D seismic data acquisition project utilizing an ARAM system.

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, 2009 and February 8, 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 if and when opportunities arise.

The following table summarizes payments due in specific periods related to our contractual obligations with initial terms exceeding one year as of December 31, 2009.

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

			<b>1-3 Years</b>	<b>3-5 Years</b>	
Operating lease obligations	\$ 1,063	\$ 546	\$ 505	\$ 12	\$

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.



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### **Off-Balance Sheet Arrangements**

As of December 31, 2009, 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 December 31, 2009 and 2008, 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 expected undiscounted future cash flows, we measure the amount of possible impairment by comparing the carrying amount of the assets to their fair value.

*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 this 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. We amortize these capitalized items using the straight-line method. When assets are retired or otherwise disposed of, the cost and

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

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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 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, 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.

**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, 2009, we had no balances outstanding on our revolving line of credit. The contractual maturities of our short-term investments held at December 31, 2009 range from April 2010 to December 2010. 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, 2009, 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, 2009 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, 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.

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**SIGNATURES**

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

DAWSON GEOPHYSICAL COMPANY

DATE: February 8, 2010

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

DATE: February 8, 2010

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	Amended and Restated Bylaws of the Company (filed on August 7, 2007 as Exhibit 3.2 to the Company's Quarterly Report on Form 10-Q for the third quarter ended June 30, 2007 (File No. 000-10144) 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.