

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2000  
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OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

For Quarter Ended March 31, 2000  
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Commission File number 2-71058  
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DAWSON GEOPHYSICAL COMPANY  
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(Exact name of Registrant as specified in its Charter)

TEXAS  
-----

75-0970548  
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(State or other jurisdiction of  
incorporation or organization)

(IRS Employer Identification No.)

508 West Wall, Suite 800, Midland, Texas  
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79701  
-----

(Address of principal executive offices)

(Zip Code)

(Registrant's telephone number, including area code) 915/684-3000  
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NONE  
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(Former Name, Former Address & Former Fiscal Year if changed since last report)

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

CLASS  
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Outstanding at March 31, 2000.  
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Common Stock, \$.33 1/3 par value

5,428,794 shares

## DAWSON GEOPHYSICAL COMPANY

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## PART I. FINANCIAL INFORMATION

## DAWSON GEOPHYSICAL COMPANY

STATEMENTS OF OPERATIONS  
(UNAUDITED)

	Three Months Ended March 31		Six Months Ended March 31	
	2000	1999	2000	1999
Operating revenues	\$ 4,275,000	\$ 6,053,000	\$ 9,168,000	\$ 14,071,000
Operating costs:				
Operating expenses	5,104,000	5,308,000	10,634,000	11,741,000
General and administrative	668,000	494,000	1,431,000	1,040,000
Depreciation	2,473,000	2,698,000	4,936,000	5,409,000
	8,245,000	8,500,000	17,001,000	18,190,000
Loss from operations	(3,970,000)	(2,447,000)	(7,833,000)	(4,119,000)
Other income (expense):				
Interest income	235,000	212,000	463,000	398,000
Loss on disposal of assets	--	(23,000)	--	(12,000)
Other income	3,000	36,000	3,000	42,000
Loss before income tax	(3,732,000)	(2,222,000)	(7,367,000)	(3,691,000)
Income tax benefit (expense)	712,000	761,000	1,948,000	1,256,000
Net loss	\$ (3,020,000)	\$ (1,461,000)	\$ (5,419,000)	\$ (2,435,000)
Net loss per common share	\$ (.56)	\$ (.27)	\$ (1.00)	\$ (.45)
Weighted average equivalent common shares outstanding	5,428,772	5,406,416	5,421,627	5,387,397

See accompanying notes to the financial statements.

## DAWSON GEOPHYSICAL COMPANY

## BALANCE SHEETS

	March 31, 2000 ----- (unaudited)	September 30, 1999 -----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,506,000	\$ 4,993,000
Short-term investments	13,530,000	13,547,000
Accounts receivable, net of allowance for doubtful accounts of \$493,000 in 2000 and \$133,000 in 1999	5,913,000	5,567,000
Income taxes receivable	1,475,000	1,668,000
Prepaid expenses	186,000	466,000
	-----	-----
Total current assets	24,610,000	26,241,000
	-----	-----
Property, plant and equipment	70,725,000	71,706,000
Less accumulated depreciation	(40,539,000)	(36,529,000)
	-----	-----
Net property, plant and equipment	30,186,000	35,177,000
	-----	-----
	\$ 54,796,000	\$ 61,418,000
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 408,000	\$ 778,000
Accrued liabilities:		
Payroll costs and other taxes	163,000	506,000
Other	40,000	21,000
	-----	-----
Total current liabilities	611,000	1,305,000
	-----	-----
Deferred income taxes	--	645,000
Stockholders' equity:		
Preferred stock--par value \$1.00 per share; 5,000,000 shares authorized, none outstanding	--	--
Common stock - par value \$.33 1/3 per share; 10,000,000 shares authorized, 5,428,794 and 5,406,794 issued and outstanding respectively	1,810,000	1,802,000
Additional paid-in capital	38,624,000	38,497,000
Retained earnings	13,751,000	19,169,000
	-----	-----
Total stockholders' equity	54,185,000	59,468,000
	-----	-----
	\$ 54,796,000	\$ 61,418,000
	=====	=====

Contingencies (See Note 2)

See accompanying notes to the financial statements.

## DAWSON GEOPHYSICAL COMPANY

STATEMENTS OF CASH FLOWS  
(UNAUDITED)

	Six Months Ended March 31	
	2000	1999
Cash flows from operating activities:		
Net loss	\$ (5,419,000)	\$ (2,435,000)
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	4,936,000	5,409,000
Loss on disposal of assets	--	12,000
Non-cash interest income	--	(11,000)
Non-cash compensation	101,000	256,000
Deferred income taxes	(474,000)	205,000
Other	201,000	160,000
Change in current assets and liabilities:		
Decrease (increase) in accounts receivable	(346,000)	5,361,000
Decrease in prepaid expenses	280,000	24,000
Decrease (increase) in income taxes receivable	22,000	(434,000)
Decrease in accounts payable	(370,000)	(1,189,000)
Decrease in accrued liabilities	(322,000)	(1,041,000)
Net cash provided by (used in) operating activities	(1,391,000)	6,317,000
Cash flows from investing activities:		
Proceeds from disposal of assets	--	16,000
Capital expenditures	(130,000)	(134,000)
Proceeds from maturity of short-term investments	1,000,000	1,000,000
Investment in short-term investments	(998,000)	(978,000)
Net cash used in investing activities	(128,000)	(96,000)
Cash flows from financing activities:		
Proceeds from exercise of stock options	32,000	--
Net cash provided by financing activities	32,000	--
Net increase (decrease) in cash and cash equivalents	(1,487,000)	6,221,000
Cash and cash equivalents at beginning of period	4,993,000	5,745,000
Cash and cash equivalents at end of period	\$ 3,506,000	\$ 11,966,000

See accompanying notes to the financial statements.

## DAWSON GEOPHYSICAL COMPANY

## NOTES TO FINANCIAL STATEMENTS

## 1. OPINION OF MANAGEMENT

Although the information furnished is unaudited, in the opinion of management of the Registrant, the accompanying financial statements reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three months and the six months ended March 31, 2000, are not necessarily indicative of the results to be expected for the fiscal year.

## 2. CONTINGENCIES

The Company is a defendant in two lawsuits pending in the 112th and 83rd District Courts of Pecos County, Texas (respectively, Cause No. 8812, Ernestine Bernal, et al. Vs. Javier Antonio Orona, et al.; and Cause No. P5565-83-CV, Carla Jaquez, et al. Vs. Javier Antonio, et al.) relating to a July 1995 accident involving a van owned by the Company which was used to transport employees to various job sites and a non-Company owned vehicle. The accident resulted in the deaths of four Company employees who were passengers in such van. The Company is one of several named defendants in such suits. Other named defendants include the estate of the deceased driver of such van, who was an employee of the Company, the driver of such non-Company owned vehicle, who was then an employee of the Company, the owner of such vehicle, and Ford Motor Company, the manufacturer of the Company van involved in such accident. In general, the claims against the Company include allegations of negligence, gross negligence and/or intentional tort as a result of, among other things, the Company's alleged failure to provide safe transportation for its employees and to properly select, train and supervise the deceased driver of such van. The plaintiffs in such suits are seeking actual damages from the defendants of \$15.5 million, additional unspecified actual damages, prejudgment and post-judgment interest and costs of suit as well as exemplary and punitive damages in an amount not to exceed four times the amount of actual damages. The Company believes that it has meritorious defenses to the claims asserted against it in such suits and it intends to continue to vigorously defend itself against such claims. In addition, the Company believes that it has approximately \$11 million of liability insurance coverage to provide against an unfavorable outcome. The court has heard a motion for summary judgment in both cases, requesting that the Company be dismissed from such suit based upon various legal theories. Such motion has not yet been ruled on by the court. Due to the uncertainties inherent in litigation, no assurance can be given as to the ultimate outcome of such suits or the adequacy or availability of the Company's liability insurance to cover the damages, if any, which may be assessed against the Company in such suits. A judgment awarding plaintiffs an amount significantly exceeding the Company's available insurance coverage could have a material adverse effect on the Company's financial condition, results of operations and liquidity.

The Company is party to other legal actions arising in the ordinary course of its business, none of which management believes will result in a material adverse effect on the Company's financial position or results of operation, as the Company believes it is adequately insured.

## 3. NET INCOME PER COMMON SHARE

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

	Three Months Ended March 31		Six Months Ended March 31	
	2000	1999	2000	1999
Numerator:				
Net loss and numerator for basic and diluted net income per common share-income available to common stockholders	\$ (3,020,000)	\$ (1,461,000)	\$ (5,419,000)	\$ (2,435,000)
Denominator:				
Denominator for basic net loss per common share-weighted average common shares	5,428,772	5,406,416	5,421,627	5,387,397
Effect of dilutive securities-employee stock options	--	--	--	--
Denominator for diluted net loss per common share-adjusted weighted average common shares and assumed conversions	5,428,772	5,406,416	5,421,627	5,387,397
Net income (loss) per common share	\$ (.56)	\$ (.27)	\$ (1.00)	\$ (.45)
Net income (loss) per common share--assuming dilution	\$ (.56)	\$ (.27)	\$ (1.00)	\$ (.45)

Employee stock options to purchase shares of common stock were outstanding during fiscal year 2000 and 1999 but were not included in the computation of diluted net loss per share because either (i) the employee stock options' exercise price was greater than the average market price of the common stock of the Company, or (ii) the Company had a net loss from continuing operations and, therefore, the effect would be antidilutive.

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 relate to oil and gas exploration and production activity and 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.

RESULTS OF OPERATIONS

The Company's operating revenues for the first six months of fiscal 2000 totaled \$9,168,000 versus \$14,071,000 for the same period of fiscal 1999, a decrease of 35%. For the three months ended March 31, 2000, operating revenues totaled \$4,275,000 versus \$6,053,000 for the same period of fiscal 1999, a decrease of 29%. Demand for the Company's services continues to be negatively impacted by reduced activity in the petroleum exploration industry. With a capacity to operate six crews, the Company operated four crews in the first quarter of fiscal 2000 and reduced the number of operating crews to two in March 2000. In addition to the decrease in the number of operating crews, the decrease in revenues reflects severe price competition.



Operating expenses for the six months ended March 31, 2000 totaled \$10,634,000, a decrease of 9% from the same period of fiscal 1999. For the quarter ended March 31, 2000, operating expenses totaled \$5,104,000 versus \$5,308,000 for the same period of fiscal 1999. In January 1999 the Company enacted employee layoffs and salary reductions; however, the Company has retained key technical and professional personnel. For the first six months of fiscal 2000 the Company averaged 3.6 operating crews as compared to 4 operating crews for the same period of fiscal 1999.

General and administrative expenses for the six months ended March 31, 2000 totaled \$1,431,000 as compared to \$1,040,000 for the same period of fiscal 1999. For the quarter ended March 31, 2000, general and administrative expenses totaled \$668,000, an increase of \$174,000 over the same period of fiscal 1999. The increase primarily consists of a provision for doubtful accounts of \$360,000 recognized during the six months ended March 31, 2000. A provision for doubtful accounts was not recognized in the prior fiscal year until May 1999.

Depreciation for the six months ended March 31, 2000 totaled \$4,936,000, a decrease of 9% from the same period of fiscal 1999. For the quarter ended March 31, 2000, depreciation decreased \$225,000, or 8%. Depreciation decreased as a result of a suspension of capital expenditures during fiscal 1999 due to industry conditions.

Total operating costs for the first six months of fiscal 2000 were \$17,001,000, a decrease of 6.5%, from the same period of fiscal 1999 due to the factors described above. For the quarter ended March 31, 2000, total operating costs were consistent with the same period of the prior fiscal year. The 35% decrease of revenues as compared to the 6.5% decrease of total operating costs for the first six months ended March 31, 2000 reflects the high proportion of relatively fixed total operating costs (including personnel costs of active crews and depreciation costs) inherent in the Company's business and continued fierce price competition in the bidding process for geophysical services.

The Company currently anticipates an annual effective tax benefit rate of 26% primarily as a result of establishing a deferred tax valuation allowance in the current year.

#### LIQUIDITY AND CAPITAL RESOURCES

##### Cash Flows

Net cash used in operating activities of \$1,391,000 for the six months ended March 31, 2000 primarily reflects the net loss for the quarter offset by changes in working capital components and the decrease in deferred income taxes. The decrease in deferred income taxes in fiscal 2000 is a result of the reversal of temporary differences due to depreciation and recognition of net operating loss carryback.

Net cash used in investing activities for the six months ended March 31, 2000 is consistent with the same period of the prior year representing management of short-term investments and severely limited capital expenditures.

The cash flows provided by financing activities for the six months ended March 31, 2000 represent the proceeds from the exercise of a stock option.

#### 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. Capital expenditures for fiscal 1999 were minimal in comparison to the capital expansion effort in fiscal 1998 and the five prior fiscal years. Depreciation increased each fiscal year through 1999 as a new crew as well as additions and replacements of cables and geophones, vehicles, and other data acquisition equipment has been placed into service each year for the past several years. Depreciation for fiscal 2000 is expected to be less than in fiscal 1999 due to the restricted capital expenditures of fiscal 1999. The Company will maintain equipment in and out of service in anticipation of increased future demand of the Company's services.

#### 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.

#### LITIGATION

The Company is a defendant in two lawsuits relating to a July 1995 accident involving a van owned by the Company in which four Company employees died. The Company believes that it has meritorious defenses to the claims asserted against it in such suits. Further, while the plaintiffs seek damages in excess of the Company's liability insurance policies, the Company believes that its liability insurance should provide adequate coverage of the damages, if any, which may be assessed against the Company in such litigation. Due to the uncertainties inherent in litigation, no assurance can be given as to the ultimate outcome of such suits or the adequacy or availability of the Company's liability insurance to cover any such damages. A judgment awarding plaintiffs an amount significantly exceeding the Company's available insurance coverage could have a material adverse effect on the Company's financial condition, results of operations and liquidity.

#### 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 March 31, 2000 the Company had no indebtedness and in addition the Company's short-term investments were fixed-rate and, therefore, do not expose the Company to significant risk of earnings or cash flow loss due to changes in market interest rate. 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.

SIGNATURE

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

DAWSON GEOPHYSICAL COMPANY  
-----  
(REGISTRANT)

By: /s/ L. Decker Dawson  
-----  
L. Decker Dawson  
President

/s/ Christina W. Hagan  
-----  
Christina W. Hagan  
Chief Financial Officer

DATE: April 26, 2000

INDEX TO EXHIBITS

Exhibit No. -----	Description -----
27	Financial Data Schedule

6-MOS	SEP-30-2000	
	MAR-31-2000	
		3,506,000
		13,530,000
		6,406,000
		(493,000)
		0
	24,610,000	
		70,725,000
	(40,539,000)	
	54,796,000	
611,000		
		0
	0	
		0
		1,810,000
		52,375,000
54,796,000		
		9,168,000
	9,168,000	
		17,001,000
	17,001,000	
		0
	360,000	
		0
	(7,367,000)	
		1,948,000
(5,419,000)		
		0
		0
		0
	(5,419,000)	
		(1.00)
		(1.00)