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DAWSON GEOPHYSICAL CO  
Form 10-Q  
August 09, 2004

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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, 2004 COMMISSION FILE NO. 2-71058

DAWSON GEOPHYSICAL COMPANY  
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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

Indicate by check mark whether the Registrant (1) has filed all reports  
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of  
1934 during the 12 preceding months, and (2) has been subject to such filing  
requirements for the past 90 days.

Yes X No  
-----

Indicate by check mark whether the Registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act).

Yes No X  
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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, 2004  
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COMMON STOCK, \$.33 1/3 PAR VALUE

5,597,544 SHARES

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DAWSON GEOPHYSICAL COMPANY

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|  | Three Months Ended June 30, |                |
|--|-----------------------------|----------------|
|  | 2004                        | 2003           |
|  | -----                       | -----          |
| Operating revenues   | \$ 17,112,000               | \$ 11,291,000  |
| Operating costs:   |                             |                |
| Operating expenses   | 13,504,000                  | 11,046,000     |
| General and administrative   | 648,000                     | 580,000        |
| Depreciation   | 1,156,000                   | 1,148,000      |
|  | -----                       | -----          |
|  | 15,308,000                  | 12,774,000     |
| Income (loss) from operations  | 1,804,000                   | (1,483,000)    |
| Other income:  |                             |                |
| Interest income  | 58,000                      | 73,000         |
| Gain (loss) on disposal of assets  | (1,000)                     | --             |
| Gain (loss) on sale of short-term investments                              | (15,000)                    | --             |
| Other  | 143,000                     | 3,000          |
|  | -----                       | -----          |
| Income (loss) before income tax  | 1,989,000                   | (1,407,000)    |
| Income tax (expense) benefit:  |                             |                |
| Current  | --                          | --             |
| Deferred   | --                          | --             |
|  | -----                       | -----          |
| Net income (loss)  | \$ 1,989,000                | \$ (1,407,000) |
|  | =====                       | =====          |
| Net income (loss) per common share   | \$ 0.36                     | \$ (0.26)      |
|  | =====                       | =====          |
| Net income (loss) per common share—assuming dilution                       | \$ 0.35                     | \$ (0.26)      |
|  | =====                       | =====          |
| Weighted average equivalent common shares outstanding                      | 5,584,442                   | 5,487,794      |
|  | =====                       | =====          |
| Weighted average equivalent common shares<br>outstanding—assuming dilution | 5,681,372                   | 5,487,794      |
|  | =====                       | =====          |

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

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DAWSON GEOPHYSICAL COMPANY  
BALANCE SHEETS

| June 30,<br>2004 | September 30,<br>2003 |
|------------------|-----------------------|
| -----            | -----                 |
| (Unaudited)      |                       |

ASSETS

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|   |               |               |
|---|---------------|---------------|
| CURRENT ASSETS:   |               |               |
| Cash and cash equivalents   | \$ 3,153,000  | \$ 3,389,000  |
| Short-term investments  | 4,155,000     | 8,623,000     |
| Accounts receivable, net of allowance<br>for doubtful accounts of \$127,000<br>in each period   | 16,769,000    | 9,713,000     |
| Prepaid expenses  | 503,000       | 287,000       |
|   | -----         | -----         |
| Total current assets  | 24,580,000    | 22,012,000    |
| PROPERTY, PLANT AND EQUIPMENT   | 88,867,000    | 81,585,000    |
| Less accumulated depreciation   | (63,033,000)  | (60,805,000)  |
|   | -----         | -----         |
| Net property, plant and equipment   | 25,834,000    | 20,780,000    |
|   | -----         | -----         |
|   | \$ 50,414,000 | \$ 42,792,000 |
|   | =====         | =====         |
| LIABILITIES AND STOCKHOLDERS' EQUITY  |               |               |
| CURRENT LIABILITIES:  |               |               |
| Accounts payable  | \$ 3,077,000  | \$ 1,237,000  |
| Accrued liabilities:  |               |               |
| Payroll costs and other taxes   | 941,000       | 478,000       |
| Other   | 621,000       | 415,000       |
|   | -----         | -----         |
| Total current liabilities   | 4,639,000     | 2,130,000     |
|   | -----         | -----         |
| STOCKHOLDERS' EQUITY:   |               |               |
| Preferred stock-par value \$1.00 per share;<br>5,000,000 shares authorized, none outstanding  | --            | --            |
| Common stock-par value \$.33 1/3 per share;<br>10,000,000 shares authorized, 5,597,544 and<br>5,487,794 shares issued and outstanding in<br>each period | 1,866,000     | 1,829,000     |
| Additional paid-in capital  | 39,661,000    | 38,931,000    |
| Other comprehensive income, net of tax  | (111,000)     | 37,000        |
| Retained earnings (deficit)   | 4,359,000     | (135,000)     |
|   | -----         | -----         |
| Total stockholders' equity  | 45,775,000    | 40,662,000    |
|   | -----         | -----         |
|   | \$ 50,414,000 | \$ 42,792,000 |
|   | =====         | =====         |

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

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|   | Nine Months Ended June 30, |                |
|---|----------------------------|----------------|
|   | 2004                       | 2003           |
|   | -----                      | -----          |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                            |                |
| Net income (loss)   | \$ 4,494,000               | \$ (1,456,000) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: |                            |                |
| Depreciation  | 3,381,000                  | 3,271,000      |
| Loss on disposal of assets  | 4,000                      | (21,000)       |
| Loss on sale of short-term investments  | 15,000                     | (52,000)       |
| Non-cash compensation   | 92,000                     | 75,000         |
| Other   | (64,000)                   | 34,000         |
| Change in current assets and liabilities:   |                            |                |
| Increase in accounts receivable   | (7,056,000)                | 256,000        |
| Increase in prepaid expenses  | (216,000)                  | (161,000)      |
| Decrease in income taxes receivable   | 400,000                    |                |
| Increase in accounts payable  | 1,840,000                  | 1,094,000      |
| Increase in accrued liabilities   | 669,000                    | 234,000        |
|   | -----                      | -----          |
| Net cash provided (used) by operating activities  | 3,159,000                  | 3,674,000      |
|   | -----                      | -----          |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                            |                |
| Proceeds from disposal of assets  | 35,000                     | 25,000         |
| Capital expenditures  | (8,475,000)                | (6,039,000)    |
| Proceeds from sale of short-term investments  | 2,973,000                  | 5,964,000      |
| Proceeds from maturity of short-term investments  | 7,550,000                  | 4,000,000      |
| Acquisition of short-term investments   | (6,245,000)                | (3,002,000)    |
|   | -----                      | -----          |
| Net cash provided by (used in) investing activities   | (4,162,000)                | 948,000        |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                            |                |
| Proceeds from exercise of stock options   | 767,000                    | --             |
| Net increase (decrease) in cash and cash equivalents  | (236,000)                  | 4,622,000      |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR  | 3,389,000                  | 1,309,000      |
|   | -----                      | -----          |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD  | \$ 3,153,000               | \$ 5,931,000   |
|   | =====                      | =====          |
| <b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>  |                            |                |
| Cash paid during the period for income taxes  | \$ 14,000                  | \$ --          |
|   | =====                      | =====          |
| <b>NON CASH INVESTING ACTIVITIES:</b>   |                            |                |
| Unrealized gain (loss) on investments   | \$ (148,000)               | \$ 169,000     |
|   | =====                      | =====          |

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

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NOTES TO FINANCIAL STATEMENTS  
(UNAUDITED)

1. BASIS OF PRESENTATION, 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, 2004, are not necessarily indicative of the results to be expected for the fiscal year.

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

CRITICAL ACCOUNTING POLICIES

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

Revenue Recognition  
-----

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

Allowance for Doubtful Accounts  
-----

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

Impairment of Long-lived Assets  
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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  
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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

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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 stock-based awards granted in the second quarter to the outside directors and to certain employees.

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, 2004 and 2003 is as follows:

|   | Three Months Ended June 30 |                 | Nin   |
|---|----------------------------|-----------------|-------|
|   | 2004                       | 2003            | 2     |
| Net income (loss), as reported  | \$ 1,989,000               | \$ (1,407,000)  | \$ 4, |
| 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 | (79,000)                   | (76,000)        | (     |
| Net income (loss), pro forma  | \$ 1,910,000               | \$ (41,483,000) | \$ 4, |
| <br>Basic:  |                            |                 |       |
| Net income (loss) per common share, as reported   | \$ 0.36                    | \$ (0.26)       | \$    |
| Net income (loss) per common share, pro forma   | \$ 0.34                    | \$ (0.27)       | \$    |
| <br>Diluted:  |                            |                 |       |
| Net income (loss) per common share, as reported   | \$ 0.35                    | \$ (0.26)       | \$    |
| Net income (loss) per common share, pro forma   | \$ 0.34                    | \$ (0.27)       | \$    |

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### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has announced it will require all public companies to expense the fair value of employee stock awards. The final requirements will be effective for fiscal years beginning after December 31, 2004. The impact to the Company's financial statements will be in the form of additional compensation expense upon the award of any stock options. The amount of the compensation expense recognized by the Company is dependent on the value of the Company's common stock and the number of options awarded.

### 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 to conform to the Statement 128 requirements.

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

|   | Three Months Ended June 30 |                         | Nine M            |
|---|----------------------------|-------------------------|-------------------|
|   | 2004                       | 2003                    | 2004              |
| <b>NUMERATOR:</b>   |                            |                         |                   |
| Net income and numerator for basic and diluted net income per common share-income available to common stockholders  | \$ 1,989,000<br>-----      | \$ (1,407,000)<br>----- | \$ 4,494<br>----- |
| <b>DENOMINATOR:</b>   |                            |                         |                   |
| Denominator for basic net income (loss) per common share-weighted average common shares                             | 5,584,442                  | 5,487,794               | 5,535             |
| Effect of dilutive securities-employee stock options  | 96,930<br>-----            | --<br>-----             | 65<br>-----       |
| Denominator for diluted net income per common share-adjusted weighted average common shares and assumed conversions | 5,681,372                  | 5,487,794               | 5,601             |
| Net income (loss) per common share  | \$ .36<br>=====            | \$ (.26)<br>=====       | \$<br>=====       |
| Net income (loss) per common share-<br>assuming dilution  | \$ .35<br>=====            | \$ (.26)<br>=====       | \$<br>=====       |

Employee stock options to purchase shares of common stock were outstanding during fiscal year 2004 and 2003 but were not included in the computation of diluted net income (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.

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### 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

The Company's continued improved performance was due to increased petroleum industry demand for the Company's high resolution 3-D seismic surveys, its expanded operations, modest price increases along with increased payments for lost time due to weather. The Company has been and is currently involved in the application of high resolution techniques over previously surveyed areas.

The Company's order book exceeds six months of operations. The stability in the order book is the result of improving market conditions, the Company's reputation throughout the industry as a quality provider of leading edge technology, technical expertise and experience in the field of geophysics, and an industry model Health, Safety and Environmental program. Six data acquisition crews have operated continuously throughout the fiscal year with a seventh crew placed into operations late in the second quarter. Seven crews worked during the Company's third quarter with an eighth crew being placed into service on July 12, 2004. The Company's data channels and supporting equipment are fully deployed.

The Company has responded to opportunities to increase its data channel count through the open market at favorable prices. By responding to these opportunities, the Company's capital expenditures increased in fiscal 2003, and the fiscal 2004 number reflects the same strategy to satisfy client demand for increased channel count. The Company has increased its data channel capacity more than 50 percent in the last five years. In addition the fiscal 2004 capital

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expenditures include deployment of two recording crews, energy sources, and vehicles. Capital expenditures in fiscal 2003 and 2004 have been funded with operating cash flow and existing cash reserves.

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Even though demand for the Company's services is related to crude oil and natural gas prices, production results are enhanced by favorable weather and timely permits for rights-of-way.

### RESULTS OF OPERATIONS

The Company's operating revenues for the first nine months of fiscal 2004 increased 29.5% from \$36,897,000 to \$47,790,000. For the three months ended June 30, 2004, operating revenues totaled \$17,112,000 versus \$11,291,000 for the same period of fiscal 2003, a 51.6% increase. Revenues have been positively impacted in the first nine months of fiscal 2004 by stable pricing with modest improvement and the continuous operations of its crews.

Operating expenses for the nine months ended June 30, 2004 totaled \$38,457,000 versus \$33,762,000 for the same period of fiscal 2003, an increase of 13.9%. For the quarter ended June 30, 2004, operating expenses totaled \$13,504,000 versus \$11,046,000. In fiscal 2003 the Company began with five crews in operation and expanded to six in November 2002. In fiscal 2004 the Company began with six crews and expanded to seven in March 2004. The Company has eight crews operating beginning July 12, 2004. The increase in operating expenses consists primarily of costs associated with the increase in personnel necessary for its crews.

General and administrative expenses for the nine months ended June 30, 2004 totaled \$1,867,000, an increase of \$92,000 from the same period of fiscal 2003. For the quarter ended June 30, 2004 general and administrative expenses totaled \$648,000 an increase of \$68,000 compared to the same quarter of fiscal 2003. General and administrative expenses represent approximately 4% of revenues. The dollar increase is due to Sarbanes Oxley compliance and to increased personnel for seven crews.

Depreciation for the nine months ended June 30, 2004 totaled \$3,381,000 as compared to \$3,271,000 for the nine months ended June 30, 2003. There was virtually no change in depreciation for the quarter ended June 30, 2004 as compared to the same period of the prior year. 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 and in fiscal 2004 reflect the strategy to satisfy client demand for increased channel count by responding to opportunities in the open market at favorable prices.

Total operating costs for the first nine months of fiscal 2004 were \$43,705,000, an increase of 12.6%, from the same period of fiscal 2003 due to the factors described above. For the quarter ended June 30, 2004, total operating costs of \$15,308,000 represent a 19.8% increase as compared to 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. Margins are improved in fiscal 2004 due to the demand for the Company's services resulting in improved pricing and improved productivity.

For the first nine months of 2004, no income tax expense was recorded due to the anticipated utilization of net operating loss carryforward and the uncertainty of future profitability due to the cyclical nature of the business.

### LIQUIDITY AND CAPITAL RESOURCES

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### CASH FLOWS

Net cash provided by operating activities of \$3,159,000 for the nine months ended June 30, 2004 primarily reflects net income and changes in components of working capital. The increase in accounts receivable of \$7,056,000 for the first nine months of fiscal 2004 is a direct result of the increase in revenues. The Company considers its accounts receivable, net of the allowance for doubtful accounts, collectible.

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Net cash used in investing activities in the first nine months of fiscal 2004 represents management of short-term investments and use of proceeds for capital expenditures and working capital.

The exercise of stock options which occurred during fiscal 2004 were made by officers of the Company and other employees granted options in 1999 and 2001 from an incentive stock option plan.

### 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, if necessary.

### 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

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unpredictable changes in the financial stability of the Company's customers.

### Impairment of Long-lived Assets

-----

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

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### Depreciable Lives of Property, Plant and Equipment

-----

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

### Stock-Based Compensation

-----

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

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

The Financial Accounting Standards Board (FASB) has announced it will require all public companies to expense the fair value of employee stock awards. The final requirements will be effective for fiscal years beginning after December 31, 2004. The impact to the Company's financial statements will be in the form of additional compensation expense upon the award of any stock options. The amount of the compensation expense recognized by the Company is dependent on the value of the Company's common stock and the number of options awarded.

### 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, 2004 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 June 30, 2004, 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.

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### 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.

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### Part II. OTHER INFORMATION

#### Item 6. Exhibits and Reports on Form 8-K

During the quarter ended June 30, 2004:

A Form 8-K was filed by the Company on June 6, 2004 to announce the Company's intention to field an additional seismic data acquisition crew.

A Form 8-K was filed by the Company on May 25, 2004 to file the Dawson Geophysical Company Code of Business Conduct and Ethics.

A Form 8-K was filed by the Company on April 29, 2004 to announce operating results for the second quarter ended March 31, 2004.

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SIGNATURE

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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

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(REGISTRANT)

By: /s/ L. Decker Dawson

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

/s/ Christina W. Hagan

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

DATE: July 27, 2004