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DAWSON GEOPHYSICAL CO  
Form 10-K  
December 11, 2003

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

FORM 10-K

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

For the Fiscal Year Ended September 30, 2003

Commission File No. 0-10144

DAWSON GEOPHYSICAL COMPANY

Incorporated in the State of Texas

75-0970548  
(I.R.S. Employer  
Identification No.)

508 West Wall, Suite 800, Midland, Texas 79701  
(Principal Executive office)  
Telephone Number: 432-684-3000

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Securities registered pursuant to Section 12(b) of the Act: None

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

Title of Each Class	Name of each Exchange on which Registered
----- Common Stock, \$.33 1/3 par value	----- The NASDAQ Stock Market

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the Common Stock of the Registrant based upon the mean between the closing high and low price of the Common Stock as of November 28, 2003 (as reported by NASDAQ), held by non-affiliates was approximately \$39,801,491 (See Item 12). On that date, there were 5,487,794 shares of Dawson Geophysical Company Common Stock, \$.33 1/3 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 4, 10, 11 and 12 of Parts I and III hereof is incorporated by reference to the Registrant's definitive proxy statement filed or to be filed with the Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K.

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DAWSON GEOPHYSICAL COMPANY  
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## DAWSON GEOPHYSICAL COMPANY 2003 ANNUAL REPORT ON FORM 10-K

### Part I.

#### ITEM 1. BUSINESS GENERAL

Founded in 1952, Dawson Geophysical Company acquires and processes 2-D, 3-D and multi-component seismic data used in the exploration for, and development and field management of oil and natural gas reserves. The Company's operations consist of six 3-D seismic data acquisition crews and a seismic data processing center. In addition, the Company supports its data acquisition crews with offices in Houston, Denver and Oklahoma City. As a result of an increase in industry-wide demand for 3-D seismic surveys and the Company's competitive position, the Company has experienced increased market share for its 3-D seismic services. During fiscal 2003, substantially all of the Company's revenues were derived from 3-D seismic operations. Since 1999, the Company has steadily increased its acquisition and processing of multi-component seismic data.

The Company's land-based data acquisition crews operate throughout the lower 48 states. Data processing is performed by Company geophysicists at the Company's computer center located in Midland, Texas. The Company also provides data processing services through its Houston office. The Company acquires and processes data for its clients, ranging from major oil and gas companies to independent oil and gas operators, who retain exclusive rights to the information obtained.

The Company believes that it maintains a competitive advantage in the industry by (i) acquiring equipment to expand capacity in response to client demand, (ii) updating its equipment base to take advantage of advances in geophysical technology, (iii) maintaining skilled and experienced personnel for its data acquisition and processing operations, (iv) focusing its operations on the domestic onshore seismic industry, and (v) providing integrated in-house operations necessary to complete all phases of 3-D seismic data acquisition and processing, including project design, permitting and surveying.

#### GEOPHYSICAL SERVICES

GENERAL. Technological advances in equipment and computers have allowed the seismic industry to economically acquire and process immense volumes of seismic data which produce more precise images of the earth's subsurface. The industry refers to this process of data acquisition, processing and subsequent interpretation of the processed data as the 3-D seismic method. Geophysicists use computer workstations to interpret 3-D data volumes, identify subsurface anomalies and generate a geologic model of subsurface features.

3-D seismic data are used in the exploration for new reserves and enable oil and gas companies to better delineate existing fields and to augment their reservoir management techniques. Benefits of incorporating 3-D seismic technology into exploration and development programs include reducing drilling risk, decreasing oil and gas finding costs and increasing the efficiencies of reservoir location, delineation and management. In order to meet the requirements necessary to fully recognize the benefits of 3-D seismic data, there is an ever-increasing demand for improved data quality with greater subsurface resolution. The Company is prepared to meet such demands with the implementation of improved techniques and evolving technology. One such technique is the integration of energy source distribution and an increase in the number of recording channels with high-end data processing routines through

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proper survey design. Company geophysicists perform these design tasks.

The Company is positioned to offer four-dimensional seismic surveys, which add the element of time to 3-D surveys. By surveying the same site at successive times, geophysicists compare data volumes and may be able to determine the progress of enhanced recovery programs in existing petroleum reservoirs, and thereby aid in extracting remaining reserves. Such projects could, over time, benefit reservoir management, thereby providing future opportunities for the Company.

The Company continues to investigate the use of even more sophisticated technologies. The Company is involved in several projects that involve the use of three-component (3-C) and converted wave (C-wave) seismic data. Both 3-C and C-wave seismic data utilize shear wave information in some form. The Company's equipment includes energy sources and geophones capable of generating and/or recording shear waves. The Company has designed and recorded two 3-D/3-C (9-C) surveys in the lower 48 states as well as several 3-D/C-wave surveys.

DATA ACQUISITION. The seismic survey begins at the time a client requests the Company to formulate a proposal to acquire seismic data on its behalf. The Company's geophysicists then assist the client in designing the specifications of the proposed 3-D survey. If the client accepts the Company's proposal, a Company permit agent then obtains access from the landowner to the site where the survey is to be conducted.

Utilizing electronic surveying equipment, the Company's survey personnel precisely locate the energy source and receiver positions from which the seismic data are collected. The Company utilizes the satellite global positioning system, known as GPS, to properly locate the seismic survey grid.

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The Company owns equipment for seven land-based crews gathering 3-D seismic data. The Company primarily uses vibrator energy sources, each of which weighs 50,000 to 62,000 pounds, but on occasion detonates dynamite charges placed in drill holes below the earth's surface to generate seismic energy. The Company has 53 vibrator energy source units and a capacity of 26,400 recording channels, any of which are configured to meet the demands of specific survey designs. Each crew consists of approximately 50 technicians, 25 associated vehicles with off-road capabilities, 50,000 to 100,000 geophones, a seismic recording system, energy sources, electronic cables and a variety of other equipment. The Company operates six I/O System Two recording systems, two with RSR radio capability, and four MRX cable recording systems.

Since 1994, the Company has grown from four seismic data acquisition crews with an aggregate recording capacity of 4,532 channels and 22 vibrator energy source units. Demand for more recording channels continues to increase from client companies as the industry strives for improved data quality. The Company's current average of 4,400 channels per crew is above the industry average. The comparatively large number of recording channels gives the Company a competitive edge with the versatility and productivity to improve data quality at a lower cost per unit of data to the client.

DATA PROCESSING. The Company currently operates a computer center located in Midland, Texas and provides data processing services through the Houston office. Such processing primarily involves the enhancement of the data by improving reflected signal resolution, removing ambient noise and establishing proper spatial relationships of geological features. The data are then arranged in such a manner that computer graphic technology may be employed for examination and interpretation of the data by the user.

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The processing center operates 24 hours daily utilizing high-speed computers. The Company continues to improve data processing efficiency and accuracy with the addition of improved processing software and highspeed computer technology. The Company purchases, develops or leases, under non-exclusive licensing arrangements, seismic data processing software.

The Company's computer center processes seismic data collected by its crews, as well as by other geophysical contractors. In addition, the Company reprocesses previously recorded seismic data using current technology to enhance the data quality. The Company's processing contracts may be awarded jointly with, or independently from, data acquisition services.

INTEGRATED SERVICES. The Company maintains integrated in-house operations necessary to the development and completion of 3-D seismic surveys. Experienced Company personnel conduct and supervise the 3-D seismic survey design, permitting, surveying and data acquisition and processing functions for each seismic program. In-house support operations include facilities for automotive repair, automotive paint, electronics repair, electrical engineering and software development, thereby enabling better quality control and improved efficiency. The Company's clients generally undertake to provide their own interpretation of the seismic data provided by the Company, although from time to time the Company's geophysicists may assist its clients in this process.

### EQUIPMENT ACQUISITION

The Company believes it is essential to monitor and evaluate advances in geophysical technology and to commit capital funds to purchase equipment it deems most promising. Purchasing new assets and continually upgrading capital assets involves a continuing commitment to capital spending. For fiscal years 2001 through 2003, The Company made capital expenditures of \$8,950,000 and has an approved budget of \$2,500,000 for fiscal 2004.

### CLIENTS

The Company's services are marketed by supervisory and executive personnel who contact clients to determine geophysical needs and respond to client inquiries regarding the availability of crews or processing schedules. These contacts are based principally upon professional relationships developed over a number of years.

The Company's clients range from major oil companies to small independent oil and gas operators. The services provided by the Company vary according to the size and needs of the client. The Company presently believes that the loss of any one of its clients would not have a material impact on its business.

### CONTRACTS

The Company's seismic services are conducted under master contracts with clients. Contracts are either "turnkey" contracts that provide for a fixed fee to be paid to the Company for each unit of data acquired, or "term" contracts that provide for a fixed hourly, daily or monthly fee during the term of the project. Turnkey contracts generally provide more profit potential for the Company, but involve more risks because of the potential downtime for weather and other types of delays. The majority of the Company's contracts with its clients are turnkey. A supplemental agreement setting forth the terms of a specific project, which may be cancelled by either party, is entered into for every project.

The results of the Company's services belong to the contracting party. To avoid conflicts of interest, the Company does not acquire any data for its own account. All of the client's information is maintained in strictest confidence.

#### COMPETITION AND MARKETS

The acquisition and processing of 3-D seismic data for the oil and gas industry is a highly competitive business in the United States. Contracts for such services generally are awarded on the basis of price quotations, crew experience and availability of crews to perform in a timely manner, although factors other than price, such as technological expertise and reputation, are sometimes determinative. The Company's competitors include companies with financial resources that are significantly greater than those of the Company as well as companies of comparable and smaller size.

Historically, the demand for geophysical services has been directly related to the level of spending by oil and gas companies for exploration, production, development and field management activities that depend in part on the level of oil and gas prices. Because geophysical services are among the first operations involved in the exploration for oil and gas, the level of such services, in the past, has declined prior to a decline in oil and gas exploration activities. In recent years, however, the improved subsurface resolution obtainable from 3-D seismic data has enhanced the exploration for new reserves and enabled oil and gas companies to utilize 3-D surveys to better delineate existing fields and to augment their reservoir management techniques. See "Industry Conditions".

#### EMPLOYEES

The Company employs approximately 448 persons, of which 393 are engaged in providing energy sources and acquiring data, 9 are engaged in data processing, 8 are administrative personnel, 30 are engaged in equipment maintenance and 8 are executive officers. Of the employees listed above, 10 are geophysicists. The Company's employees are not represented by a labor union. The Company believes it has good relations with its employees.

#### OPERATING HAZARDS AND INSURANCE

The Company's activities are often conducted in remote areas under extreme weather and other dangerous conditions. These operations are subject to risks of injury to personnel and equipment. The Company's crews are mobile, and the equipment and personnel are subject to vehicular accidents. The Company uses diesel fuel which is classified by the U.S. Department of Transportation as a hazardous material.

The Company carries insurance in amounts which it considers adequate on the principal items of its equipment. The Company does not carry insurance against certain risks, including business interruption resulting from equipment losses or weather delays. The Company obtains insurance against certain property and personal casualty risks when such insurance is available and when management considers it advisable to do so. Such coverage is not always available however, and when available, is subject to unilateral cancellation by the insuring companies on very short notice. The Company insures seismic data for amounts considered acceptable by management. Accordingly, damage to such data should not have a material adverse effect upon the Company.

#### INDUSTRY CONDITIONS

Demand for the Company's services depends upon the level of spending by oil and gas companies for exploration, production, development and field management activities, which activities depend in part on oil and gas prices. Beginning in 1998, a sharp decline in oil and gas prices led to a worldwide reduction in oil and gas activities. This decline resulted in a significant reduction in the overall demand for seismic services. Since reaching a recent high in 1998, the

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number of land-based seismic crews operating worldwide and the number of companies providing seismic services declined dramatically. Although demand for 3-D seismic data acquisition services has increased since the low of 1999, it has not yet returned to the levels experienced prior to 1998. Overcapacity in the industry continues to suppress pricing. Decreases in oil and gas activities have adversely affected the demand for the Company's services and the Company's results of operations. In addition, a decrease in oil and gas expenditures in the United States could result from such factors as unfavorable tax and other legislation or uncertainty concerning national energy policy. Any significant decline in oil and gas prices could cause the Company to alter its capital spending plans.

### WEATHER

The Company's seismic data acquisition operations could be adversely affected by inclement weather conditions. Delays associated with weather conditions could negatively affect the Company's results of operations.

### PERMITS

The Company's seismic data acquisition operations could be adversely affected by the inability of the Company to obtain right of way usage from land or mineral owners. Delays associated with permitting could negatively affect the Company's results of operations.

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### OPERATING RISKS

The Company's activities are subject to general risks inherent in land-based seismic data acquisition activities. To date, the Company has not suffered any material losses of equipment, but there can be no assurance that it will not experience such losses in the future. Because of the high fixed costs associated with the Company's 3-D equipment, any significant downtime or low productivity caused by reduced demand, weather interruptions, equipment failures, permit delays or other causes could adversely affect its results of operations.

### LIQUIDITY AND WORKING CAPITAL REQUIREMENTS

The Company's sources of working capital are limited. The Company has funded its working capital requirements with cash generated from operations, cash reserves and borrowings from commercial banks. The Company's working capital requirements increased significantly during the last ten years, primarily due to the development of its 3-D land seismic data acquisition infrastructure. If the Company were to expand its operations at a rate exceeding operating cash flow, or if the current demand, or if pricing of geophysical services were to decrease substantially, additional financing could be required. There is no assurance that additional financing could or would occur. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources".

### RELIANCE ON KEY SUPPLIER

The Company's primary supplier for seismic data acquisition systems is Input/Output, Inc. Although the Company believes it will be able to obtain data acquisition systems and/or replacement parts from Input/Output, Inc. or another source for such systems or parts in the future, should it be unable to do so, the Company's anticipated revenues could be reduced and the amount of cash needed for capital expenditures could be increased. See "Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and

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Capital Resources - Capital Expenditures" and "Business - Equipment Acquisition".

### DEPENDENCE ON KEY PERSONNEL

The Company's success may be dependent upon, among other things, the services of certain key personnel. The loss of services of any one or more of the executive officers of the Company could have a material adverse effect on or result in a disruption of normal business operations.

### COMPETITION

The acquisition and processing of 3-D geophysical data for the oil and gas industry is a highly competitive business in the United States. The Company's competitors include companies with financial resources that are significantly greater than those of the Company as well as companies of comparable and smaller size.

### TECHNICAL OBSOLESCENCE

Seismic data acquisition and data processing technology have progressed rapidly over the past several years, and the Company expects this progression to continue. The Company's strategy is to regularly upgrade its data acquisition and processing equipment to maintain its competitive position. However, due to the rapid advances in technology and the related costs associated with such technological advances, no assurance can be given that the Company will be able to fulfill its strategy, thus possibly affecting the Company's ability to compete.

### GOVERNMENTAL REGULATIONS

The Company's operations are subject to a variety of federal, state and local laws and regulations, including laws and regulations relating to the protection of the environment and archeological sites. The Company is required to expend financial and managerial resources to comply with such laws and related permit requirements in its operations, and anticipates that it will continue to be required to do so in the future. Although such expenditures historically have not been material to the Company, the fact that such laws or regulations change frequently make it impossible for the Company to predict the cost or impact of such laws and regulations on its future operations. The adoption of laws and regulations that have the effect of reducing or curtailing exploration and production activities by energy companies could also adversely affect the Company's operations by reducing the demand for its services.

### NO DIVIDENDS

The Company has not paid cash dividends on its Common Stock since becoming a public company and has no plans to do so in the foreseeable future.

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### DISCLOSURE REGARDING 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" and "Business" regarding technological advancements and 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 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). When used in this Form 10-K, words such as



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"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 strategies 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.

### ITEM 2. PROPERTIES

The principal facilities of the Registrant are summarized in the table below.

Location -----	Fee or Leased -----	Purpose -----	Building Area Square Feet -----
Midland, TX	Leased	Executive offices and data processing	18,400
Midland, TX	Fee	Field office Equipment fabrication Maintenance and repairs	53,000

The Company leases office space for operations in Houston, Denver and Oklahoma City.

The Company's operations are limited to one industry segment and the United States.

### ITEM 3. LEGAL PROCEEDINGS

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

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter has been submitted during the fourth quarter of the 2003 fiscal year to a vote of security holders, through the solicitation of proxies or otherwise. However, please refer to the Registrant's Proxy Statement dated November 28, 2003, filed or to be filed with the Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K, notifying as to the election of Directors, approval of the proposed Dawson Geophysical Company 2004 Incentive Stock Plan and selection of KPMG LLP as independent certified public accountants of the Company (requiring an affirmative vote of a majority of shares present or represented by proxy), at the Annual Meeting to be held on January 27, 2004.

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## Part II.

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### Common Stock Information

The Company's common stock trades on the Nasdaq Stock Market (R) under the symbol DWSN.

The table below represents the high and low sales prices for the period shown.

Quarter Ended	High	Low
December 31, 2001	\$8.950	\$6.890
March 31, 2002	\$8.300	\$7.160
June 30, 2002	\$8.200	\$7.010
September 30, 2002	\$7.371	\$4.800
December 31, 2002	\$7.180	\$4.950
March 31, 2003	\$7.230	\$5.200
June 30, 2003	\$8.530	\$6.340
September 30, 2003	\$8.400	\$6.560

As of November 28, 2003, the Company had 244 common stockholders of record as reported by the Company's transfer agent.

### ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Dawson Geophysical Company's financial statements and related notes included in "Item 8. Financial Statements and Supplementary Data".

Years Ended September 30

(in thousands, except per share amounts)	2003	2002	2001	2000
Operating revenues	\$ 51,592	\$ 36,078	\$ 37,878	\$ 18,469
Net loss	\$ (899)	\$ (2,292)	\$ (4,978)	\$ (11,135)
Net loss per common share	\$ (.16)	\$ (.42)	\$ (.91)	\$ (2.05)
Weighted average equivalent common shares outstanding	5,485	5,463	5,443	5,425
Total assets	\$ 42,792	\$ 44,291	\$ 45,381	\$ 49,781
Long term debt-less current maturities	\$ --	\$ --	\$ --	\$ --
Stockholders' equity	\$ 40,662	\$ 41,586	\$ 43,582	\$ 48,468

### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL

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### CONDITION AND RESULTS OF OPERATIONS

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

### FORWARD LOOKING STATEMENTS

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

### OVERVIEW

During fiscal 2003, the Company acted on opportunities for growth and technical depth. The Company expanded operations in its Houston and Denver offices and added an office in Oklahoma City. The technical expertise of additional staff in each office has coincided with increased demand for high-resolution 3-D seismic surveys and other leading edge products such as ExxonMobil-licensed High Fidelity Vibratory Seismic (HFVS) and 9-component 3-D employing both compression and shear wave energy sources. The Company has been able to satisfy client demand for increased channel count by responding to opportunities to acquire equipment from the open market at reduced prices. In addition, the Company has performed services in thirteen states during fiscal 2003-representing a return to some areas that the Company has not been in for more than a decade.

Adverse weather conditions significantly impacted the Company's revenue for the quarter ended June 30, 2003. Even though demand for the Company's services is related to crude oil and natural gas prices, production results are enhanced by favorable weather and timely permits for rights-of-way.

### FISCAL YEAR ENDED SEPTEMBER 30, 2003 VERSUS FISCAL YEAR ENDED SEPTEMBER 30, 2002

The Company's operating revenues increased 43% from \$36,078,000 to \$51,592,000 in fiscal year 2003. The Company began fiscal 2003 with five crews and increased to six operating crews in November. During the months of May, June and July, the Company's production potential was severely impaired by rain and the Company operated five crews during this time. During fiscal 2003, the

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Company sustained slight price improvements for its services in addition to the stability of pricing improvements gained in fiscal 2002.

Operating expenses increased 39% in fiscal 2003 as compared to fiscal 2002 due to the start up expenses associated with activating a crew, the Company's expanded operations geographically within the contiguous United States, an increased demand for shot-hole energy sources which require an expensive drilling component, and an increase in the use of helicopters to achieve efficient operations. Certain reimbursed out-of-pocket expenses relating to drilling, surveying and the use of helicopters are reported in revenue and expense.

General and administrative expenses were 4.7% of revenues in fiscal 2003 as compared to 5.6% in fiscal 2002. The Company made a \$60,000 provision for bad debts in fiscal 2003 as a conservative measure in response to working for new clients in new areas. However, relatively favorable prices for crude oil and natural gas have correlated to collectibility of accounts receivable.

Depreciation for fiscal 2003 totaled \$4,404,000, an increase of 4% from fiscal 2002. The increase is the effect of the increase in capital expenditures during fiscal 2003 and 2002. The increase reflects depreciation attributable to the recording equipment purchased in 2003 and in 2002 that had become available on the used market.

Total operating costs for fiscal 2003 totaled \$52,976,000, an increase of 34.3% from fiscal 2002 primarily due to the factors described above. The increase in revenues of 43% as compared to the increase of operating expenses of 39% in fiscal year 2003 as compared to fiscal 2002 reflects the high proportion of relatively fixed total operating expenses, including personnel costs of active crews, inherent in the Company's business.

The Company recorded a deferred tax expense due to an increase in the income tax valuation allowance, and the tax expense is related to the tax effect of the unrealized loss on investments recorded in other comprehensive income.

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### FISCAL YEAR ENDED SEPTEMBER 30, 2002 VERSUS FISCAL YEAR ENDED SEPTEMBER 30, 2001

The Company's operating revenues decreased 4.7% from \$37,878,000 to \$36,078,000 in fiscal year 2002 as compared to fiscal 2001. The Company began fiscal 2002 with five crews operating and operated four or five crews throughout most of the year depending on weather conditions and the ability to obtain permits for rights-of-way. There was a brief period when three crews were operating due to these conditions. During fiscal 2002, the Company sustained slight price improvements for its services despite idle capacity in the industry.

Operating expenses in fiscal 2002 remained relatively flat as compared to fiscal 2001 as the Company maintained staffing for five crews throughout the year.

General and administrative expenses for fiscal 2002 totaled \$2,006,000, an increase of \$187,000 from fiscal 2001. Insurance premiums, salary reclassification as compared to fiscal 2001, and additional promotional expense in celebration of the Company's 50th anniversary primarily account for this increase. The Company did not make a provision for bad debts in fiscal 2002 as relatively favorable prices for crude oil and natural gas have correlated to collectibility of accounts receivable.

Depreciation for fiscal 2002 totaled \$4,233,000, a decrease of 52% from

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fiscal 2001. The Company revised the estimated lives of two classes of seismic equipment in October 2001. The effect of the change is a reduction in depreciation expense and net loss of approximately \$3,283,000. The decrease in depreciation expense includes a modest effect resulting from a suspension of capital expansion beginning in fiscal 1999 due to industry conditions.

Total operating costs for fiscal 2002 totaled \$39,444,000, a decrease of 9.6% from fiscal 2001 primarily due to the decrease in depreciation expense and the other factors described above. The decrease in revenues as compared to the slight increase of operating expenses, which excludes depreciation, for fiscal 2002 reflects the high proportion of relatively fixed total operating expenses, including personnel costs of active crews, inherent in the Company's business.

The Company recorded an income tax benefit in the current year of approximately \$471,000. Due to income tax law changes in 2002, the Company filed for a refund of alternative minimum tax paid in prior years of approximately \$400,000 which was recorded in receivables at September 30, 2002. The remaining benefit was due to a decrease in the income tax valuation allowance and is related to the tax effect of the unrealized gain on investments recorded in other comprehensive income.

### LIQUIDITY AND CAPITAL RESOURCES

**CASH FLOWS.** Net cash provided by operating activities of \$1,244,000 for the fiscal year ended September 30, 2003 primarily reflects the net loss offset by depreciation and changes in working capital components.

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

There were no financing activities impacting cash flows for any of the fiscal years presented.

**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 2003 primarily consisted of data acquisition channels that became available as a result of idle capacity in our industry. The Company maintains equipment in and out of service in anticipation of increased future demand of the Company's services. In addition, the Company continues the three-component seismic approach. The Company believes that it is in position to respond to demand for this technological advancement of the seismic industry.

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

### CRITICAL ACCOUNTING POLICIES

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

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

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

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

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

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

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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in 2004. When final rules are announced, the Company will assess the impact to its financial statements.

FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. Initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. FIN No. 45 also requires disclosures about guarantees in financial statements for interim or annual periods ending after December 15, 2002. The adoption of FIN No. 45 has had no impact on the Company's financial statements.

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

In May 2003, the FASB issued Statement No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classified and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of FAS 150 has had no impact on the Company's financial statements.

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### ITEM 7A. 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 September 30, 2003 the Company had no indebtedness. The Company's short-term investments were fixed-rate and the Company does not necessarily intend to hold them to maturity, and therefore, the short-term investments expose the Company to the risk of earnings or cash flow loss due to changes in market interest rates. As of September 30, 2003, the carrying value of the investments approximate fair value. The Company has not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other derivative financial instruments. The Company does not currently conduct business internationally so it is generally not subject to foreign currency exchange rate risk.

### ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item appears on pages F-1 through F-13 hereof and are incorporated herein by reference.

### ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None

### ITEM 9a. CONTROLS AND PROCEDURES

Within the 90 day period prior to the filing date of this report on Form

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

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

### Part III

#### ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 with respect to Directors and Executive Officers is hereby incorporated by reference to the Registrant's Proxy Statement dated November 28, 2003 (page 2), filed or to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities and Exchange Act of 1934 within 120 days after the end of the fiscal year covered by this Form 10-K. The Registrant's Code of Ethics as defined in Item 406 of SEC Regulation S-K is expected to be adopted by the Board of Directors at their next meeting to be held January 27, 2004.

#### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference to the Registrant's Proxy Statement (page 4) referred to above in Item 10.

#### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item 12 with respect to security ownership of certain beneficial owners is hereby incorporated by reference to the Registrant's Proxy Statement (page 7, "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT") referred to above in Item 10.

On July 13, 1999, the Board of Directors of the Company authorized and declared a dividend to the holders of record on July 23, 1999 of one Right (a "Right") for each outstanding share of the Company's common stock. When exercisable, each Right will entitle the holder to purchase one one-hundredth of a share of Series A Junior Participating Preferred Stock, par value \$1.00 per share, of the Company (the "Preferred Shares") at an exercise price of \$50.00 per Right. The rights are not currently exercisable and will become exercisable only if a person or group acquires beneficial ownership of 20% or more of the Company's outstanding common stock or announces a tender offer or exchange offer, the consummating of which would result in attaining the triggering percentage. The Rights are subject to redemption by the Company for \$.01 per Right at any time prior to the tenth day after the first public announcement of a triggering acquisition.

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#### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None



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### ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information concerning principal accountant fees and services appears in the proxy statement under the heading "Report of Audit Committee" and is incorporated herein by reference.

### Part IV

### Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

See Index to Financial Statements on Page F-1.

#### (a) Exhibits

The exhibits and financial statement schedules filed as a part of this report are listed below according to the number assigned to it in the exhibit table of Item 601 of Regulation S-K:

- (3) Restated Articles of Incorporation and Bylaws.
- (4) Instruments defining the rights of security holders, including indentures.
- (9) Voting Trust Agreement -- None; consequently, omitted.
- (10) Material Contracts.
- (11) Statement re: computation of per share earnings -- Not Applicable.
- (12) Statement re: Computation of ratios -- Not Applicable.
- (18) Letter re: change in accounting principles -- Not Applicable.
- (19) Previously unfiled documents -- No documents have been executed or in effect during the reporting period which should have been filed; consequently, this exhibit has been omitted.
- (22) Subsidiaries of the Registrant -- There are no subsidiaries of the Registrant; consequently, this exhibit has been omitted.
- (23) Published report regarding matters submitted to vote of security holders -- None; consequently, omitted.
- (24) Consent of experts and counsel -- Not applicable.
- (25) Power of Attorney -- There are no signatures contained within this report pursuant to a power of attorney; consequently, this exhibit has been omitted.
- (b) Reports on Form 8-K -- None.
- (28) Additional Exhibits -- None.
- (29) Information from reports furnished to state insurance regulatory authorities -- None.
- (31.1) Certification of Chief Executive Officer pursuant to Section 302.
- (31.2) Certification of Chief Financial Officer pursuant to Section 302.

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- (32.1) Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- (32.2) Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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### EXHIBIT INDEX

Number	Exhibit	Page
(1)	*	
(2)	*	
(3)	Articles of Incorporation and Bylaws	E-2
(4)	Instruments defining the rights of security holders, including indentures--Shareholder Rights Plan	E-3
(5)	*	
(6)	*	
(7)	*	
(8)	*	
(9)	Voting Trust Agreement	Omit
(10)	Material Contracts	E-4
(11)	Statement re: computation of per share earnings	Omit
(12)	Statement re: computation of ratios	Omit
(13)	2003 Annual Report to Stockholders-Cover Page to Form 10-K Annual Report	E-1
(14)	*	
(15)	*	
(16)	*	
(17)	*	
(18)	Letter re: change in accounting principles	Omit
(19)	Previously unfiled documents	Omit
(20)	*	
(21)	*	
(22)	Subsidiaries of the Registrant	Omit
(23)	Published report regarding matters submitted to vote of security holders	Omit
(24)	Consent of experts	Omit
(25)	Power of Attorney	Omit
(26)	*	
(27)	*	
(28)	Additional Exhibits	Omit
(29)	Information from reports furnished to state insurance regulatory authorities	Omit
(31.1)	Certification of Chief Executive Officer pursuant to Section 302.	
(31.2)	Certification of Chief Financial Officer pursuant to Section 302.	
(32.1)	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	
(32.2)	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	

\* This exhibit is not required to be filed in accordance with Item 601 of Regulation S-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the City of Midland, and the State of Texas, on the 28th day of November, 2003.

DAWSON GEOPHYSICAL COMPANY

By: /s/ L. Decker Dawson

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the date indicated.

Signature	Title	Date
----- /s/ L. Decker Dawson ----- L. Decker Dawson	Chairman of the Board of Directors and Chief Executive Officer	11-28-03
----- /s/ Stephen C. Jumper ----- Stephen C. Jumper	President, Chief Operating Officer and Director	11-28-03
----- /s/ Howell W. Pardue ----- Howell W. Pardue	Executive Vice President and Director	11-28-03
----- /s/ C. Ray Tobias ----- C. Ray Tobias	Executive Vice President and Director	11-28-03
----- /s/ Paul H. Brown ----- Paul H. Brown	Director	11-28-03
----- /s/ Calvin J. Clements ----- Calvin J. Clements	Director	11-28-03
----- /s/ Matthew P. Murphy ----- Matthew P. Murphy	Director	11-28-03
----- /s/ Tim C. Thompson ----- Tim C. Thompson	Director	11-28-03
----- /s/ Christina W. Hagan ----- Christina W. Hagan	Senior Vice President, Secretary and Chief Financial Officer	11-28-03

INDEX TO FINANCIAL STATEMENTS

Financial Statements of Dawson Geophysical Company	Page
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Independent Auditors' Report	F-2
Balance Sheets as of September 30, 2003 and 2002	F-3
Statements of Operations for the years ended September 30, 2003, 2002 and 2001	F-4
Statements of Changes in Stockholders' Equity for the years ended September 30, 2003, 2002 and 2001	F-5
Statements of Cash Flows for the years ended September 30, 2003, 2002 and 2001	F-6
Notes to Financial Statements	F-7

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All schedules are omitted, as the required information is inapplicable or the information is presented in the financial statements or related notes.

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INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Dawson Geophysical Company:

We have audited the accompanying balance sheets of Dawson Geophysical Company as of September 30, 2003 and 2002, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2003. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion.

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We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dawson Geophysical Company as of September 30, 2003 and 2002, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2003, in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

Midland, Texas  
November 3, 2003

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DAWSON GEOPHYSICAL COMPANY  
BALANCE SHEETS

	September 30,	
	2003	2002
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 3,389,000	\$ 1,300,000

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Short-term investments	8,623,000	15,71
Accounts receivable, net of allowance for doubtful accounts of \$127,000 in 2003 and \$71,000 in 2002	9,713,000	7,61
Income taxes receivable -	400,000	
Prepaid expenses	287,000	22
	-----	-----
Total current assets	22,012,000	25,25
	-----	-----
PROPERTY, PLANT AND EQUIPMENT	81,585,000	75,64
Less accumulated depreciation	(60,805,000)	(56,61)
	-----	-----
Net property, plant and equipment	20,780,000	19,03
	-----	-----
	\$ 42,792,000	\$ 44,29
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 1,237,000	\$ 2,06
Accrued liabilities:		
Payroll costs and other taxes	478,000	34
Other	415,000	29
	-----	-----
Total current liabilities	2,130,000	2,70
	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred stock - par value \$1.00 per share; 5,000,000 shares authorized, none outstanding	--	
Common stock - par value \$.33 1/3 per share; 10,000,000 shares authorized, 5,487,794 and 5,467,294 shares issued and outstanding in 2003 and 2002, respectively	1,829,000	1,82
Additional paid-in capital	38,931,000	38,86
Other comprehensive income, net of tax	37,000	13
Retained earnings (deficit)	(135,000)	76
	-----	-----
Total stockholders' equity	40,662,000	41,58
	-----	-----
	\$ 42,792,000	\$ 44,29
	=====	=====

See accompanying notes to the financial statements.

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DAWSON GEOPHYSICAL COMPANY  
STATEMENTS OF OPERATIONS

Years Ended September

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	2003 -----	2002 -----
Operating revenues	\$ 51,592,000	\$ 36,078,000
Operating costs:		
Operating expenses	46,151,000	33,205,000
General and administrative	2,421,000	2,006,000
Depreciation	4,404,000	4,233,000
	-----	-----
	52,976,000	39,444,000
	-----	-----
Loss from operations	(1,384,000)	(3,366,000)
Other income:		
Interest income	328,000	507,000
Other	209,000	96,000
	-----	-----
Loss before income tax	(847,000)	(2,763,000)
Income tax benefit (expense):		
Current	--	400,000
Deferred	(52,000)	71,000
	-----	-----
	(52,000)	471,000
	-----	-----
Net loss	\$ (899,000)	\$ (2,292,000)
	=====	=====
Net loss per common share	\$ (.16)	\$ (.42)
	=====	=====
Net loss per common share—assuming dilution	\$ (.16)	\$ (.42)
	=====	=====
Weighted average equivalent common shares outstanding	5,484,593	5,462,936
	=====	=====
Weighted average equivalent common shares outstanding—assuming dilution	5,484,593	5,462,936
	=====	=====

See accompanying notes to the financial statements.

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DAWSON GEOPHYSICAL COMPANY  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME
NUMBER OF SHARES	AMOUNT		
-----	-----	-----	-----

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BALANCE,				
SEPTEMBER 30, 2000	5,428,794	\$ 1,810,000	\$ 38,624,000	
Net loss				
Issuance of common				
stock as compensation	17,000	5,000	87,000	
	-----	-----	-----	
BALANCE,				
SEPTEMBER 30, 2001	5,445,794	1,815,000	38,711,000	
Net loss				(2,292,000)
Other comprehensive income net of tax:				
Unrealized gain on securities:				
Unrealized holding gains				208,000
arising during period				(71,000)
Income tax benefit				
				-----
Other comprehensive income				137,000
Comprehensive income				
Issuance of common				
stock as compensation	21,500	7,000	152,000	
	-----	-----	-----	
BALANCE,				
SEPTEMBER 30, 2002	5,467,294	1,822,000	38,863,000	
Net loss				(899,000)
Other comprehensive income net of tax:				
Unrealized loss on securities:				
Unrealized holding losses				
arising during period				(145,000)
Less: Reclassification				
adjustment for gain included				(7,000)
in net income				-----
				(152,000)
Income tax expense				52,000
Other comprehensive income				-----
Comprehensive income				(100,000)
Issuance of common				
stock as compensation	20,500	7,000	68,000	
	-----	-----	-----	
BALANCE,				
SEPTEMBER 30, 2003	5,487,794	\$ 1,829,000	\$ 38,931,000	\$ 37,000
	=====	=====	=====	=====

See accompanying notes to the financial statements.

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DAWSON GEOPHYSICAL COMPANY  
STATEMENTS OF CASH FLOWS



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	Years Ended September	
	2003	2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (899,000)	\$ (2,292,000)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation	4,404,000	4,233,000
Non-cash compensation	75,000	159,000
Deferred income tax expense (benefit)	52,000	(71,000)
Other	(46,000)	58,000
Change in current assets and liabilities:		
Decrease (increase) in accounts receivable	(2,100,000)	1,082,000
Decrease (increase) in prepaid expenses	(67,000)	(47,000)
Decrease (increase) in income taxes receivable	400,000	(400,000)
Increase (decrease) in accounts payable	(829,000)	885,000
Increase in accrued liabilities	254,000	21,000
Net cash provided by operating activities	1,244,000	3,628,000
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from disposal of assets	27,000	10,000
Capital expenditures	(6,153,000)	(2,047,000)
Proceeds from sale of short-term investments	5,964,000	--
Proceeds from maturity of short-term investments	4,000,000	10,598,000
Acquisition of short-term investments	(3,002,000)	(15,218,000)
Net cash provided by (used in) investing activities	836,000	(675,000)
Net increase (decrease) in cash and cash equivalents	2,080,000	(3,029,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,309,000	4,338,000
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 3,389,000	\$ 1,309,000
<b>NON CASH INVESTING ACTIVITIES:</b>		
UNREALIZED GAIN (LOSS) ON INVESTMENTS	\$ (145,000)	\$ 208,000

See accompanying notes to the financial statements.

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DAWSON GEOPHYSICAL COMPANY  
NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF OPERATIONS

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Dawson Geophysical Company (the "Company"), which was incorporated in Texas in 1952, has been listed and traded on the NASDAQ National Market System ("NMS") under the symbol "DWSN" since 1981.

The Company acquires and processes 3-D seismic data for major and intermediate-sized oil and gas companies and independent oil operators who retain exclusive rights to the information obtained. The Company's land-based acquisition crews operate throughout the lower 48 states, and data processing is performed by geophysicists in Midland and Houston, Texas.

### CASH EQUIVALENTS

For purposes of the statements of cash flows, the Company considers demand deposits, certificates of deposit and all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents.

### SHORT-TERM INVESTMENTS

The Company accounts for its short-term investments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" (Statement 115). In accordance with Statement 115, the Company has classified its investment portfolio consisting of U.S. Treasury Securities as "available-for-sale" and records the net unrealized holding gains and losses as accumulated comprehensive income in stockholders' equity. The cost of short-term investments sold is based on the specific identification method.

### FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts for cash and cash equivalents, accounts receivable, other current assets, accounts payable and other current liabilities approximate their fair values based on their short-term nature. The fair value of investments are based on quoted market prices.

### CONCENTRATIONS OF CREDIT RISK

Financial instruments which potentially expose the Company to concentrations of credit risk, as defined by Statement of Financial Accounting Standards No. 105, consist primarily of trade accounts receivable and short-term investments. The Company's sales are to clients whose activities relate to oil and gas exploration and production. However, accounts receivable are well diversified among many clients, and a significant portion of the receivables are from major oil companies, which management believes minimizes potential credit risk. The Company generally extends unsecured credit to these clients; therefore, collection of receivables may be affected by the economy surrounding the oil and gas industry. The Company closely monitors extensions of credit and initiated an allowance for doubtful accounts in fiscal 1999 as a result of the downturn in oil prices which occurred during the year and negatively impacted the Company's clients. The Company invests primarily in short-term U.S. Treasury Securities which are a low risk investment.

### 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

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are removed from the accounts, 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 a deterioration in the asset's recoverability or fair value. Recognition of an impairment is required if future expected net cash flows are insufficient to recover the carrying value of the amounts. Management's forecast of future cash flow used to perform impairment analysis includes estimates of future revenues and future gross margins. If the Company is unable to achieve these cash flows, management's estimates would be revised, potentially resulting in an impairment charge in the period of revision. No provision was recorded in the Statement of Operations for the years ended September 30, 2003, 2002 and 2001.

### REVENUE RECOGNITION

Contracts for service are provided for under cancelable contracts. The Company recognizes revenues when services are performed. In the case of a cancelled contract, revenue is recognized and the customer is billed for services performed up to the date of cancellation. The Company also receives reimbursements for certain out-of-pocket expenses under the terms of its master contracts. Amounts billed to clients are recorded in revenue at the gross amount including out-of-pocket expenses which will be reimbursed by the client.

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### ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

### INCOME TAXES

The Company accounts for state and federal income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" (Statement 109). Under the asset and liability method of Statement 109, deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

### USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

Preparation of the accompanying financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

### STOCK-BASED COMPENSATION

In accordance with the Accounting Principles Board Opinion No. 25,

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"Accounting for Stock Issued to Employees" ("APB 25"), no compensation is recorded for stock options or other stock-based awards that are granted to employees or non-employee directors with an exercise price equal to or above the common stock price on the grant date.

The Company accounts for stock-based compensation utilizing the intrinsic value method prescribed by "APB 25" and related interpretations. The following pro forma information, as required by Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by Statement of Financial Accounting Standards No. 148 ("SFAS 148"), presents net income and earnings per share information as if the stock options or other stock-based awards issued since September 30, 1997 were accounted for using the fair value method. The fair value of stock options issued for each year was estimated at the date of grant using the Black-Scholes option pricing model.

The SFAS 123 pro forma information for the fiscal years ended September 30, 2003, 2002 and 2001 is as follows:

	2003	Sept 2002
	-----	-----
Net loss, as reported	\$ (899,000)	\$ (2,000,000)
Add: Stock-based employee compensation expense included in net loss, net of tax	75,000	
Deduct: Stock-based employee compensation expense determined under fair value based method (SFAS 123), net of tax	(434,000)	
Net loss, pro forma	\$ (1,258,000)	\$ (2,000,000)
	-----	-----
Basic:		
Net loss per common share, as reported	\$ (0.16)	\$ (0.20)
Net loss per common share, pro forma	\$ (0.23)	\$ (0.20)
	=====	=====
Diluted:		
Net loss per common share, as reported	\$ (0.16)	\$ (0.20)
Net loss per common share, pro forma	\$ (0.23)	\$ (0.20)
	=====	=====

### 2. SHORT-TERM INVESTMENTS

Investment in securities consists primarily of U.S. Treasury Securities. At September 30, 2003, the Company reported an unrealized loss on short-term investments of \$145,000, which was \$93,000 net of the tax effect of \$52,000. The \$93,000 net unrealized loss is included in "Other comprehensive income, net of tax" of \$37,000.

Short-term investments held at September 30, 2003 consisting of U.S. Treasury Securities have contractual maturities from December, 2003 through September, 2004.

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### 3. PROPERTY, PLANT AND EQUIPMENT

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Property, plant and equipment, together with annual depreciation rates, consist of the following:

	September 30,		Rat
	2003	2002	
Land, building and improvements	\$ 1,334,000	\$ 1,303,000	3 to 12.5
Machinery and equipment	79,213,000	73,583,000	7 to 20
Equipment in process (a)	1,038,000	763,000	--
	<u>\$ 81,585,000</u>	<u>\$ 75,649,000</u>	

(a) Equipment in process has not been placed into service and accordingly has not been subject to

Effective October 1, 2001, the Company revised the estimated lives of certain assets based on the technology of certain seismic data recording equipment consisting of the central electronic components and of energy source units. Management believes that the central electronics components contained in the field recording units of the Company's six crews remain state of the art. The Company believes that advancements in the foreseeable future will consist of upgrades that may require replacements of modules of the central electronics. The Company does not believe that the current systems will become obsolete at the end of the original estimate and has revised the estimated life of these assets.

The Company believes that the current fleet of energy source units will provide service beyond the life originally estimated due to actual performance of units in the past and to the redesign of the unit. Accordingly, the estimated life of this class of asset has been revised.

The change of estimate was made as of October 1, 2001. The effect on depreciation and the net loss for the fiscal years ended September 30, 2003 and 2002 is:

	Year Ended September 30,			
	2003		2002	
	As Reported	Pro Forma	As Reported	Pro F
Depreciation	<u>\$ 4,404,000</u>	<u>\$ 6,672,000</u>	<u>\$ 4,233,000</u>	<u>\$ 7,51</u>
Net loss	<u>\$ (889,000)</u>	<u>\$ (3,157,000)</u>	<u>\$ (2,292,000)</u>	<u>\$ (5,57</u>
Net loss per share	<u>\$ (.16)</u>	<u>\$ (.58)</u>	<u>\$ (.42)</u>	<u>\$</u>

4. STOCK OPTIONS

The Company adopted the 2000 Incentive Stock Plan during fiscal 1999, which provides options to purchase 500,000 shares of authorized but unissued common

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stock of the Company. The option price is the market value of the Company's common stock at date of grant. Options are exercisable 25% annually from the date of the grant and the options expire five years from date of grant. The 2000 Plan provides that 50,000 of the 500,000 shares of authorized but unissued common stock may be awarded to officers, directors and employees of the Company for the purpose of additional compensation.

The transactions under the Plans are summarized as follows:

	Weighted Average Price	Number of Optioned Shares
	-----	-----
Balance as of September 30, 2001	\$ 8.86	251,000
Granted	\$ 7.41	98,000
Cancelled or expired	\$ 21.19	(30,000)
	-----	-----
Balance as of September 30, 2002	\$ 7.25	319,000
Granted	\$ 5.21	105,000
Cancelled or expired	\$ 7.02	(17,000)
	-----	-----
Balance as of September 30, 2003	\$ 6.72	407,000
	=====	=====

Options for 204,750, 130,750 and 103,000 shares were exercisable with weighted average exercise prices of \$6.94, \$6.79 and \$10.78 as of September 30, 2003, 2002 and 2001, respectively.

Outstanding options at September 30, 2003 expire between February, 2004 and November, 2007 and have exercise prices ranging from \$5.21 to \$8.65.

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Options for 105,000 shares were granted in fiscal year 2003. The expected life of the options granted is five years. The weighted average fair value of options granted during 2003 is \$3.48. The fair value of each option grant is estimated on the date of grant, using the Black-Scholes options-pricing model.

The model assumed expected volatility of .5% and risk-free interest rate of 3.14% for grants in 2003. As the Company has not declared dividends since it became a public entity, no dividend yield was used. Actual value realized, if any, is dependent on the future performance of the Company's common stock and overall stock market conditions. There is no assurance the value realized by an optionee will be at or near the value estimated by the Black-Scholes model.

### 5. EMPLOYEE BENEFIT PLANS

The Company had an employee stock purchase plan to invest in the Company's common stock for the benefit of eligible employees. Participants were entitled to contribute a percentage, not to exceed 5%, of their bi-weekly salary to the plan. On a bi-weekly basis, the Company matched the participants' contributions and directed the purchase of shares of the Company's common stock. There were no vesting requirements for the participants. The Company contributed \$56,116 and \$223,360 to the plan during 2002 and 2001, respectively. The Company discontinued the Plan effective January 1, 2002.

Effective January 1, 2002, the Company initiated a 401(k) plan as part of its employee benefits package in order to retain quality personnel. During 2003 and 2002, the Company elected to match 100% of employee contributions up to a maximum of 5% of the participant's gross salary. The Company's matching

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contributions for fiscal 2003 and 2002 were approximately \$373,000 and \$259,000, respectively.

### 6. INCOME TAXES

The Company recorded an income tax expense in the current year of approximately \$52,000. The expense is due to an increase in the income tax valuation allowance and is related to the tax effect of the unrealized loss on investments recorded in other comprehensive income.

Income tax expense (benefit) attributable to income before extraordinary item consists of:

	Year Ended September 30,		
	2003	2002	2001
Current: U.S. Federal	\$ --	\$ (400,000)	\$ --
Deferred: U. S. Federal	52,000	(71,000)	--
<b>Total</b>	<b>\$ 52,000</b>	<b>\$ (471,000)</b>	<b>\$ --</b>

Income tax expense varies from the amount computed by multiplying income before taxes by the statutory income tax rate. The reason for these differences and the related tax effects are as follows:

	Year Ended September 30,		
	2003	2002	2001
Expense computed at statutory rates	\$ (287,000)	\$ (939,000)	\$ (1,690,000)
Effect of:			
Change in valuation allowance	297,000	428,000	1,659,000
Other	42,000	40,000	31,000
<b>Income tax expense (benefit)</b>	<b>\$ 52,000</b>	<b>\$ (471,000)</b>	<b>\$ --</b>

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	September 30,	
	2003	2002
<b>Deferred tax assets:</b>		
Net operating loss carryforwards	\$ 6,687,000	\$ 5,997,000
Alternative minimum tax credit carryforwards	413,000	413,000
Receivables	45,000	24,000
Other	116,000	109,000
<b>Total deferred tax assets</b>	<b>7,261,000</b>	<b>6,543,000</b>
Less valuation allowance	(4,232,000)	(3,935,000)
<b>Total gross deferred tax assets</b>	<b>3,029,000</b>	<b>2,608,000</b>

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Deferred tax liabilities:		
Other property and equipment	(2,938,000)	(2,533,000)
Investments	(21,000)	(71,000)
Other	(70,000)	(4,000)
	-----	-----
Total gross deferred tax liabilities	(3,029,000)	(2,608,000)
	-----	-----
Net deferred tax asset (liability)	\$ --	\$ --
	=====	=====

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized. Based on expectations for the future, management has determined that taxable income of the Company will likely not be sufficient to fully utilize available carryforwards prior to their ultimate expiration. As such, the Company has recorded a valuation allowance of \$4,232,000 to reflect the realizability of its net deferred tax assets. The amount of the valuation allowance could be reduced if estimates of future taxable income during the carryforward period are increased.

As of September 30, 2003, the Company had a net operating loss carryforward for U.S. federal income tax purposes of approximately \$19,090,000, which is available to offset future regular taxable income, if any. Net operating loss carryforward will begin to expire in 2022. The Company has alternative minimum tax credit carryforwards totaling \$413,000 to offset regular income tax, which have no scheduled expiration date.

7. NET LOSS PER COMMON SHARE

The Company accounts for earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("Statement 128"). Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities

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

	2003	
	-----	-----
Numerator:		
Net loss and numerator for basic and diluted net loss per common share-income available to common stockholders	\$ (899,000)	\$ (2,608,000)
	=====	=====
Denominator:		
Denominator for basic net loss per common share-weighted average common shares	5,484,593	5,484,593
Effect of dilutive securities-employee stock options	--	--
	-----	-----
Denominator for diluted net loss per common share-adjusted weighted average common shares and assumed conversions	5,484,593	5,484,593
	=====	=====
Net loss per common share	\$ (.16)	\$ (.16)
	=====	=====
Net loss per common share-assuming dilution	\$ (.16)	\$ (.16)
	=====	=====



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Employee stock options to purchase shares of common stock were outstanding during fiscal year 2003 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.

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### 8. MAJOR CUSTOMERS

The Company operates in only one business segment, contract seismic data acquisition and processing services. During 2003 and 2002, sales to only one client, which was not the same client in each year, exceeded 10% of operating revenue. During 2001, sales to no client exceeded 10% of operating revenue.

### 9. CONTINGENCIES

The Company is party to various 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.

On February 18, 1998 the Company entered into a five year, non-cancellable operating lease for office space. On June 30, 2003, the lease was amended to extend the term of the lease for five years beginning July 1, 2003 and ending June 30, 2008. Future minimum lease commitments under the lease at September 30 of each year are \$142,716 through 2007, and \$107,037 in fiscal year 2008.

### 10. RIGHTS AGREEMENT

On July 13, 1999, the Board of Directors of the Company authorized and declared a dividend to the holders of record on July 23, 1999 of one Right (a "Right") for each outstanding share of the Company's common stock. When exercisable, each Right will entitle the holder to purchase one one-hundredth of a share of a Series A Junior Participating Preferred Stock, par value \$1.00 per share, of the Company (the "Preferred Shares") at an exercise price of \$50.00 per Right. The rights are not currently exercisable and will become exercisable only if a person or group acquires beneficial ownership of 20% or more of the Company's outstanding common stock or announces a tender offer or exchange offer, the consummating of which would result in attaining the triggering percentage. The Rights are subject to redemption by the Company for \$.01 per Right at any time prior to the tenth day after the first public announcement of a triggering acquisition.

If the Company is acquired in a merger or other business combination transaction after a person has acquired beneficial ownership of 20% or more of the Company's common stock, each Right will entitle its holder to purchase, at the Right's then current exercise price, a number of the acquired Company's shares of common stock having a market value of two times such price. In addition, if a person or group acquires beneficial ownership of 20% or more of the Company's common stock, each Right will entitle its holder (other than the acquiring person or group) to purchase, at the Right's then current exercise price, a number of the Company's shares of common stock having a market value of two times the exercise price.

Subsequent to the acquisition by a person or group of beneficial ownership of 20% or more of the Company's common stock and prior to the acquisition of beneficial ownership of 50% or more of the Company's common stock, the Board of

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Directors of the Company may exchange the Rights (other than Rights owned by such acquiring person or group, which will have become null and void and nontransferable), in whole or in part, at an exchange ratio of one share of the Company's common stock (or one one-hundredth of a Preferred Share) per Right.

The Rights dividend distribution was made on July 23, 1999, payable to shareholders of record at the close of business on that date. The Rights will expire on July 23, 2009.

### 11. RECENTLY ANNOUNCED ACCOUNTING PRONOUNCEMENTS

In July 2002, the FASB issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". The standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Statement 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. There has been no impact on the Company's financial statements.

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

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

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

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FIN No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others". FIN No. 45 requires that a liability be recorded in the guarantor's balance sheet upon issuance of certain guarantees. Initial recognition and measurement of the liability will be applied on a prospective basis to guarantees issued or modified after December 31, 2002. FIN No. 45 also requires disclosures about guarantees in financial statements for interim or annual periods ending after December 15, 2002. The adoption of FIN No. 45 has had no impact on the Company's financial statements.

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

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In May 2003, the FASB issued Statement No. 150 "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." This statement establishes standards for how an issuer classified and measures certain financial instruments with characteristics of both liabilities and equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of FAS 150 has had no impact on the Company's financial statements.

### 12. Quarterly Financial Data (Unaudited)

	Quarter Ended		
	December 31	March 31	June 30
Fiscal 2003:			
Operating revenues	\$ 11,410,000	\$ 14,196,000	\$ 11,291,000
Income (loss) from operations	\$ (1,007,000)	\$ 579,000	\$ (1,483,000)
Net income (loss)	\$ (893,000)	\$ 844,000	\$ (1,407,000)
Net income (loss) per common share	\$ (.16)	\$ .15	\$ (.26)
Net income (loss) per common share assuming dilution	\$ (.16)	\$ .15	\$ (.26)
Fiscal 2002:			
Operating revenues	\$ 8,220,000	\$ 8,962,000	\$ 9,096,000
Loss from operations	\$ (1,403,000)	\$ (257,000)	\$ (550,000)
Net loss	\$ (1,173,000)	\$ (134,000)	\$ (428,000)
Net loss per common share	\$ (.22)	\$ (.02)	\$ (.08)
Net loss per common share assuming dilution	\$ (.22)	\$ (.02)	\$ (.08)

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