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 September 30, 2020

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

For the Transition Period From to

Commission File No. 001-32472

DAWSON GEOPHYSICAL COMPANY

(Exact name of registrant as specified in its charter)

Texas	**74-2095844**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

508 West Wall, Suite 800, Midland, Texas 79701

(Address of Principal Executive Office) (Zip Code)

Registrant's Telephone Number, Including Area Code: **432-684-3000**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered	Trading Symbol
Common Stock, $0.01 par value	**The NASDAQ Stock Market**	**DWSN**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Accelerated filer ☒	Large accelerated filer ☐	Smaller reporting company ☒
Non-accelerated filer ☐	Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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	Outstanding at October 30, 2020
Common Stock, $0.01 par value	23,478,072 shares

DAWSON GEOPHYSICAL COMPANY
INDEX

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

DAWSON GEOPHYSICAL COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(amounts in thousands, except share data)

	September 30, 2020	December 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 45,422	$ 26,271
Restricted cash	5,000	5,000
Short-term investments	583	2,350
Accounts receivable, net	4,987	24,356
Current maturities of notes receivable	1,434	66
Prepaid expenses and other current assets	3,499	7,575
Total current assets	60,925	65,618
Property and equipment, net	42,449	53,549
Right-of-use assets	5,736	6,605
Notes receivable, net of current maturities	—	1,394
Intangibles, net	375	385
Long-term deferred tax assets, net	—	57
Total assets	$ 109,485	$ 127,608
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 908	$ 3,952
Accrued liabilities:		
Payroll costs and other taxes	1,230	1,963
Other	2,304	3,599
Deferred revenue	374	3,481
Current maturities of notes payable and finance leases	215	4,062
Current maturities of operating lease liabilities	1,097	1,200
Total current liabilities	6,128	18,257
Long-term liabilities:		
Notes payable and finance leases, net of current maturities	51	96
Operating lease liabilities, net of current maturities	5,157	5,940
Deferred tax liabilities, net	22	—
Other accrued liabilities	—	150
Total long-term liabilities	5,230	6,186
Operating commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock-par value $1.00 per share; 4,000,000 shares authorized, none outstanding	—	—
Common stock-par value $0.01 per share; 35,000,000 shares authorized, 23,526,517 and 23,335,855 shares issued, and 23,478,072 and 23,287,410 shares outstanding at September 30, 2020 and December 31, 2019, respectively	235	233
Additional paid-in capital	154,763	154,235
Retained deficit	(55,078)	(49,731)
Treasury stock, at cost; 48,445 shares	—	—
Accumulated other comprehensive loss, net	(1,793)	(1,572)
Total stockholders' equity	98,127	103,165
Total liabilities and stockholders' equity	$ 109,485	$ 127,608

See accompanying notes to the condensed consolidated financial statements (unaudited).

DAWSON GEOPHYSICAL COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME
(unaudited and amounts in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Operating revenues	$ 8,738	$ 36,976	$ 77,216	$ 112,216
Operating costs:				
Operating expenses	9,441	26,030	58,189	92,210
General and administrative	3,270	3,797	11,205	13,390
Depreciation and amortization	4,125	5,238	13,412	16,644
	16,836	35,065	82,806	122,244
(Loss) income from operations	(8,098)	1,911	(5,590)	(10,028)
Other income (expense):				
Interest income	106	152	326	445
Interest expense	(10)	(101)	(80)	(381)
Other income (expense), net	177	11	12	433
(Loss) income before income tax	(7,825)	1,973	(5,332)	(9,531)
Income tax (expense) benefit	(15)	25	(15)	146
Net (loss) income	(7,840)	1,998	(5,347)	(9,385)
Other comprehensive income (loss):				
Net unrealized income (loss) on foreign exchange rate translation, net	374	(103)	(221)	280
Comprehensive (loss) income	$ (7,466)	$ 1,895	$ (5,568)	$ (9,105)
Basic (loss) income per share of common stock	$ (0.33)	$ 0.09	$ (0.23)	$ (0.41)
Diluted (loss) income per share of common stock	$ (0.33)	$ 0.09	$ (0.23)	$ (0.41)
Weighted average equivalent common shares outstanding	23,423,437	23,222,045	23,350,204	23,152,776
Weighted average equivalent common shares outstanding - assuming dilution	23,423,437	23,337,903	23,350,204	23,152,776

See accompanying notes to the condensed consolidated financial statements (unaudited).

DAWSON GEOPHYSICAL COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited and amounts in thousands)

	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash flows from operating activities:		
Net loss	$ (5,347)	$ (9,385)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	13,412	16,644
Operating lease cost	916	903
Non-cash compensation	600	951
Deferred income tax expense (benefit)	79	(209)
Change in other accrued long-term liabilities	(150)	—
Gain on disposal of assets	(3)	(85)
Remeasurement and other	68	(118)
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable	19,373	(10,549)
Decrease in prepaid expenses and other assets	4,505	2,303
(Decrease) increase in accounts payable	(2,957)	1,793
(Decrease) increase in accrued liabilities	(2,011)	2,332
Decrease in operating lease liabilities	(930)	(852)
Decrease in deferred revenue	(3,107)	(2,531)
Net cash provided by operating activities	24,448	1,197
Cash flows from investing activities:		
Capital expenditures, net of non-cash capital expenditures summarized below	(2,822)	(3,649)
Proceeds from maturity of short-term investments	1,767	28,000
Acquisition of short-term investments	—	(24,842)
Proceeds from disposal of assets	225	272
Proceeds from notes receivable	26	38
Net cash used in investing activities	(804)	(181)
Cash flows from financing activities:		
Proceeds from notes payable	6,374	—
Principal payments on notes payable	(8,393)	(7,867)
Principal payments on finance leases	(2,291)	(2,126)
Tax withholdings related to stock-based compensation awards	(70)	(236)
Net cash used in financing activities	(4,380)	(10,229)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(113)	154
Net increase (decrease) in cash and cash equivalents and restricted cash	19,151	(9,059)
Cash and cash equivalents and restricted cash at beginning of period	31,271	28,729
Cash and cash equivalents and restricted cash at end of period	$ 50,422	$ 19,670
Supplemental cash flow information:		
Cash paid for interest	$ 89	$ 390
Cash paid for income taxes	$ 83	$ 14
Cash received for income taxes	$ 206	$ 55
Non-cash operating, investing and financing activities:		
Decrease in accrued purchases of property and equipment	$ (61)	$ (928)
Finance leases incurred	$ —	$ 121
Increase in right-of-use assets and operating lease liabilities	$ 63	$ 8,226
Decrease in right-of-use assets for accrued rent	$ —	$ (497)
Increase in right-of-use assets for prepaid rent	$ 3	$ 14
Financed insurance premiums	$ 433	$ 337

See accompanying notes to the condensed consolidated financial statements (unaudited).

DAWSON GEOPHYSICAL COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(unaudited and amounts in thousands, except share data)

	Common Stock		Additional	Retained	Accumulated Other	
	Number Of Shares	Amount	Paid-in Capital	Deficit	Comprehensive (Loss) Income	Total
Balance December 31, 2019	23,335,855	$ 233	$ 154,235	$ (49,731)	$ (1,572)	$ 103,165
Net income				993		993
Unrealized loss on foreign exchange rate translation					(1,199)	
Income tax benefit					—	
Other comprehensive loss					(1,199)	(1,199)
Stock-based compensation expense			203			203
Balance March 31, 2020	23,335,855	233	154,438	(48,738)	(2,771)	103,162
Net income				1,500		1,500
Unrealized income on foreign exchange rate translation					604	
Income tax expense					—	
Other comprehensive income					604	604
Issuance of common stock under stock compensation plans	78,600	1	(1)			—
Stock-based compensation expense			271			271
Shares exchanged for taxes on stock-based compensation	(15,420)	—	(17)			(17)
Balance June 30, 2020	23,399,035	234	154,691	(47,238)	(2,167)	105,520
Net loss				(7,840)		(7,840)
Unrealized income on foreign exchange rate translation					374	
Income tax expense					—	
Other comprehensive income					374	374
Issuance of common stock under stock compensation plans	157,500	2	(2)			—
Stock-based compensation expense			126			126
Shares exchanged for taxes on stock-based compensation	(30,018)	(1)	(52)			(53)
Balance September 30, 2020	23,526,517	$ 235	$ 154,763	$ (55,078)	$ (1,793)	$ 98,127

DAWSON GEOPHYSICAL COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (continued)
(unaudited and amounts in thousands, except share data)

	Common Stock Number Of Shares	Common Stock Amount	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive (Loss) Income	Total
Balance December 31, 2018	23,018,441	$ 230	$ 153,268	$ (34,518)	$ (1,964)	$ 117,016
Net loss				(137)		(137)
Unrealized income on foreign exchange rate translation					269	
Income tax expense					(60)	
Other comprehensive income					209	209
Issuance of common stock under stock compensation plans	229,459	2	(2)			—
Stock-based compensation expense			297			297
Issuance of common stock as compensation	24,785	—	73			73
Shares exchanged for taxes on stock-based compensation	(53,201)	—	(206)			(206)
Balance March 31, 2019	23,219,484	232	153,430	(34,655)	(1,755)	117,252
Net loss				(11,246)		(11,246)
Unrealized income on foreign exchange rate translation					224	
Income tax expense					(50)	
Other comprehensive income					174	174
Issuance of common stock under stock compensation plans	34,000		—			—
Stock-based compensation expense			221			221
Issuance of common stock as compensation	29,016	1	73			74
Shares exchanged for taxes on stock-based compensation	(12,400)	—	(30)			(30)
Balance June 30, 2019	23,270,100	233	153,694	(45,901)	(1,581)	106,445
Net income				1,998		1,998
Unrealized loss on foreign exchange rate translation					(133)	
Income tax benefit					30	
Other comprehensive loss					(103)	(103)
Stock-based compensation expense			209			209
Issuance of common stock as compensation	35,850	—	77			77
Balance September 30, 2019	23,305,950	$ 233	$ 153,980	$ (43,903)	$ (1,684)	$ 108,626

See accompanying notes to the condensed consolidated financial statements (unaudited).

DAWSON GEOPHYSICAL COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND NATURE OF OPERATIONS

Dawson Geophysical Company (the “Company”) is a leading provider of North American onshore seismic data acquisition services with operations throughout the continental United States (“U.S.”) and Canada. The Company acquires and processes 2-D, 3-D and multicomponent seismic data solely 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. In the opinion of the Company’s management, the condensed consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. The preparation of these condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the amounts reported in these condensed consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates. Certain prior period amounts in the condensed consolidated financial statements may have been reclassified to conform to the current period’s presentation.

These condensed consolidated financial statements have been prepared using accounting principles generally accepted in the U.S. for interim financial information and the instructions to Form 10-Q and applicable rules of Regulation S-X of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in annual financial statements presented in accordance with accounting principles generally accepted in the U.S. have been omitted.

These condensed consolidated financial statements and accompanying notes should be read in conjunction with the Company’s annual consolidated financial statements and the notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2019.

Significant Accounting Policies

Principles of Consolidation. The condensed consolidated financial statements for the three and nine months ended September 30, 2020 include the accounts of the Company and its wholly-owned subsidiaries, Dawson Operating LLC, Eagle Canada, Inc., Dawson Seismic Services Holdings, Inc., Eagle Canada Seismic Services ULC and Exploration Surveys, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Allowance for Doubtful Accounts. Management prepares its allowance for doubtful accounts receivable based on our current estimate of expected credit losses by review of its past-due accounts, its past experience of historical write-offs, its current client base and general market conditions. 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.

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments – Credit Losses (“Topic 326”): Measurement of Credit Losses on Financial Instruments, which requires entities to measure expected credit losses for certain financial assets using a new, forward-looking current expected credit loss model (“CECL”) that will result in the earlier recognition of allowances for losses. Subsequent ASUs were issued to provide additional guidance.

On January 1, 2020, the Company adopted Topic 326 using the modified retrospective method. The provisions of Topic 326 did not significantly impact the method or timing that the Company recognizes expected credit losses and the cumulative effect of adoption was immaterial on its consolidated financial statements. The Company’s financial instruments within the scope of this guidance primarily includes trade receivables. The Company’s allowance for doubtful accounts was $250,000 at September 30, 2020 and December 31, 2019.

Notes Receivable. The Company’s notes receivable consist of one note receivable from the purchaser of certain dynamite energy source drilling equipment. This note receivable is stated at the unpaid principal balance. An allowance for note losses was not deemed necessary at September 30, 2020. Interest is recognized over the term of the note and is calculated using the simple-interest method. Amounts payable to the Company under the note receivable are fully collateralized by the specific dynamite energy source drilling equipment sold to the note payor. This financial instrument also falls within the scope of Topic 326.

Leases. The Company leases certain vehicles, seismic recording equipment, real property and office equipment under lease agreements. The Company evaluates each lease to determine its appropriate classification as a finance lease or an operating lease for financial reporting purposes. The assets and liabilities under finance leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the related assets. Assets under finance leases are amortized using the straight-line method over the initial lease term. Amortization of assets under finance leases is included in depreciation expense. Operating lease right-of-use assets and liabilities, primarily for office and shop space, are recognized based on the present value of lease payments over the lease term. As most of the Company’s operating leases do not provide an implicit rate, an incremental borrowing rate was used in determining the present value. The Company will use the implicit rate when readily determinable. The Company’s operating lease terms may include options to extend or terminate the lease when it is reasonably certain that those options will be exercised. Operating lease cost for lease payments will be recognized on a straight-line basis over the lease term and is included in operating expense.

Property and Equipment. Property and equipment is capitalized at historical cost or the fair value of assets acquired in a business combination and is 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. 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.

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

Stock-Based Compensation. The Company measures all stock-based compensation awards, which include stock options, restricted stock, restricted stock units and common stock awards, using the fair value method and recognizes compensation expense as operating or general and administrative expense, as appropriate, in the Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income on a straight-line basis over the vesting period of the related awards.

Use of Estimates in the Preparation of Financial Statements. Preparation of the accompanying financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Revenue Recognition. Services are provided under cancelable service contracts which usually have an original expected duration of one year or less. These contracts are either “turnkey” or “term” agreements. Under both types of agreements, the Company recognizes revenues as the services are performed. Revenue is generally recognized based on square miles of data recorded compared to total square miles anticipated to be recorded on the survey using the total estimated revenue for the service contract. In the case of a cancelled service contract, the client is billed and revenue is recognized for any third party charges and square miles of data recorded up to the date of cancellation.

The Company receives reimbursements for certain out-of-pocket expenses under the terms of the service contracts. The amounts billed to clients are included at their gross amount in the total estimated revenue for the service contract.

Clients are billed as permitted by the service contract. Contract assets and contract liabilities are the result of timing differences between revenue recognition, billings and cash collections. If billing occurs prior to the revenue recognition or billing exceeds the revenue recognized, the amount is considered deferred revenue and a contract liability. Conversely, if the revenue recognition exceeds the billing, the excess is considered an unbilled receivable and a contract asset. As services are performed, those deferred revenue amounts are recognized as revenue.

In some instances, third-party permitting, surveying, drilling, helicopter, equipment rental and mobilization costs that directly relate to the contract are utilized to fulfill the contract obligations. These fulfillment costs are capitalized in other current assets and generally amortized based on the total square miles of data recorded compared to total square miles anticipated to be recorded on the survey using the total estimated fulfillment costs for the service contract.

Estimates for total revenue and total fulfillment cost on any service contract are based on significant qualitative and quantitative judgments. Management considers a variety of factors such as whether various components of the performance obligation will be performed internally or externally, cost of third party services and facts and circumstances unique to the performance obligation in making these estimates.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes (“Topic 740”): Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes by eliminating certain exceptions to the general principles in Topic 740 and by clarifying and amending existing guidance to improve consistent application. This ASU is effective for the annual period beginning after December 15, 2020, including interim periods within that annual period. Certain amendments within this ASU are required to be applied on a retrospective basis for all periods presented; others are to be applied using a modified retrospective approach with a cumulative-effect adjustment to retained earnings, if any, as of the beginning of the first reporting period in which the guidance is adopted; and yet others are to be applied using either basis. All other amendments not specified in the ASU should be applied on a prospective basis. Early adoption is permitted. An entity that elects to early adopt in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period. The Company is currently evaluating the new guidance to determine the impact it will have on its consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurement by removing, modifying, and adding certain disclosures. This ASU is effective for the annual period beginning after December 15, 2019, including interim periods within that annual period. The Company adopted this guidance in the first quarter of 2020 and it did not have a material impact on its consolidated financial statements.

3. FAIR VALUE OF FINANCIAL INSTRUMENTS

At September 30, 2020 and December 31, 2019, the Company’s financial instruments included cash and cash equivalents, restricted cash, short-term investments in certificates of deposit, accounts receivable, notes receivable, other current assets, accounts payable, other current liabilities, notes payable, finance leases and operating lease liabilities. Due to the short-term maturities of cash and cash equivalents, restricted cash, accounts receivable, other current assets, accounts payable and other current liabilities, the carrying amounts approximate fair value at the respective balance sheet dates. The carrying value of the notes receivable, notes payable, finance leases and operating lease liabilities approximate their fair value based on a comparison with the prevailing market interest rate. Due to the short-term maturities of the Company’s investments in certificates of deposit, the carrying amounts approximate fair value at the respective balance sheet dates. The fair values of the Company’s notes receivable, notes payable and investments in certificates of deposit are level 2 measurements in the fair value hierarchy.

4. SUPPLEMENTAL CONSOLIDATED FINANCIAL STATEMENT INFORMATION

Disaggregated Revenues

The Company has one line of business, acquiring and processing seismic data in North America. Our chief operating decision maker (President, Chief Executive Officer and Chairman of the Board) makes operating decisions and assesses performance based on the Company as a whole. Accordingly, the Company is considered to be in a single reportable segment. The following table presents the Company's operating revenues (unaudited and in thousands) disaggregated by geographic region:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating Revenues				
United States	$ 8,738	$ 36,814	$ 65,408	$ 96,496
Canada	—	162	11,808	15,720
Total	$ 8,738	$ 36,976	$ 77,216	$ 112,216

Deferred Costs (in thousands)

Deferred costs are included within prepaid expenses and other current assets. The opening balance of deferred costs was $2,525 and $6,994 at January 1, 2020 and 2019, respectively. The amount of deferred costs incurred to fulfill contracts with customers at September 30, 2020 and 2019 was $417 and $7,001, respectively.

Deferred costs at September 30, 2020 compared to January 1, 2020 decreased primarily as a result of the completion of several projects during that nine month period that had significant deferred fulfillment costs at January 1, 2020. Deferred costs at September 30, 2019 compared to January 1, 2019 remained fairly consistent.

The amount of total deferred costs amortized for the three and nine months ended September 30, 2020 was $1,128 and $12,023, respectively. The amount of total deferred costs amortized for the three and nine months ended September 30, 2019 was $6,806 and $27,253, respectively. There were no material impairment losses incurred during these periods.

Deferred Revenue (in thousands)

The opening balance of deferred revenue was $3,481 and $10,501 at January 1, 2020 and 2019, respectively. The Company's deferred revenue at September 30, 2020 and 2019 was $374 and $7,970, respectively.

Deferred revenue at September 30, 2020 compared to January 1, 2020 and at September 30, 2019 compared to January 1, 2019 decreased primarily as a result of completing projects for clients with large prepayments for third party reimbursables.

Revenue recognized for the three and nine months ended September 30, 2020 that was included in the contract liability balance at the beginning of 2020 was $129 and $3,476, respectively. Revenue recognized for the three and nine months ended September 30, 2019 that was included in the contract liability balance at the beginning of 2019 was $427 and $8,604, respectively.

5. DEBT

Dominion Loan Agreement

On September 30, 2019, the Company entered into a Loan and Security Agreement with Dominion Bank, a Texas state bank ("Dominion Bank"). On September 30, 2020, the Company entered into a Loan Modification Agreement to the Loan and Security Agreement (as amended by the Loan Modification Agreement, the "Loan Agreement") for the purpose of amending and extending the maturity of the Company's line of credit with Dominion Bank by one year. The Loan Agreement provides for a revolving credit facility (the "Revolving Credit Facility") in an amount up to the lesser of (i) $15,000,000 or (ii) a sum equal to (a) 80% of the Company's eligible accounts receivable plus 100% of the amount on deposit with Dominion Bank in the Company's collateral account, consisting of a restricted CDARS account of $5,000,000 (the "Deposit"). As of September 30, 2020, the Company has not borrowed any amounts under the Revolving Credit Facility.

Under the Revolving Credit Facility, interest will accrue at an annual rate equal to the lesser of (i) 6.00% and (ii) the greater of (a) the prime rate as published from time to time in The Wall Street Journal or (b) 3.50%. The Company will pay a commitment fee of 0.10% per annum on the difference of (a) $15,000,000 minus the Deposit minus (b) the daily average usage of the Revolving Credit Facility. The Loan Agreement contains customary covenants for credit facilities of this type, including limitations on disposition of assets. The Company is also obligated to meet certain financial covenants under the Loan Agreement, including maintaining a tangible net worth of $75,000,000 and specified ratios with respect to current assets and liabilities and debt to tangible net worth. The Company's obligations under the Loan Agreement are secured by a security interest in the collateral account (including the Deposit) with Dominion Bank and future accounts receivable and related collateral. The maturity date of the Loan Agreement is September 30, 2021.

The Company does not currently have any notes payable under the Revolving Credit Facility.

Veritex Letters of Credit

As of September 30, 2020, Veritex Community Bank ("Veritex") had issued two letters of credit to the Company, each of which were secured by a certificate of deposit with Veritex. The first letter of credit was in the amount of $1,767,000 to support payment of certain insurance obligations of the Company. The second letter of credit was in the amount of $583,000 to support the Company's workers compensation insurance. During October of 2020, the letter of credit in the amount of $1,767,000 to support payment of certain insurance obligations of the Company was terminated at the request of the Company because the beneficiary no longer required it to secure such obligations. Also during October of 2020, Veritex, at the Company's request, terminated the second letter of credit in the amount of $583,000 to support the Company's workers compensation insurance and the Company simultaneously had a replacement letter of credit issued in the same amount by its principal lender, Dominion Bank. The letter of credit is secured by a certificate of deposit with Dominion Bank.

Other Indebtedness (in thousands)

As of September 30, 2020, the Company has one note payable to a finance company for various insurance premiums totaling $160,000.

In addition, the Company leases certain seismic recording equipment and vehicles under leases classified as finance leases. The Company's Condensed Consolidated Balance Sheets as of September 30, 2020 include finance leases of $106,000.

Maturities and Interest Rates of Debt

The following tables set forth the aggregate principal amount (in thousands) under the Company's outstanding notes payable and the interest rates as of September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Notes payable to finance company for insurance		
Aggregate principal amount outstanding	$ 160	$ 1,746
Interest rate	4.99%	4.05% - 4.99%

The aggregate maturities of notes payable as of September 30, 2020 are as follows (in thousands):

October 2020 - September 2021	$ 160
Total notes payable	$ 160

The aggregate maturities of finance leases as of September 30, 2020 are as follows (in thousands):

October 2020 - September 2021	$ 55
October 2021 - September 2022	41
October 2022 - September 2023	10
Obligations under finance leases	$ 106

Interest rates on these leases range from 4.83% to 5.37%.

6. LEASES

The Company leases certain vehicles, seismic recording equipment, real property and office equipment under lease agreements. The Company evaluates each lease to determine its appropriate classification as an operating lease or finance lease for financial reporting purposes. The majority of our operating leases are non-cancelable operating leases for office and shop space in Midland, Plano, Denison, Houston, Denver, Oklahoma City and Calgary, Alberta.

The components of lease cost for the three and nine months ended September 30, 2020 and 2019 was as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Finance lease cost				
Amortization of right-of-use assets	$ 333	$ 359	$ 1,033	$ 1,062
Interest on lease liabilities	6	41	45	144
Total finance lease cost	339	400	1,078	1,206
Operating lease cost	391	388	1,166	1,197
Short-term lease cost	—	—	—	—
Total lease cost	$ 730	$ 788	$ 2,244	$ 2,403

Supplemental cash flow information related to leases for the nine months ended September 30, 2020 and 2019 was as follows (in thousands):

	Nine Months Ended September 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ (1,183)	$ (1,115)
Operating cash flows from finance leases	$ (49)	$ (148)
Financing cash flows from finance leases	$ (2,291)	$ (2,126)
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	$ 63	$ 8,226
Finance leases	$ —	$ 121

Supplemental balance sheet information related to leases as of September 30, 2020 and December 31, 2019 was as follows (in thousands):

	September 30, 2020	December 31, 2019
Operating leases		
Operating lease right-of-use assets	$ 5,736	$ 6,605
Operating lease liabilities - current	$ 1,097	$ 1,200
Operating lease liabilities - long-term	5,157	5,940
Total operating lease liabilities	$ 6,254	$ 7,140
Finance leases		
Property and equipment, at cost	$ 8,663	$ 8,663
Accumulated depreciation	(4,267)	(3,297)
Property and equipment, net	$ 4,396	$ 5,366
Finance lease liabilities - current	$ 55	$ 2,316
Finance lease liabilities - long-term	51	96
Total finance lease liabilities	$ 106	$ 2,412
Weighted average remaining lease term		
Operating leases	5.8 years	6.3 years
Finance leases	1.8 years	0.8 years
Weighted average discount rate		
Operating leases	5.04%	5.04%
Finance leases	4.99%	4.67%

Maturities of lease liabilities as of September 30, 2020 are as follows (in thousands):

	Operating Leases	Finance Leases
October 2020 - September 2021	$ 1,386	$ 60
October 2021 - September 2022	1,234	42
October 2022 - September 2023	1,157	10
October 2023 - September 2024	1,180	—
October 2024 - September 2025	941	—
Thereafter	1,343	—
Total payments under lease agreements	7,241	112
Less imputed interest	(987)	(6)
Total lease liabilities	$ 6,254	$ 106

7. OPERATING COMMITMENTS AND CONTINGENCIES

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

We are also party to the following legal proceeding: On April 1, 2019, Weatherford International, LLC and Weatherford U.S., L.P. (collectively, "Weatherford") filed a petition in state district court for Midland County, Texas, in which the Company and eighteen other parties were named as defendants, alleging the Company and/or the other named defendants contributed to or caused contamination of groundwater at and around property owned by Weatherford. Weatherford is seeking declaratory judgment, recovery and contribution for past and future costs incurred in responding to or correcting the contamination at and around the property from each defendant. The Company disputes Weatherford's allegations with respect to the Company and intends to vigorously defend itself in this case. Subsequent to the filing of the petition, Weatherford filed for bankruptcy protection on July 1, 2019. While the outcome and impact of this legal proceeding on the Company cannot be predicted with certainty, based on currently available information management believes that the resolution of this proceeding will not have a material adverse effect on our financial condition, results of operations or liquidity.

Additionally, 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 experienced in the past, and may experience in the future, disputes that could affect its revenues and results of operations in any period.

8. NET (LOSS) INCOME PER SHARE

Basic net (loss) income per share is computed by dividing the net (loss) income by the weighted average shares outstanding. Diluted (loss) income per share is computed by dividing the net (loss) income by the weighted average diluted shares outstanding.

The computation of basic and diluted (loss) income per share was as follows (in thousands, except share and per share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net (loss) income	$ (7,840)	$ 1,998	$ (5,347)	$ (9,385)
Weighted average common shares outstanding				
Basic	23,423,437	23,222,045	23,350,204	23,152,776
Dilutive common stock options, restricted stock unit awards and restricted stock awards	—	115,858	—	—
Diluted	23,423,437	23,337,903	23,350,204	23,152,776
Basic (loss) income per share of common stock	$ (0.33)	$ 0.09	$ (0.23)	$ (0.41)
Diluted (loss) income per share of common stock	$ (0.33)	$ 0.09	$ (0.23)	$ (0.41)

The Company had a net loss for the three and nine months ended September 30, 2020 and for the nine months ended September 30, 2019. As a result, all stock options, restricted stock unit awards and restricted stock awards were anti-dilutive and excluded from weighted average shares used in determining the diluted loss per share of common stock for those periods. The Company had net income for the three months ended September 30, 2019 and had 115,858 dilutive restricted stock unit awards and no dilutive common stock options or restricted stock awards for that period.

The following weighted average numbers of stock options, restricted stock unit awards and restricted stock awards have been excluded from the calculation of diluted (loss) income per share of common stock, as their effect would be anti-dilutive for the three and nine months ended September 30, 2020 and 2019:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Stock options	—	—	—	67,625
Restricted stock units	242,478	222,000	332,868	471,624
Restricted stock awards	—	—	—	10,874
Total	242,478	222,000	332,868	550,123

9. INCOME TAXES

For the three and nine months ended September 30, 2020, the Company's effective tax rate was -0.2% and -0.3%, respectively. For the three and nine months ended September 30, 2019, the Company's effective tax rate was -1.3% and 1.5%, respectively. The Company's effective tax rate decreased compared to the corresponding period from the prior year primarily due to a 2019 PP&E-related tax adjustment.

The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income will be generated to permit the use of the existing deferred tax assets. A significant piece of objective negative evidence evaluated was the cumulative loss incurred over an extended amount of time. Such objective evidence limits the ability to consider other subjective evidence, such as projections for taxable earnings.

The income tax expense for the three and nine months ended September 30, 2020 is due to current state tax expense. The Company does not include income tax benefits for all of the losses incurred because the Company has recorded valuation allowances against significantly all of its Federal, state and foreign deferred tax assets. The Company has recorded valuation allowances against the associated deferred tax assets for the amounts it deems are not more likely than not realizable. Based on management's belief that not all the net operating losses are realizable, a Federal valuation allowance, a foreign valuation allowance, and additional state valuation allowances were maintained during the nine months ended September 30, 2020 and 2019. In addition, due to the Company's recent operating losses and valuation allowances, the Company may recognize reduced or no tax benefits on future losses on the condensed consolidated financial statements. The amount of the valuation allowances considered realizable, however, could be adjusted if estimates of future taxable income during the carryforward period are reduced or increased, or if objective negative evidence in the form of cumulative losses is no longer present and additional weight is given to subjective evidence such as projections for future growth.

On March 27, 2020, Congress passed and the President signed into law the Coronavirus Aid, Relief, and Economic Security Act which included significant changes to U.S. Federal income tax law. However, the only change that is expected to affect the Company is the acceleration of the ability to take the remainder of its refundable minimum tax credit.

10. SUBSEQUENT EVENTS

None.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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, our financial position, business strategy and plans, objectives of our management for future operations, including statements related to the expected or potential impact of the novel coronavirus ("COVID-19") pandemic on our business, financial condition and results of 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 (the "Exchange Act"). 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 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. These risks include, but are not limited to, dependence upon energy industry spending; changes in exploration and production spending by our customers and changes in the level of oil and natural gas exploration and development; the results of operations and financial condition of our customers, particularly during extended periods of low prices for crude oil and natural gas; the volatility of oil and natural gas prices; changes in economic conditions; the severity and duration of the COVID-19 pandemic, related economic repercussions and the resulting negative impact on demand for oil and gas; the current significant surplus in the supply of oil and the ability of the Organization of the Petroleum Exporting Countries and its allies, collectively known as OPEC+, to agree on and comply with supply limitations; the duration and magnitude of the unprecedented disruption in the oil and gas industry currently resulting from the impact of the foregoing factors, which is negatively impacting our business; the potential for contract delays; reductions or cancellations of service contracts; limited number of customers; credit risk related to our customers; reduced utilization; high fixed costs of operations and high capital requirements; operational challenges relating to the COVID-19 pandemic and efforts to mitigate the spread of the virus, including logistical challenges, protecting the health and well-being of our employees and remote work arrangements; industry competition; external factors affecting our crews such as weather interruptions and inability to obtain land access rights of way; whether we enter into turnkey or dayrate contracts; crew productivity; the availability of capital resources; and disruptions in the global economy. A discussion of these and other factors, including risks and uncertainties, is set forth in our Annual Report on Form 10-K that was filed with the SEC on March 6, 2020 and any subsequent Quarterly Reports on Form 10-Q filed with the SEC. 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 disclaim any intention or obligation to revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Overview

We are a leading provider of North American onshore seismic data acquisition services with operations throughout the continental U.S. and Canada. Substantially all of our revenues are derived from the seismic data acquisition services we provide to our clients. Our clients consist of major oil and gas companies, independent oil and gas operators, and providers of multi-client data libraries. In recent years, our primary customer base has consisted of providers of multi-client data libraries. Demand for our services depends upon the level of spending by these companies for exploration, production, development and field management activities, which depends, in a large part, on oil and natural gas prices. Significant fluctuations in domestic oil and natural gas exploration and development activities related to commodity prices, as we have recently experienced, have affected, and will continue to affect, demand for our services and our results of operations, and such fluctuations continue to be the single most important factor affecting our business and results of operations.

During the third quarter of 2020, we operated one data acquisition crew with periods of low utilization. The one crew was inactive for the latter part of the third quarter and into the fourth quarter. Based on currently available information, we anticipate operating one crew with periods of low utilization for the foreseeable future in the U.S. and up to two crews in Canada for the winter season in the late fourth quarter of 2020 and first quarter of 2021.

Reduced demand for oil and gas resulting primarily from the worldwide COVID–19 induced economic shutdown negatively impacted our third quarter operations. Project uncertainties remain high and have led to a substantial reduction in demand for our services going forward. Many of the companies we serve have significantly reduced their capital spending plans for the remainder of 2020 and into 2021. Requests for proposals for seismic services continue to come in slowly in both the U.S. and Canada, as well as worldwide.

While oil prices remain in the $40 price per barrel range with a strong likelihood of remaining there through the remainder of 2020, several energy analysts are forecasting meaningful improvements in both oil and natural gas prices in 2021. Despite current challenges, the oil service industry is beginning to experience slight improvements in some areas that include an increase in the number of active rigs and hydraulic fracturing crews deployed in the U.S. In addition, there has been a recent surge in merger and acquisition activity within the oil and gas Exploration and Production sector, of which the impact upon oil service activity is yet to be determined. This recent activity indicates E&P companies will continue their focus on shareholder returns and disciplined capital spending as they seek to develop and produce with increased efficiency by drilling more robust locations. As in the most recent down cycles, we anticipate recovery in seismic data acquisition to somewhat lag behind increases in drilling and completion activities.

In response to these difficult conditions, we are maintaining our focus on cost saving measures while balancing the ability to respond rapidly when market conditions improve. We have taken steps to outsource several ancillary services. These steps, including permitting and surveying, have resulted in reduced salary costs and lower general and administrative expenses. Moreover, we anticipate approximately $4.3 million in annual cost savings as a result of previously enacted cost saving measures.

In response to the COVID-19 pandemic and its impact on our people, we continue to follow recommended CDC guidelines including, but not limited to, social distancing, hygiene recommendations, small group limits, enhanced work-from-home guidelines, minimized office hours in certain regions, and periodic town hall telephone conferences to update employees and their families on the Company’s practices and protocols.

We continue to provide additional flexibility to work from home for those with pre-existing health concerns, child care issues, elderly in-home residents or other general concerns. At the crew level, we have implemented policies to eliminate large group gatherings, provided additional vehicles to reduce the number of people per vehicle traveling to and from project locations, increased utilization of radio communication, secured ample safe daily water supply, offered increased housing flexibility and relaxed field schedules to allow for individual needs. Most of our day to day operations consist of small, often times individual, isolated work groups.

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 and utilization level of our data acquisition crews. Factors impacting productivity and utilization levels include: client demand, commodity prices, whether we enter into turnkey or dayrate contracts with our clients, the number and size of crews, the number of recording channels per crew, crew downtime related to inclement weather, delays in acquiring land access permits, agricultural or hunting activity, holiday schedules, short winter days, crew repositioning and equipment failure. To the extent we experience these factors, our operating results may be affected from quarter to quarter. Consequently, our efforts to negotiate more favorable contract terms in our supplemental service agreements, mitigate permit access delays and improve overall crew productivity may contribute to growth in our revenues. Further, the ongoing COVID-19 pandemic may compound one or more of the foregoing factors and could directly affect our productivity.

Results of Operations

Operating Revenues. Operating revenues for the third quarter of 2020 decreased 76.4% to $8,738,000 compared to $36,976,000 in the same period of 2019. Operating revenues decreased 31.2% to $77,216,000 during the first nine months of 2020 compared to $112,216,000 in the same period of 2019. The decreased revenue during the third quarter and first nine months of 2020 when compared to the third quarter and first nine months of 2019 is primarily due to low crew utilization during those periods of 2020.

Operating Expenses. Operating expenses for the third quarter of 2020 decreased 63.7% to $9,441,000 compared to $26,030,000 in the same period of 2019. Operating expenses decreased 36.9% to $58,189,000 during the first nine months of 2020 compared to $92,210,000 in the same period of 2019. The decrease in operating expenses was primarily due to a decreased crew count and reduced crew cost structure related to workforce reductions that occurred in the second and third quarters of 2020.

General and Administrative Expenses. General and administrative expenses were 37.4% and 14.5% of revenues in the third quarter and first nine months of 2020, respectively, compared to 10.3% and 11.9% of revenues in the same periods of 2019. General and administrative expenses decreased $527,000 or 13.9% to $3,270,000 during the third quarter of 2020 from $3,797,000 during the same period of 2019, and decreased $2,185,000 or 16.3% to $11,205,000 during the first nine months of 2020 from $13,390,000 during the same period of 2019. The primary factors for the decrease in general and administrative expenses during the third quarter and first nine months of 2020 when compared to the same periods of 2019 was due to workforce reductions, salary reductions, and continued cost reduction efforts by management during the first nine months of 2020.

Depreciation and Amortization Expense. Depreciation and amortization expense for the third quarter and first nine months of 2020 totaled $4,125,000 and $13,412,000, respectively, compared to $5,238,000 and $16,644,000 for the same periods of 2019, respectively. Depreciation expense decreased in 2020 compared to 2019 as a result of multiple years of reduced capital expenditures. Our depreciation expense is expected to remain below that of 2019 for the remainder of 2020 due to the anticipated continuation of maintenance levels of capital expenditures to maintain our existing asset base.

Total operating costs for the third quarter of 2020 were $16,836,000, representing a 52.0% decrease from the same period of 2019. The operating costs for the first nine months of 2020 were $82,806,000, representing a 32.3% decrease from the same period of 2019. This decrease was primarily due to the factors described above.

Income Taxes. Income tax expense for the third quarter and first nine months of 2020 was $15,000 and $15,000, respectively, compared to income tax benefit of $25,000 and $146,000 for the same periods of 2019. These amounts represent effective tax rates of -0.2% and -0.3% for the third quarter and first nine months of 2020, respectively, compared to -1.3% and 1.5% for the third quarter and first nine months of 2019, respectively. The Company's effective tax rate decreased compared to the corresponding period from the prior year primarily due to a 2019 PP&E-related tax adjustment.

Our effective tax rates differ from the statutory Federal rate of 21.0% for certain items such as state and local taxes, valuation allowances, non-deductible expenses and discrete items. For further information, see Note 9 of the Notes to the Condensed Consolidated Financial Statements.

Use of EBITDA (a Non-GAAP measure)

We define EBITDA as net income (loss) plus interest expense, interest income, income taxes, and depreciation and amortization expense. Our management uses EBITDA as a supplemental financial measure to assess:

- the financial performance of our assets without regard to financing methods, capital structures, taxes or historical cost basis;
- our liquidity and operating performance over time in relation to other companies that own similar assets and that we believe calculate EBITDA in a similar manner; and
- the ability of our assets to generate cash sufficient for us to pay potential interest costs.

We also understand that such data are used by investors to assess our performance. However, the term EBITDA is not defined under GAAP, and EBITDA is not a measure of operating income, operating performance or liquidity presented in accordance with GAAP. When assessing our operating performance or liquidity, investors and others should not consider this data in isolation or as a substitute for net income (loss), cash flow from operating activities or other cash flow data calculated in accordance with GAAP. In addition, our EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA in the same manner as us. Further, the results presented by EBITDA cannot be achieved without incurring the costs that the measure excludes: interest, taxes, and depreciation and amortization.

The reconciliation of our EBITDA to net (loss) income and to net cash provided by (used in) operating activities, which are the most directly comparable GAAP financial measures, are provided in the following tables (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net (loss) income	$ (7,840)	$ 1,998	$ (5,347)	$ (9,385)
Depreciation and amortization	4,125	5,238	13,412	16,644
Interest (income) expense, net	(96)	(51)	(246)	(64)
Income tax expense (benefit)	15	(25)	15	(146)
EBITDA	$ (3,796)	$ 7,160	$ 7,834	$ 7,049

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net cash provided by (used in) operating activities	$ 15,472	$ (10,872)	$ 24,448	$ 1,197
Changes in working capital and other items	(18,831)	18,612	(15,098)	7,706
Noncash adjustments to net (loss) income	(437)	(580)	(1,516)	(1,854)
EBITDA	$ (3,796)	$ 7,160	$ 7,834	$ 7,049

Liquidity and Capital Resources

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 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 $24,448,000 for the nine months ended September 30, 2020 compared to $1,197,000 for the same period of 2019. This results in an increase of $23,251,000 in cash flow provided by operations when comparing the nine months ended September 30, 2020 to the nine months ended September 30, 2019. This is primarily due to changes in the balances of our operating assets and liabilities.

Net cash used in investing activities was $804,000 for the nine months ended September 30, 2020 compared to $181,000 for the same period of 2019. The increase in cash used in investing activities between periods of $623,000 was primarily due to decreased net proceeds from maturities of short-term investments during the nine months ended September 30, 2020.

Net cash used in financing activities was $4,380,000 for the nine months ended September 30, 2020 and was primarily comprised of principal payments of $2,019,000 and $2,291,000 under our notes payable and finance leases, respectively. Net cash used in financing activities for the nine months ended September 30, 2019 was $10,229,000 and was primarily comprised of principal payments of $7,867,000 and $2,126,000 under our notes payable and finance leases, respectively. Additionally, during the second quarter of 2020 we received and repaid proceeds from a promissory note with Dominion Bank of $6,374,000 related to an unsecured loan under the Paycheck Protection Program.

Capital Expenditures. The Board of Directors approved an initial 2020 capital budget in the amount of $5,000,000 for capital expenditures, which was limited to necessary maintenance capital requirements and incremental recording channel replacement or increase. For the nine months ended September 30, 2020, $2,761,000 has been utilized primarily for maintenance capital, additional seismic equipment, and equipment replacement and refurbishment. In recent years, we have funded most of our capital expenditures through cash flow from operations, cash reserves, equipment term loans and finance leases. In the past, we have also funded our capital expenditures and other financing needs through public equity offerings.

We continually strive to supply our clients with technologically advanced 3-D seismic data acquisition recording services 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 borrowings from commercial banks to fund our working capital requirements and, to some extent, our capital expenditures. Recently, we have funded some of our capital expenditures through commercial bank borrowings, finance leases and equipment term loans. From time to time in the past, we have also funded our capital expenditures and other financing needs through public equity offerings.

Loan Agreement

Dominion Credit Facility. On September 30, 2019, we entered into a Loan and Security Agreement with Dominion Bank. On September 30, 2020 we entered into a Loan Modification Agreement to the Loan and Security Agreement (as amended by the Loan Modification Agreement, the “Loan Agreement”) for the purpose of amending and extending the maturity of our line of credit with Dominion Bank by one year. The Loan Agreement provides for a Revolving Credit Facility in an amount up to the lesser of (i) $15,000,000 or (ii) a sum equal to (a) 80% of our eligible accounts receivable plus 100% of the amount on deposit with Dominion Bank in our collateral account, consisting of a restricted CDARS account of $5,000,000. As of September 30, 2020, we have not borrowed any amounts under the Revolving Credit Facility.

Under the Revolving Credit Facility, interest will accrue at an annual rate equal to the lesser of (i) 6.00% and (ii) the greater of (a) the prime rate as published from time to time in The Wall Street Journal or (b) 3.50%. We will pay a commitment fee of 0.10% per annum on the difference of (a) $15,000,000 minus the Deposit minus (b) the daily average usage of the Revolving Credit Facility. The Loan Agreement contains customary covenants for credit facilities of this type, including limitations on disposition of assets. We are also obligated to meet certain financial covenants under the Loan Agreement, including maintaining a tangible net worth of $75,000,000 and specified ratios with respect to current assets and liabilities and debt to tangible net worth. Our obligations under the Loan Agreement are secured by a security interest in the collateral account (including the Deposit) with Dominion Bank and future accounts receivable and related collateral. The maturity date of the Loan Agreement is September 30, 2021.

We do not currently have any notes payable under the Revolving Credit Facility.

Veritex Letters of Credit. As of September 30, 2020, Veritex had issued us two letters of credit, each of which were secured by a certificate of deposit with Veritex. The first letter of credit was in the amount of $1,767,000 to support payment of certain of our insurance obligations. The second letter of credit was in the amount of $583,000 to support our workers compensation insurance. During October of 2020, the letter of credit in the amount of $1,767,000 to support payment of certain of our insurance obligations was terminated at our request because the beneficiary no longer required it to secure such obligations. Also during October of 2020, Veritex, at our request, terminated the second letter of credit in the amount of $583,000 to support our workers compensation insurance and we simultaneously had a replacement letter of credit issued in the same amount by our principal lender, Dominion Bank. The letter of credit is secured by a certificate of deposit with Dominion Bank.

Other Indebtedness

As of September 30, 2020, we have one note payable to a finance company for various insurance premiums totaling $160,000.

In addition, we lease certain seismic recording equipment and vehicles under leases classified as finance leases. Our Condensed Consolidated Balance Sheets as of September 30, 2020 include finance leases of $106,000.

Maturities and Interest Rates of Debt

The following tables set forth the aggregate principal amount (in thousands) under our outstanding notes payable and the interest rates as of September 30, 2020 and December 31, 2019:

	September 30, 2020	December 31, 2019
Notes payable to finance company for insurance		
Aggregate principal amount outstanding	$ 160	$ 1,746
Interest rate	4.99%	4.05% - 4.99%

The aggregate maturities of the notes payable as of September 30, 2020 are as follows (in thousands):

October 2020 - September 2021	$ 160
Total notes payable	$ 160

The aggregate maturities of finance leases as of September 30, 2020 are as follows (in thousands):

October 2020 - September 2021	$ 55
October 2021 - September 2022	41
October 2022 - September 2023	10
Obligations under finance leases	$ 106

Interest rates on these leases range from 4.83% to 5.37%.

Contractual Obligations. We believe that our capital resources, including our short-term investments, cash flow from operations, and funds available under our Revolving Credit Facility, will be adequate to meet our current operational needs. We believe that we will be able to finance our 2020 capital expenditures through cash flow from operations, borrowings from commercial lenders, and the funds available under our Revolving Credit Facility. However, our ability to satisfy working capital requirements, meet debt repayment obligations, and fund future capital requirements will depend principally upon our future operating performance, which is subject to the risks inherent in our business, and will also depend on the extent to which the current economic climate adversely affects the ability of our customers, and/or potential customers, to promptly pay amounts owing to us under their service contracts with us.

Off-Balance Sheet Arrangements

As of September 30, 2020, we had no off-balance sheet arrangements.

Critical Accounting Policies

Information regarding our critical accounting policies and estimates is included in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2019.

Recently Issued Accounting Pronouncements

In December 2019, the FASB issued ASU No. 2019-12, Income Taxes ("Topic 740"): Simplifying the Accounting for Income Taxes, which simplifies the accounting for income taxes by eliminating certain exceptions to the general principles in Topic 740 and by clarifying and amending existing guidance to improve consistent application. This ASU is effective for the annual period beginning after December 15, 2020, including interim periods within that annual period. Certain amendments within this ASU are required to be applied on a retrospective basis for all periods presented; others are to be applied using a modified retrospective approach with a cumulative-effect adjustment to retained earnings, if any, as of the beginning of the first reporting period in which the guidance is adopted; and yet others are to be applied using either basis. All other amendments not specified in the ASU should be applied on a prospective basis. Early adoption is permitted. An entity that elects to early adopt in an interim period should reflect any adjustments as of the beginning of the annual period that includes that interim period. Additionally, an entity that elects early adoption must adopt all the amendments in the same period. We are currently evaluating the new guidance to determine the impact it will have on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement, which modifies the disclosure requirements on fair value measurement by removing, modifying and adding certain disclosures. This ASU is effective for the annual period beginning after December 15, 2019, including interim periods within that annual period. We adopted this guidance in the first quarter of 2020 and it did not have a material impact on our consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks arising from the use of financial instruments in the ordinary course of business. These risks arise primarily as a result of potential changes to operating concentration of credit risk and changes in interest rates. We have not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other derivative financial instruments. We also conduct business in Canada, which subjects our results of operations and cash flows to foreign currency exchange rate risk.

Concentration of Credit Risk. Our principal market risks include fluctuations in commodity prices, which affect demand for and pricing of our services, and the risk related to the concentration of our clients in the oil and natural gas industry. Since all of our clients are involved in the oil and natural gas industry, there may be a positive or negative effect on our exposure to credit risk because our clients may be similarly affected by changes in economic and industry conditions. As an example, changes to existing regulations or the adoption of new regulations may unfavorably impact us, our suppliers or our clients. In the normal course of business, we provide credit terms to our clients. Accordingly, we perform ongoing credit evaluations of our clients and maintain allowances for possible losses. Our historical experience supports our allowance for doubtful accounts of $250,000 at September 30, 2020. This does not necessarily indicate that it would be adequate to cover a payment default by one large or several small clients.

We generally provide services to certain key clients that account for a significant percentage of our accounts receivable at any given time. Our key clients vary over time. We extend credit to various companies in the oil and natural gas industry, including our key clients, for the acquisition of seismic data, which results in a concentration of credit risk. This concentration of credit risk may be affected by changes in the economic or other conditions of our key clients and may accordingly impact our overall credit risk. If any of these significant clients were to terminate their contracts or fail to contract for our services in the future because they are acquired, alter their exploration or development strategy, or for any other reason, our results of operations could be affected. Because of the nature of our contracts and clients' projects, our largest clients can change from year to year, and the largest clients in any year may not be indicative of the largest clients in any subsequent year.

Interest Rate Risk. From time to time, we are exposed to the impact of interest rate changes on the outstanding indebtedness under our Revolving Credit Facility which has variable interest rates.

We generally have cash in the bank which exceeds federally insured limits. Historically, we have not experienced any losses in such accounts; however, volatility in financial markets may impact our credit risk on cash and short-term investments. At September 30, 2020, cash, restricted cash and short term investments totaled $51,005,000.

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 financial officer, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Exchange Act 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, Chief Financial Officer, Secretary and Treasurer concluded that, as of September 30, 2020, 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, Chief Financial Officer, Secretary and Treasurer, 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 Exchange Act) during the quarter ended September 30, 2020 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Refer to Note 7 – Operating Commitments and Contingencies in the Notes to the Condensed Consolidated Financial Statements (Part I, Item 1 of this Form 10-Q) for a discussion of the Company's legal proceedings.

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 year ended December 31, 2019, as updated by the risk factors discussed in Part II, “Item 1A. Risk Factors” in our Quarterly Report on Form 10-Q for the three months ended March 31, 2020, 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 2019 Annual Report on Form 10-K, as updated by our subsequent Quarterly Report on Form 10-Q.

ITEM 6. EXHIBITS

Number	Exhibit
3.1	Amended and Restated Certificate of Formation, as amended February 11, 2015, filed on March 16, 2015 as Exhibit 3.1 to the Registrant's Annual Report on Form 10-K and incorporated herein by reference.
3.2	Bylaws, as amended February 11, 2015, filed on March 16, 2015 as Exhibit 3.2 to the Registrant's Annual Report on Form 10-K and incorporated herein by reference.
10.1	Loan Modification Agreement to Loan and Security Agreement, by and between Dawson Geophysical Company and Dominion Bank, dated September 30, 2020, filed on September 30, 2020 as Exhibit 10.1 to the Registrant's Current Report on Form 8-K and incorporated herein by reference.
+10.2	Letter Agreement dated September 30, 2020 between Stephen C. Jumper and Dawson Geophysical Company, filed on September 30, 2020 as Exhibit 10.2 to the Registrant's Current Report on Form 8-K and incorporated herein by reference.
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.
101*	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30 2020, formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income for the three and nine months ended September 30, 2020 and 2019, (ii) Condensed Consolidated Balance Sheets at September 30, 2020 and December 31, 2019, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2020 and 2019, (iv) Condensed Consolidated Statements of Stockholders' Equity for the three and nine months ended September 30, 2020 and 2019, and (v) Notes to Condensed Consolidated Financial Statements.
104*	Cover Page Interactive Data File (formatted in Inline XBRL and included as Exhibit 101).

* Filed herewith.

\+ Management contract or compensatory plan or arrangement.

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: November 3, 2020	By: /s/ Stephen C. Jumper Stephen C. Jumper Chairman of the Board of Directors, President and Chief Executive Officer
DATE: November 3, 2020	By: /s/ James K. Brata James K. Brata Executive Vice President, Chief Financial Officer, Secretary and Treasurer

Exhibit 31.1

CERTIFICATION

I, Stephen C. Jumper, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dawson Geophysical Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 3, 2020

/s/ Stephen C. Jumper
Stephen C. Jumper
Chairman of the Board of Directors, President and
Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION

I, James K. Brata, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dawson Geophysical Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: November 3, 2020

/s/ James K. Brata
James K. Brata
Executive Vice President,
Chief Financial Officer, Secretary and Treasurer
(principal financial and accounting officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the quarterly report of Dawson Geophysical Company (the “Company”) on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission (the “Report”), I, Stephen C. Jumper, President, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 3, 2020

/s/ Stephen C. Jumper
Stephen C. Jumper
Chairman of the Board of Directors, President and
Chief Executive Officer
(principal executive officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the quarterly report of Dawson Geophysical Company (the "Company") on Form 10-Q for the period ended September 30, 2020, as filed with the Securities and Exchange Commission (the "Report"), I, James K. Brata, Executive Vice President, Chief Financial Officer, Secretary and Treasurer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 3, 2020

/s/ James K. Brata
James K. Brata
Executive Vice President,
Chief Financial Officer, Secretary and Treasurer
(principal financial and accounting officer)