DAWSON GEOPHYSICAL CO
Form 10-Q
February 11, 2013
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended December 31, 2012

¨ **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. 001-34404

DAWSON GEOPHYSICAL COMPANY

Texas	**75-0970548**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer identification No.)**

508 West Wall, Suite 800, Midland, Texas 79701

(Principal Executive Office)

Telephone Number: 432-684-3000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

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 February 5, 2013
Common Stock, $.33 1/3 par value	**8,042,657 shares**

Table of Contents

DAWSON GEOPHYSICAL COMPANY

INDEX

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DAWSON GEOPHYSICAL COMPANY

CONSOLIDATED BALANCE SHEETS

	December 31, 2012 (Unaudited)	September 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,144,000	$ 57,373,000
Short-term investments	9,500,000	4,000,000
Accounts receivable, net of allowance for doubtful accounts of $250,000 at December 31, 2012 and September 30, 2012	47,671,000	53,719,000
Prepaid expenses and other assets	3,238,000	762,000
Current deferred tax asset	2,282,000	1,925,000
Total current assets	91,835,000	117,779,000
Property, plant and equipment	364,460,000	326,030,000
Less accumulated depreciation	(173,116,000)	(164,634,000)
Net property, plant and equipment	191,344,000	161,396,000
Total assets	$ 283,179,000	$ 279,175,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 17,642,000	$ 18,544,000
Accrued liabilities:		
Payroll costs and other taxes	3,333,000	1,802,000
Other	5,253,000	6,425,000
Deferred revenue	3,400,000	3,467,000
Current maturities of notes payable and obligations under capital leases	9,623,000	9,131,000
Total current liabilities	39,251,000	39,369,000
Long-term liabilities:		
Notes payable and obligations under capital leases less current maturities	9,715,000	11,179,000
Deferred tax liability	29,696,000	27,678,000
Total long-term liabilities	39,411,000	38,857,000
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; 50,000,000 shares authorized, 8,040,657 and 8,031,369 shares issued and outstanding at December 31, 2012 and September 30, 2012, respectively	2,680,000	2,677,000
Additional paid-in capital	93,861,000	93,224,000
Retained earnings	107,976,000	105,048,000
Total stockholders equity	204,517,000	200,949,000

Total liabilities and stockholders equity	$ 283,179,000	$ 279,175,000

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

Table of Contents

DAWSON GEOPHYSICAL COMPANY

CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended December 31, 2012	2011
Operating revenues	$ 76,629,000	$ 92,382,000
Operating costs:		
Operating expenses	58,735,000	78,814,000
General and administrative	3,596,000	2,556,000
Depreciation	9,104,000	7,786,000
	71,435,000	89,156,000
Income from operations	5,194,000	3,226,000
Other income (expense):		
Interest income	16,000	3,000
Interest expense	(191,000)	(150,000)
Other income	40,000	16,000
Income before income tax	5,059,000	3,095,000
Income tax (expense) benefit	(2,131,000)	136,000
Net income	$ 2,928,000	$ 3,231,000
Basic income attributable to common stock	$ 0.36	$ 0.41
Diluted income attributable to common stock	$ 0.36	$ 0.41
Weighted average equivalent common shares outstanding	7,849,525	7,832,262
Weighted average equivalent common shares outstanding -assuming dilution	7,876,338	7,874,281

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

Table of Contents

DAWSON GEOPHYSICAL COMPANY

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Three Months Ended December 31, 2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 2,928,000	$ 3,231,000
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	9,104,000	7,786,000
Noncash compensation	640,000	466,000
Deferred income tax expense (benefit)	1,661,000	(263,000)
Provision for bad debts		95,000
Other	(2,000)	24,000
Change in current assets and liabilities:		
Decrease (increase) in accounts receivable	6,048,000	(3,547,000)
Increase in prepaid expenses and other assets	(2,476,000)	(1,140,000)
(Decrease) increase in accounts payable	(9,181,000)	1,945,000
Increase (decrease) in accrued liabilities	359,000	(2,581,000)
Decrease in deferred revenue	(67,000)	(7,514,000)
Net cash provided (used) by operating activities	9,014,000	(1,498,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures, net of noncash capital expenditures summarized below in noncash investing and financing activities	(29,507,000)	(9,519,000)
Proceeds from maturity of short-term investments	2,250,000	
Acquisition of short-term investments	(7,750,000)	
Proceeds from disposal of assets	32,000	38,000
Net cash used by investing activities	(34,975,000)	(9,481,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on notes payable	(2,147,000)	(1,740,000)
Principal payments on capital lease obligations	(121,000)	
Proceeds from exercise of stock options		57,000
Net cash used by financing activities	(2,268,000)	(1,683,000)
Net decrease in cash and cash equivalents	(28,229,000)	(12,662,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	57,373,000	26,077,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 29,144,000	$ 13,415,000
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 195,000	$ 202,000
Cash paid for income taxes	$ 472,000	$ 1,000
Cash received for income taxes	$ 4,000	$ 28,000

NONCASH INVESTING AND FINANCING ACTIVITIES:				
Accrued purchases of property and equipment	$	8,279,000	$	2,636,000
Capital lease obligations incurred	$	1,296,000	$	

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

4

Table of Contents

DAWSON GEOPHYSICAL COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND NATURE OF OPERATIONS

Founded in 1952, the Company acquires and processes 2-D, 3-D and multi-component seismic data for its clients, ranging from major oil and gas companies to independent oil and gas operators as well as providers of multi-client data libraries.

2. OPINION OF MANAGEMENT

Although the information furnished is unaudited, in the opinion of management of the Company, the accompanying financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results for the periods presented. The results of operations for the three months ended December 31, 2012 are not necessarily indicative of the results to be expected for the fiscal year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in this Form 10-Q report pursuant to certain rules and regulations of the Securities and Exchange Commission (the SEC). These financial statements should be read with the financial statements and notes included in the Company s Form 10-K for the fiscal year ended September 30, 2012.

Significant Accounting Policies

The preparation of the Company s financial statements in conformity with generally accepted accounting principles requires that certain assumptions and estimates be made that affect the reported amounts of assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Because of the use of assumptions and estimates inherent in the reporting process, actual results could differ from those estimates.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Dawson Seismic Services Holdings, Inc. and Dawson Seismic Services ULC. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash Equivalents. For purposes of the financial statements, the Company considers demand deposits, certificates of deposit, overnight investments, money market funds and all highly liquid financial instruments purchased with an initial maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts. Management prepares its allowance for doubtful accounts receivable based on its review of past-due accounts, its past experience of historical write-offs and its current client base. While the collectability of outstanding client invoices is continually assessed, the inherent volatility of the energy industry s business cycle can cause swift and unpredictable changes in the financial stability of the Company s clients.

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

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 that suggest 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.

Leases. The Company leases certain equipment and vehicles under lease agreements. The Company evaluates each lease to determine its appropriate classification as an operating or capital lease for financial reporting purposes. Any lease that does not meet the criteria for a capital lease is accounted for as an operating lease. The assets and liabilities under capital 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 capital leases are depreciated using the straight-line method over the initial lease term.

Table of Contents

Revenue Recognition. Services are provided under cancelable service contracts. These contracts are either turnkey or term agreements. Under both types of agreements, the Company recognizes revenues when revenue is realizable and services have been performed. Services are defined as the commencement of data acquisition or processing operations. Revenues are considered realizable when earned according to the terms of the service contracts. Under turnkey agreements, revenue is recognized on a per unit of data acquired rate as services are performed. Under term agreements, revenue is recognized on a per unit of time worked rate as services are performed. In the case of a cancelled service contract, revenue is recognized and the customer is billed for services performed up to the date of cancellation.

The Company receives reimbursements for certain out-of-pocket expenses under the terms of the service contracts. Amounts billed to clients are recorded in revenue at the gross amount, including out-of-pocket expenses that are reimbursed by the client.

In some instances, customers are billed in advance of services performed. In those cases, the Company recognizes the liability as deferred revenue. As services are performed, those deferred revenue amounts are recognized as revenue.

When it becomes evident that the estimates of total costs to be incurred on a contract will exceed the total estimates of revenue to be earned, an estimated contract loss is recognized in the period in which the loss is identifiable.

Stock-Based Compensation. The Company measures all employee stock-based compensation awards, which include stock options and restricted stock, using the fair value method and recognizes compensation cost, net of estimated forfeitures, in its consolidated financial statements. The Company records compensation expense as either operating or general and administrative expense as appropriate in the Consolidated Statements of Operations on a straight-line basis over the vesting period of the related stock options or restricted stock awards.

Income Taxes. The Company accounts for income taxes by recognizing amounts of taxes payable or refundable for the current year and by using an asset and liability approach in recognizing the amount of deferred tax assets and liabilities for the future tax consequences of events that have been recognized in the Company s financial statements or tax returns. Management determines deferred taxes by identifying the types and amounts of existing temporary differences, measuring the total deferred tax asset or liability using the applicable tax rate in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates of deferred tax assets and liabilities is recognized in income in the year of an enacted rate change. The deferred tax asset is reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Management s methodology for recording income taxes requires judgment regarding assumptions and the use of estimates, including determining the annual effective tax rate and the valuation of deferred tax assets, which can create variances between actual results and estimates and could have a material impact on the Company s provision or benefit for income taxes.

Recently Issued Accounting Pronouncements

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income, to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. This update does not change what items are reported in other comprehensive income or the requirement to report reclassification of items from other comprehensive income to net income. However, in December 2011, the FASB issued ASU No. 2011-12, Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05, that deferred the specific requirement within ASU 2011-05 to present on the face of the financial statements items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive net income. Entities should continue to report reclassifications out of accumulated other comprehensive income using guidance in effect before ASU 2011-05 was issued. ASU 2011-05 was effective for the Company as of October 1, 2012. The adoption of this guidance did not have a material impact on the Company s financial statements.

3. SHORT-TERM INVESTMENTS

The Company had short-term investments at December 31, 2012 and September 30, 2012 consisting of certificates of deposit with original maturities greater than three months, but less than a year. Certificates of deposit are limited to one per banking institution and no single investment exceeded the FDIC insurance limit at December 31, 2012 or September 30, 2012.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

At December 31, 2012 and September 30, 2012, the Company s financial instruments included cash and cash equivalents, short-term investments in certificates of deposit, trade and other receivables, other current assets, accounts payable, other current liabilities, the Term Note (as defined below) and the Second Term Note (as defined below). Due to the short-term maturities of cash and cash equivalents, short-term investments in certificates of deposit, trade and other receivables, other current assets, accounts payable and other current liabilities, the carrying amounts approximate fair value at the respective balance sheet dates. The Company s Term Note and Second Term Note approximate their fair value due to the fact that the interest rates on the Term Note and Second Term Note are reset each month based on the prevailing market interest rate.