DAWSON GEOPHYSICAL CO
Form 10-Q
August 04, 2003

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

FORM 10-Q

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

FOR THE QUARTER ENDED JUNE 30, 2003 COMMISSION FILE NO. 2-71058

DAWSON GEOPHYSICAL COMPANY

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

508 WEST WALL, SUITE 800, MIDLAND, TEXAS 79701
(PRINCIPAL EXECUTIVE OFFICE)
TELEPHONE NUMBER: 432-684-3000

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

TITLE OF EACH CLASS NAME OF EACH EXCHANGE ON WHICH REGISTERED
COMMON STOCK, $.33 1/3 PAR VALUE NONE

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

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

CLASS	Outstanding at June 30, 2003
COMMON STOCK, $.33 1/3 PAR VALUE	5,487,794 SHARES

DAWSON GEOPHYSICAL COMPANY

INDEX

-2-

PART I. FINANCIAL INFORMATION

DAWSON GEOPHYSICAL COMPANY

STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30		Nine Months Ended June 30	
	2003	2002	2003	2002
Operating revenues	$11,291,000	$ 9,096,000	$36,897,000	$26,278,000
Operating costs:				
Operating expenses	11,046,000	8,102,000	33,762,000	23,690,000
General and administrative	580,000	496,000	1,775,000	1,550,000
Depreciation	1,148,000	1,048,000	3,271,000	3,248,000
	12,774,000	9,646,000	38,808,000	28,488,000
Income (loss) from operations	(1,483,000)	(550,000)	(1,911,000)	(2,210,000)
Other income (expense):				
Interest income	73,000	119,000	256,000	394,000
Gain on disposal of assets	--	--	21,000	5,000
Gain on sale of short-term Investments	--	--	52,000	--
Other income	3,000	3,000	126,000	76,000

Income (loss) before income tax	(1,407,000)	(428,000)	(1,456,000)	(1,735,000)
Income tax benefit	--	--	--	--
Net income (loss)	$(1,407,000)	$ (428,000)	$(1,456,000)	$(1,735,000)
Net income (loss) per common share	$ (.26)	$ (.08)	$ (.27)	$ (.32)
Weighted average equivalent common shares outstanding	5,487,794	5,467,294	5,483,514	5,461,468
Weighted average equivalent common shares outstanding-assuming dilution	5,487,794	5,467,294	5,483,514	5,461,468

See accompanying notes to the financial statements.

DAWSON GEOPHYSICAL COMPANY

BALANCE SHEETS

	June 30, 2003 (unaudited)	September 30, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,931,000	$ 1,309,000
Short-term investments	8,666,000	15,716,000
Accounts receivable, net of allowance for doubtful accounts of $131,000 in 2003 and 71,000 in 2002	7,357,000	7,613,000
Prepaid expenses	381,000	220,000
Income taxes receivable	--	400,000
Total current assets	22,335,000	25,258,000
Property, plant and equipment	81,558,000	75,649,000
Less accumulated depreciation	(59,760,000)	(56,616,000)
Net property, plant and equipment	21,798,000	19,033,000
	$ 44,133,000	$ 44,291,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 3,160,000	$ 2,066,000
Accrued liabilities:		

Payroll costs and other taxes	577,000	342,000
Other	296,000	297,000
Total current liabilities	4,033,000	2,705,000
Stockholders' equity:		
Preferred stock--par value $1.00 per share; 5,000,000 shares authorized, none outstanding	--	--
Common stock - par value $.33 1/3 per share; 10,000,000 shares authorized, 5,487,794 and 5,467,294 issued and outstanding, respectively	1,829,000	1,822,000
Additional paid-in capital	38,931,000	38,863,000
Other comprehensive income, net of tax	32,000	137,000
Retained earnings (deficit)	(692,000)	764,000
Total stockholders' equity	40,100,000	41,586,000
	$ 44,133,000	$ 44,291,000

See accompanying notes to the financial statements.

DAWSON GEOPHYSICAL COMPANY

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended June 30	
	2003	2002
Cash flows from operating activities:		
Net loss	$ (1,456,000)	$ (1,735,000)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation	3,271,000	3,248,000
Gain on disposal of assets	(21,000)	(5,000)
Gain on sale of short-term investments	(52,000)	--
Non-cash compensation	75,000	178,000
Other	34,000	101,000
Change in current assets and liabilities:		
Decrease (increase) in accounts receivable	256,000	2,419,000
Decrease (increase) in prepaid expenses	(161,000)	(312,000)
Decrease in income taxes receivable	400,000	--
Increase (decrease) in accounts payable	1,094,000	(343,000)
Increase (decrease) in accrued liabilities	234,000	65,000
Net cash provided (used) by operating activities	3,674,000	3,616,000

Cash flows from investing activities:		
Proceeds from disposal of assets	25,000	10,000
Capital expenditures	(6,039,000)	(939,000)
Proceeds from sale of short-term investments	5,964,000	--
Proceeds from maturity of short-term investments	4,000,000	10,059,000
Investment in short-term investments	(3,002,000)	(13,179,000)
Net cash provided (used) in investing activities	948,000	(4,049,000)
Net increase (decrease) in cash and cash equivalents	4,622,000	(433,000)
Cash and cash equivalents at beginning of period	1,309,000	4,338,000
Cash and cash equivalents at end of period	$ 5,931,000	$ 3,905,000

See accompanying notes to the financial statements.

DAWSON GEOPHYSICAL COMPANY

Statements of Comprehensive Income (Loss)
(UNAUDITED)

	THREE MONTHS ENDED JUNE 30		NINE MONTHS
	2003	2002	2003
Net income	$ (1,407,000)	$ (428,000)	$ (1,456,000)
Change in fair value of short-term investments	(26,000)	126,000	(57,000)
Comprehensive income (loss), net of tax	$ (1,433,000)	$ (182,000)	$ (1,513,000)

See accompanying notes to the financial statements.

DAWSON GEOPHYSICAL COMPANY

NOTES TO FINANCIAL STATEMENTS

1. OPINION OF MANAGEMENT

Although the information furnished is unaudited, in the opinion of management of the Registrant, the accompanying financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the financial condition and results of operations necessary for the periods presented. The results of operations for the three months and the nine months ended June 30, 2003, are not necessarily indicative of the results to be expected for the fiscal year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in this Form 10-Q report pursuant to certain rules and regulations of the Securities and Exchange Commission. These financial statements should be read with the financial statements and notes included in the Company's 2002 Form 10-K.

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

Impairment of Long-lived Assets

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

Depreciable Lives of Property, Plant and Equipment

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

Stock-Based Compensation

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

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

The SFAS 123 pro forma information for the three months and the nine months ended June 30, 2003 and 2002 is as follows:

	Three Months Ended June 30 2003	2002	
Net income (loss), as reported	$ (1,407,000)	$ (428,000)	$ (1
Add: Stock-based employee compensation expense included in net income (loss), net of tax	--	--	
Deduct: Stock-based employee compensation expense determined under fair value based method (SFAS 123), net of tax	(76,000)	(109,000)	
Net income (loss), pro forma	$ (1,483,000)	$ (537,000)	$ (1
Basic:			
Net income (loss) per common share, as reported	$ (0.26)	$ (0.08)	$
Net income (loss) per common share, pro forma	$ (0.27)	$ (0.10)	$
Diluted:			
Net income (loss) per common share, as reported	$ (0.26)	$ (0.08)	$
Net income (loss) per common share, pro forma	$ (0.27)	$ (0.10)	$

8

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The FASB has issued Statement No. 143 "Accounting for Asset Retirement Obligations" which establishes requirements for the accounting of removal-type costs associated with asset retirements. The standard is effective for fiscal years beginning after June 15, 2002. The Company has adopted Statement 143 and there is no impact to the Company.

On October 3, 2001, the FASB issued Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This pronouncement supercedes FAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived

Assets to Be Disposed" and eliminates the requirement of Statement 121 to allocate goodwill to long-lived assets to be tested for impairment. Statement 144 also describes a probability-weighted cash flow estimation approach to deal with situations in which alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or a range is estimated for the amount of possible future cash flows. The statement also establishes a "primary-asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Implementation of this had no impact on the Company's financial statement.

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Statement 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company expects no impact to its financial statements as the Company does not anticipate exiting or disposing of any of its activities.

SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, amends SFAS No. 123, Accounting for Stock-Based Compensation". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The statement is required to be adopted for fiscal years ending after December 15, 2002.

The Company currently accounts for stock-based compensation in accordance with APB Opinion No. 25 which allows the Company to recognize compensation expense only to the extent that the fair market value is greater than the option price.

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

FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. Initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002.

FIN No. 45 also requires disclosures about guarantees in financial statements for interim or annual periods ending after December 15, 2002. The Company does not expect the adoption of FIN No. 45 to have a material impact on its financial statements.

FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51". FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without financial support from other parties. The Company does not expect the adoption of FIN No. 46 to have a material impact on its financial statements.

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

2. NET INCOME PER COMMON SHARE

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

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

	Three Months Ended June 30		Nine Month June 3
	2003	2002	2003
NUMERATOR:			
Net income and numerator for basic and diluted net income per common share-income available to common stockholders	$(1,407,000)	$ (428,000)	$(1,456,000)
DENOMINATOR:			
Denominator for basic net loss per common share-weighted average common shares	5,487,794	5,467,294	5,483,514
Effect of dilutive securities-employee stock options	--	--	--
Denominator for diluted net income per common share-adjusted weighted average common shares and assumed conversions	5,487,794	5,467,294	5,483,514
Net income (loss) per common share	$ (.26)	$ (.08)	$ (.27)
Net income (loss) per common share-assuming dilution	$ (.26)	$ (.08)	$ (.27)

=========== =========== ===========

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

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

FORWARD LOOKING STATEMENTS

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

OVERVIEW

For the quarter ended June 30, 2003, the Company operated five crews. Adverse weather conditions significantly impacted the Company's revenue for the quarter ended June 30, 2003. Capital expenditures have increased in fiscal 2003 primarily to satisfy client demand for increased channel count and in response to opportunities to acquire the equipment from the open market at reduced prices. Demand for the Company's services is related to crude oil and natural gas prices.

RESULTS OF OPERATIONS

The Company's operating revenues for the first nine months of fiscal 2003 increased 40.4% from $26,278,000 to $36,897,000 as compared to the first nine months of fiscal 2002. For the three months ended June 30, 2003, operating revenues totaled $11,291,000 versus $9,096,000 for the same period of fiscal 2002, a 24.1% increase. Revenues have been positively impacted in the first nine months of fiscal 2003 by continued stable pricing. In addition the Company operated all of its six crews from November 2002 through March 2003. During the quarter ended June 30, 2003, the Company's production potential was significantly cut back due to rain.

Operating expenses for the nine months ended June 30, 2003 totaled $33,762,000 versus $23,690,000 for the same period of fiscal 2002. For the quarter ended June 30, 2003, operating expenses totaled $11,046,000 versus $8,102,000. In fiscal 2003 the Company began with five crews in operation and expanded to six in November 2002. The increase in operating expenses consists primarily of costs associated with the increase in personnel necessary to have the ability to operate six crews and the increasing costs of insurance inherent in the insurance industry. During the quarter ended June 30, 2003, the Company continued to incur personnel costs waiting for the opportunity to work when the rains stopped.

11

General and administrative expenses for the nine months ended June 30, 2003 totaled $1,775,000, an increase of $225,000 from the same period of fiscal 2002. For the quarter ended June 30, 2003 general and administrative expenses totaled $580,000, an increase of $84,000 compared to the same quarter of fiscal 2002. The increase for the nine months period reflects advertising costs associated with website and trade show booth enhancements as well as accrual of property taxes. In addition the Company expanded operations in the Houston and Denver offices during the quarter ended June 30, 2003.

Depreciation for the nine months ended June 30, 2003 totaled $3,271,000 as compared to $3,248,000 for the nine months ended June 30, 2002. For the quarter ended June 30, 2003 depreciation of $1,148,000 is $100,000 more than the quarter ended June 30, 2002. Assets purchased during the years with relatively large capital expenditures before the restricted budgets beginning in fiscal 1999 are becoming fully depreciated. Conversely, capital expenditures purchased in fiscal 2003 are beginning to impact current year depreciation.

Total operating costs for the first nine months of fiscal 2003 were $38,808,000, an increase of 36.2%, from the same period of fiscal 2002 due to the factors described above. For the quarter ended June 30, 2003, total operating costs of $12,774,000 represent a 32.4% increase from the same period of the prior fiscal year. There is a high proportion of relatively fixed total operating costs (including personnel costs of active crews and depreciation costs) inherent in the Company's business.

No income tax expense was recorded for the first nine months of fiscal 2003 or 2002 due to a pretax loss. The Company has not recognized a net income tax benefit due to the establishment of a valuation allowance.

LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS

Net cash provided by operating activities of $3,674,000 for the nine months ended June 30, 2003 primarily reflects the net loss offset by depreciation and changes in working capital components.

Net cash provided by investing activities in the first nine months of fiscal 2003 represents management of short-term investments and use of proceeds for capital expenditures and working capital.

There were no financing activities impacting cash flows for the nine months of fiscal 2003 or 2002.

CAPITAL EXPENDITURES

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

CAPITAL RESOURCES

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

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition

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

Allowance for Doubtful Accounts

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

Impairment of Long-lived Assets

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

Depreciable Lives of Property, Plant and Equipment

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

Stock-Based Compensation

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

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The FASB has issued Statement No. 143 "Accounting for Asset Retirement Obligations" which establishes requirements for the accounting of removal-type costs associated with asset retirements. The standard is effective for fiscal years beginning after June 15, 2002. The Company has adopted Statement 143 and there is no impact to the Company.

On October 3, 2001, the FASB issued Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This pronouncement supercedes FAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed" and eliminates the requirement of Statement 121 to allocate goodwill to long-lived assets to be tested for impairment. Statement 144 also describes a probability-weighted cash flow estimation approach to deal with situations in which alternative courses of action to recover the carrying amount of a

long-lived asset are under consideration or a range is estimated for the amount of possible future cash flows. The statement also establishes a "primary-asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. Implementation of this had no impact on the Company's financial statement.

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Statement 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company expects no impact to its financial statements as the Company does not anticipate exiting or disposing of any of its activities.

SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure, amends SFAS No. 123, Accounting for Stock-Based Compensation". SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. The statement also amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The statement is required to be adopted for fiscal years ending after December 15, 2002.

The Company currently accounts for stock-based compensation in accordance with APB Opinion No. 25 which allows the Company to recognize compensation expense only to the extent that the fair market value is greater than the option price.

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

FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. Initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. FIN No. 45 also requires disclosures about guarantees in financial statements for interim or annual periods ending after December 15, 2002. The Company does not expect the adoption of FIN No. 45 to have a material impact on its financial statements.

FIN No. 46, "Consolidation of Variable Interest Entities, an Interpretation of Accounting Research Bulletin No. 51". FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without financial support from other parties. The Company does not expect the adoption of FIN No. 46 to have a material impact on its financial statements.

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The primary sources of market risk include fluctuations in commodity prices which effect demand for and pricing of the Company's services and interest rate fluctuations. At June 30, 2003 the Company had no indebtedness. The Company's short-term investments were fixed-rate and the Company does not necessarily intend to hold them to maturity, and therefore, the short-term investments expose the Company to the risk of earnings or cash flow loss due to changes in market interest rates. As of June30, 2003, the carrying value of the investments approximate fair value. The Company has not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other derivative financial instruments. The Company does not currently conduct business internationally so it is generally not subject to foreign currency exchange rate risk.

Item 4. CONTROLS AND PROCEDURES

Within the 90 day period prior to the filing date of this Quarterly Report on Form 10-Q, the Company, under the supervision, and with the participation, of its management, including its principal executive officer and principal financial officer, performed an evaluation of the design and operation of the

Company's disclosure controls and procedures (as defined in Securities and Exchange Act Rule 13a-14(c)). Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that such disclosure controls and procedures are effective to ensure that material information relating to the Company is accumulated and communicated to the Company's management and made known to the principal executive officer and principal financial officer, particularly during the period for which this periodic report was being prepared.

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

Part II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

No reports on Form 8-K were filed by the Company during the quarter ended June 30, 2003.

SIGNATURE

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

DAWSON GEOPHYSICAL COMPANY

(REGISTRANT)

By: /s/ L. Decker Dawson

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

/s/ Christina W. Hagan

Christina W. Hagan
Chief Financial Officer

DATE: July 18, 2003