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DAWSON GEOPHYSICAL CO  
Form 10-K  
December 16, 2002

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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, 2002                      COMMISSION FILE NO. 0-10144

DAWSON GEOPHYSICAL COMPANY  
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INCORPORATED IN THE STATE OF TEXAS

75-0970548  
(I.R.S. EMPLOYER  
IDENTIFICATION NO.)

508 WEST WALL, SUITE 800, MIDLAND, TEXAS 79701  
TELEPHONE NUMBER: 915-684-3000

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:  
NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:  
COMMON STOCK, \$.331/3 PAR VALUE

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 29, 2002 (as reported by NASDAQ), held by non-affiliates was approximately \$25,068,045 (See Item 12). On that date, there were 5,467,294 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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LETTER TO SHAREHOLDERS

Dear Shareholder:

Your Company generated revenues of \$36,078,000 in its fiscal year ending September 30, 2002, compared to \$37,878,000 in fiscal 2001 and \$18,469,000 in fiscal 2000. Net losses for fiscal years 2002, 2001 and 2000 were \$2,292,000, \$4,978,000 and \$11,135,000 respectively.

Revenues in the fourth quarter ending September 30, 2002 and 2001 were \$9,800,000 and \$9,407,000, respectively. These results have occurred against a continuing background of fierce price competition due to low geophysical industry utilization rates. However, current attractive prices for crude oil and natural gas have stimulated increased demand for the Company's exploration services. The Company's order book, as a result, has grown to the extent that all of the Company's assets have been operating since mid-November.

Demand for the Company's high resolution 3-D seismic surveys requires an everincreasing number of data channels. In response, Directors in their September meeting approved fiscal 2003 capital expenditures of \$3,750,000 for additional data channels, vibrator energy source units and other support equipment. During fiscal years 2000, 2001 and 2002, capital expenditures totaled \$6,658,000, a continuing expression of the Company's confidence in the future needs for its services.

May 15, 2002 marked the 50th anniversary of the Company's founding. During the year, we increased advertising expenditures to publicize this event throughout the petroleum industry and particularly in the geophysical industry. Our theme, "Celebrating 50 Years of Geophysical Excellence", highlighted your Company's historical record of delivering the highest quality product employing ever-advancing technology. In 1952, we created a geophysical company and a business philosophy that today endure under its original name. In 2002, Dawson Geophysical Company continues to lead the way in geophysical technology and 3-D innovation. From the beginning to today, we have focused our energies upon assisting our valued clients in discovering new reserves of oil and natural gas by continuing to upgrade our capabilities, never straying from the leading edge of seismic exploration.

Your support of our energies has brought our market share to the position of undisputed leader in the domestic seismic arena with operations throughout Texas, the Rocky Mountains, the Appalachian Region, and the southeastern and midcontinent areas of the United States. Helping to make this possible is the recent withdrawal from the domestic market of WesternGeco, jointly owned by Schlumberger and Baker Hughes. While the geophysical landscape continues to change, our plan for the road ahead is to make no change in the plan of the past 50 years: "Deliver Geophysical Excellence!"

This report arrives during the holiday season which creates an opportunity to wish you and yours a Merry Christmas and a Happy New Year.

Sincerely,

/s/ L. Decker Dawson  
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L. Decker Dawson  
Chairman of the Board  
November 29, 2002

/s/ Stephen C. Jumper  
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Stephen C. Jumper  
President

DAWSON GEOPHYSICAL COMPANY

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### GENERAL

Founded in 1952, Dawson Geophysical Company acquires and processes 2-D, 3-D, 4-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 and Denver. 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 2002, 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 primarily in the western United States. In 1997, the Company expanded its capabilities to accommodate more difficult and remote terrains such as east Texas and the Rocky Mountains with the addition of two crews equipped with the versatile I/O System Two RSR radio-based recording systems.

Data processing is performed by Company geophysicists at the Company's computer center located in Midland, Texas. 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.

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 industry as a whole is investigating even more sophisticated technologies. Researchers at the Colorado School of Mines, underwritten in part by the Company, have explored the use of three-component ("3-C") surveys

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utilizing shear wave information in the effort to identify and exploit recoverable oil and gas reserves. The Company's equipment currently includes vibrators and geophones capable of generating and recording shear waves.

**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.

The Company owns equipment for six 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

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22,720 recording channels, any of which is 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 3,785 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 to process seismic data. 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.

The processing center operates 24 hours daily utilizing high-speed computers. The Company continues to improve data processing efficiency by further integrating workstation-based computer technology into the mainframe operation at the computer center and remote sites such as the client's office. 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

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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 2000 through 2002, the Company made capital expenditures of \$6,658,000 and has an approved budget of \$ 3,750,000 for fiscal year 2003.

### 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. Substantially all 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.

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### 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.

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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 375 persons, of which 317 are engaged in providing energy sources and acquiring data, 12 are engaged in data processing, 7 are administrative personnel, 30 are engaged in equipment maintenance and 9 are executive officers. Of the employees listed above, 16 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 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

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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 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



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greater than those of the Company as well as companies of comparable and smaller size. Subsequent to the Company's fiscal year end, WesternGeco, jointly owned by Schlumberger and Baker Hughes, announced withdrawal from the domestic market.

### 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.

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### 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. The Company intends to retain earnings for use in its operations and to finance its business.

### 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 "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

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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 Denver and Houston. 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 2002 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 29, 2002, 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 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 28, 2003.

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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, 2000	\$10.313	\$7.500

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March 31, 2001	\$10.625	\$8.375
June 30, 2001	\$11.660	\$8.550
September 30, 2001	\$10.530	\$6.800
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

As of November 29, 2002, the Company had 261 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)	2002	2001	2000
Operating revenues	\$36,078	\$37,878	\$ 18,469
Net income (loss)	\$ (2,292)	\$ (4,978)	\$ (11,135)
Net income (loss) per common share	\$ (.42)	\$ (.91)	\$ (2.05)
Weighted average equivalent common shares outstanding	5,463	5,443	5,425
Total assets	\$44,291	\$45,381	\$ 49,781
Long term debt-less current maturities	\$ --	\$ --	\$ --
Stockholders' equity	\$41,586	\$43,582	\$ 48,468

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

The following discussion should be read in conjunction with the Company's financial statements. In addition, in reviewing the Company's financial statements it should be noted that the Company's revenues directly relate to oil and gas exploration and production activity and fluctuations in the Company's results of operations may occur due to 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

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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.

### OVERVIEW

The Company has experienced improved pricing over the last eighteen to twenty-four months even though excess capacity and price competition exist in the land-based seismic industry. The Company's revenues were negatively impacted due to unfavorable weather and difficulty in obtaining permits for rights-of-way during fiscal 2002. Production increases obtainable with favorable weather and timely permits for rights-of-way will significantly improve the Company's operating results. Demand for the Company's services is related to crude oil and natural gas prices.

As discussed below in Results of Operations and in Note 3 of the "Notes to Financial Statements," depreciation expense was reduced for the fiscal year ended September 30, 2002 as compared to fiscal 2001 due to a change in the estimate of the 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. 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 believes that the current fleet of energy source units will provide service beyond the life originally estimated due to actual performance in the past and to the redesign of the unit.

### 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. 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 has not made 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 fiscal 2001. As discussed in Note 3 of the "Notes to Financial Statements", the Company revised the estimated lives of two classes of seismic equipment. 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

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due to industry conditions.

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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 discussed in the "Overview" 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 will file for a refund of alternative minimum tax paid in prior years of approximately \$400,000 and is recorded in receivables at September 30, 2002. The remaining benefit is 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.

### FISCAL YEAR ENDED SEPTEMBER 30, 2001 VERSUS FISCAL YEAR ENDED SEPTEMBER 30, 2000

The Company's operating revenues increased 105% from \$18,469,000 to \$37,878,000 in fiscal year 2001. The Company began fiscal 2001 with five crews operating. During fiscal 2001, the Company experienced relatively level demand for its services as five data acquisition crews remained in operation. Revenues were also positively impacted in fiscal 2001 by moderate improvement in the pricing of its services. Inclement weather and permit delays had a negative impact on the fourth quarter revenues of fiscal 2001.

Operating expenses in fiscal 2001 increased 52.2% as compared to fiscal 2000 as a result of increased demand for the Company's services. In January 2001, the Company restored salary reductions made in January 1999.

General and administrative expenses for fiscal 2001 totaled \$1,819,000, a decrease of \$307,000 from fiscal 2000. The decrease primarily consists of a decrease in the provision for doubtful accounts from the prior year. The Company had not made a provision for bad debts in fiscal 2001 as relatively favorable prices for crude oil and natural gas had correlated to collectibility of accounts receivable.

Depreciation for fiscal 2001 totaled \$8,802,000, a decrease of \$615,000 from fiscal 2000. Depreciation decreased as a result of a suspension of capital expansion beginning in fiscal 1999 due to industry conditions.

Total operating costs for fiscal 2001 totaled \$43,654,000, an increase of 31.3% from fiscal 2000 due to the factors described above. The 105% increase in revenues as compared to the 31.3% increase of total operating costs for fiscal 2001 reflects the high proportion of relatively fixed total operating costs (including personnel costs of active crews and depreciation costs) inherent in the Company's business and continued price competition in the bidding process for geophysical services.

No income tax expense was recorded for fiscal 2001 due to a pretax loss. The Company had no income tax benefit remaining due to the establishment of a valuation allowance offset by an increase in pretax loss.

### LIQUIDITY AND CAPITAL RESOURCES

CASH FLOWS. Net cash provided by operating activities of \$3,628,000 for fiscal 2002 primarily reflects the net loss offset by depreciation and of changes in working capital components. The decrease in depreciation expense is

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discussed above and in Note 3 of the "Notes to Financial Statements". Net cash used in investing activities reflects capital expenditures and the acquisition of short-term investments during the fiscal year.

**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 2002 consisted primarily of data acquisition channels that became available late in the year as a result of the idle capacity that exists in our industry. The Company maintains equipment in and out of service in anticipation of increased demand of the Company's services. In addition the Company continues to monitor the development of the three component seismic approach. The Company feels 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, cash flow from operations, and relationships with financial entities are adequate to meet its current operational needs and finance capital needs as determined by market demand and technological developments.

### CRITICAL ACCOUNTING POLICIES

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

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

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

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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 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. As described in Note 3 of the "Notes to Financial Statements", the Company has revised the estimated lives of two classes of seismic equipment. The effect of the change is a reduction of depreciation expense and net loss of approximately \$699,000 for the three months and \$3,283,000 for the twelve months ended September 30, 2002.

### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS.

The FASB has issued Statement No. 143 "Accounting for Asset Retirement

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Obligations" which establishes requirements for the accounting of removal-type costs associated with asset retirements. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. As of September 30, 2002 the Company expects no impact to the financial statements, upon adoption, as there have been no obligations incurred that are associated with asset retirements.

On October 3, 2001, the FASB issued Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This pronouncement supersedes FAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed" and eliminates the requirement of Statement 121 to allocate goodwill to long-lived assets to be tested for impairment. Statement 144 also describes a probability-weighted cash flow estimation approach to deal with situations in which alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or a range is estimated for the amount of possible future cash flows. The statement also establishes a "primary-asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption encouraged. The Company will adopt this statement in fiscal year ending September 30, 2003 and does not expect a significant impact to its financial statements.

In April 2002, the FASB issued Statement No. 145, "Recission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No.13, and Technical Corrections". Most significantly, this Statement eliminates the requirement under Statement 4 to aggregate all gains and losses from extinguishment of debt, and if material, be classified as an extraordinary item. As a result, gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in Opinion 30. Applying the provisions of Opinion 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. There is no current impact to the Company as there is no debt.

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. The Company expects no impact to its financial statements as the Company does not anticipate exiting or disposing of any of its activities.

### ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES 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, 2002, the Company had no indebtedness. The Company's short-term investments are fixed rate and the Company does not necessarily intend to hold them to maturity; therefore, the shortterm investments expose the Company to the risk of earnings or cash flow loss due to changes in market interest rates. As of September 30, 2002, the carrying value of the investments approximates fair value. The Company has not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other derivative financial instruments. The Company does not currently conduct business internationally, so it is generally not subject to foreign currency exchange rate risk.

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## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this item appears on pages F-1 through F-14 hereof and are incorporated herein by reference.

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

None

## 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 29, 2002 (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.

## 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.

## ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

## ITEM 14. CONTROLS AND PROCEDURES

Upon evaluation of the effectiveness of the Registrant's disclosure



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controls and procedures, the Registrant's Chief Executive Officer and Chief Financial Officer have concluded that controls and other procedures that are designed to ensure that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified are functioning effectively. There have been no significant changes or corrective actions in the Registrant's internal controls or in other factors that could significantly affect these controls.

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### 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.

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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	** ***
(5)	*	
(6)	*	
(7)	*	
(8)	*	
(9)	Voting Trust Agreement	Omit
(10)	Material Contracts	**
(11)	Statement re: computation of per share earnings	Omit
(12)	Statement re: computation of ratios	Omit
(13)	2002 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 a vote of security holders	Omit
(24)	Consent of experts	
(25)	Power of Attorney	Omit
(26)	*	
(27)	*	
(28)	Additional Exhibits	Omit
(29)	Information from reports furnished to state insurance regulatory authorities	Omit

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

\*\* Incorporated by reference to Registrant's Form 10-Q, dated June 30, 1997 (Commission File No. 0-10144) and Registrant's Form S-1, dated October 21, 1997 (Registrant No. 333-38393).

\*\*\* Incorporation by reference to Registrant's Form 8-K, dated July 13, 1999 (Commission File No. 2-71058).

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 29th day of November, 2002.

DAWSON GEOPHYSICAL COMPANY

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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, Chief Executive Officer	11-29-02
----- /s/ Stephen C. Jumper ----- Stephen C. Jumper	President, Chief Operating Officer and Director	11-29-02
----- /s/ Howell W. Pardue ----- Howell W. Pardue	Executive Vice President and Director	11-29-02
----- /s/ C. Ray Tobias ----- C. Ray Tobias	Executive Vice President and Director	11-29-02
----- /s/ Paul H. Brown ----- Paul H. Brown	Director	11-29-02
----- /s/ Calvin J. Clements ----- Calvin J. Clements	Director	11-29-02
----- /s/ Matthew P. Murphy ----- Matthew P. Murphy	Director	11-29-02
----- /s/ Tim C. Thompson ----- Tim C. Thompson	Director	11-29-02
----- /s/ Paula G. Waldrop ----- Paula G. Waldrop	Secretary	11-29-02
----- /s/ Christina W. Hagan ----- Christina W. Hagan	Vice President and Chief Financial Officer	11-29-02

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CERTIFICATION

I, L. Decker Dawson, certify that:

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

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2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 29, 2002

Signature: /s/ L. Decker Dawson

-----  
L. Decker Dawson  
Chairman of the Board  
Chief Executive Officer

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CERTIFICATION

I, Christina W. Hagan, certify that:

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1. I have reviewed this annual report on Form 10-K of Dawson Geophysical Company;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: November 29, 2002

Signature: /s/ Christina W. Hagan

-----  
Christina W. Hagan Vice  
President

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

In connection with the annual report of Dawson Geophysical Company (the "Company") Form 10-K for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, L. Decker Dawson, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 29, 2002

/s/ L. Decker Dawson

-----  
Chairman and Chief Executive  
Officer

=====

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

In connection with the annual report of Dawson Geophysical Company (the "Company") Form 10-K for the period ending September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Christina W. Hagan, Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13 (a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 29, 2002

/s/ Christina W. Hagan

-----  
Vice President and Chief  
Financial Officer

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INDEX TO FINANCIAL STATEMENTS

FINANCIAL STATEMENTS OF DAWSON GEOPHYSICAL COMPANY

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Balance Sheets as of September 30, 2002 and 2001	F-3
Statements of Operations for the years ended September 30, 2002, 2001 and 2000	F-4
Statements of Stockholders' Equity for the years ended September 30, 2002, 2001 and 2000	F-5
Statements of Cash Flows for the years ended September 30, 2002, 2001 and 2000	F-6
Notes to Financial Statements	F-7

-----  
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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INDEPENDANT 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, 2002 and 2001, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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, 2002 and 2001, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

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KPMG LLP

Midland, Texas  
November 1, 2002

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DAWSON GEOPHYSICAL COMPANY  
BALANCE SHEETS

	September 30,	
	2002	2001
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,309,000	\$ 4,338,000
Short-term investments	15,716,000	10,952,000
Accounts receivable, net of allowance for doubtful accounts of \$71,000 in 2002 and \$121,000 in 2001	7,613,000	8,695,000
Income taxes receivable	400,000	--
Prepaid expenses	220,000	173,000
	-----	-----
Total current assets	25,258,000	24,158,000
	-----	-----
PROPERTY, PLANT AND EQUIPMENT	75,649,000	73,656,000
Less accumulated depreciation	(56,616,000)	(52,433,000)
	-----	-----
Net property, plant and equipment	19,033,000	21,223,000
	-----	-----
	\$ 44,291,000	\$ 45,381,000
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,066,000	\$ 1,181,000
Accrued liabilities:		
Payroll costs and other taxes	342,000	315,000
Other	297,000	303,000
	-----	-----
Total current liabilities	2,705,000	1,799,000
	-----	-----
STOCKHOLDERS' EQUITY:		
Preferred stock - par value \$1.00 per share; 5,000,000 shares authorized, none outstanding	--	--
Common stock - par value \$.33 1/3 per share; 10,000,000 shares authorized, 5,467,294 and 5,445,794 shares issued and outstanding in 2002 and 2001, respectively	1,822,000	1,815,000
Additional paid-in capital	38,863,000	38,711,000
Other comprehensive income, net of tax	137,000	--
Retained earnings	764,000	3,056,000



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	-----	-----
	41,586,000	43,582,000
	-----	-----
Total stockholders' equity	\$ 44,291,000	\$ 45,381,000
	=====	=====

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

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DAWSON GEOPHYSICAL COMPANY  
STATEMENTS OF OPERATIONS

	Years Ended September 30,	
	2002	2001
	-----	-----
Operating revenues	\$ 36,078,000	\$ 37,878,000
Operating costs:		
Operating expenses	33,205,000	33,033,000
General and administrative	2,006,000	1,819,000
Depreciation	4,233,000	8,802,000
	-----	-----
	39,444,000	43,654,000
	-----	-----
Loss from operations	(3,366,000)	(5,776,000)
Other income:		
Interest income	507,000	754,000
Other	96,000	44,000
	-----	-----
Loss before income tax	(2,763,000)	(4,978,000)
	-----	-----
Income tax benefit:		
Current	400,000	--
Deferred	71,000	--
	-----	-----
	471,000	--
	-----	-----
Net loss	\$ (2,292,000)	\$ (4,978,000)
	=====	=====
Net loss per common share	\$ (.42)	\$ (.91)
	=====	=====
Net loss per common share—assuming dilution	\$ (.42)	\$ (.91)
	=====	=====
Weighted average equivalent common shares outstanding	5,462,936	5,442,627
	=====	=====
Weighted average equivalent common shares outstanding— assuming dilution	5,462,936	5,442,627
	=====	=====

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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		
BALANCE, SEPTEMBER 30, 1999	5,406,794	\$ 1,802,000	\$ 38,497,000	--
Net loss	--	--	--	--
Issuance of common stock as compensation	17,000	6,000	97,000	--
Exercise of stock option	5,000	2,000	30,000	--
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:				
Unrealized gain on securities, net of tax				137,000
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	

SEE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS.

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DAWSON GEOPHYSICAL COMPANY  
STATEMENTS OF CASH FLOWS

Years Ended September 30,

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	2002	2001	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net loss	\$ (2,292,000)	\$ (4,978,000)	\$ (1,000,000)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:			
Depreciation	4,233,000	8,802,000	
Non-cash compensation	159,000	92,000	
Deferred income tax benefit	(71,000)	--	
Other	58,000	38,000	
Change in current assets and liabilities:			
Decrease (increase) in accounts receivable	1,082,000	(2,128,000)	
Decrease (increase) in prepaid expenses	(47,000)	27,000	
Decrease (increase) in income taxes receivable	(400,000)	2,165,000	
Increase (decrease) in accounts payable	885,000	143,000	
Increase (decrease) in accrued liabilities	21,000	343,000	
Net cash provided (used) by operating activities	3,628,000	4,504,000	
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Proceeds from disposal of assets	10,000	49,000	
Capital expenditures	(2,047,000)	(750,000)	
Proceeds from sale of short-term investments	--	--	
Proceeds from maturity of short-term investments	10,598,000	5,500,000	
Acquisition of short-term investments	(15,218,000)	(5,474,000)	
Net cash used in investing activities	(6,657,000)	(675,000)	
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from exercise of stock options	--	--	
Net cash provided by financing activities	--	--	
Net increase (decrease) in cash and cash equivalents	(3,029,000)	3,829,000	
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,338,000	509,000	
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 1,309,000	\$ 4,338,000	\$ 1,000,000
<b>NON CASH INVESTING ACTIVITIES:</b>			
UNREALIZED GAIN ON INVESTMENTS	\$ 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

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 primarily in the southwestern United States, and data processing is performed by geophysicists at the Company's computer center in Midland, 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 U.S. Treasury Securities which are a low risk investment.

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### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are carried at cost. 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 accounts, and any resulting gain or loss is reflected in the results of operations for the period.

### IMPAIRMENT OF LONG-LIVED ASSETS

The Company accounts for its long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (Statement 121) which requires companies to assess their long-lived assets for impairment. Statement 121 requires companies to review for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. No provision was recorded in the Statement of Operations for the years ended September 30, 2002, 2001 and 2000.

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### REVENUE RECOGNITION

Contracts for service are provided for under cancelable contracts. The company recognizes revenue as services are performed. In the case of a cancelled contract, revenue is recognized and the client is billed for services performed up to the date of cancellation. Certain reimbursed out-of-pocket expenses are reported in revenue and expenses.

### 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

The Company accounts for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123, "Accounting For Stock-Based Compensation" (Statement 123). Statement 123 allows a company to adopt a fair value based method of accounting for a stock-based employee compensation plan or to continue to use the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued To Employees" (APB No. 25). The Company has chosen to continue to account for stock-based compensation under APB No. 25 using the intrinsic value method.

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### 2. SHORT-TERM INVESTMENTS

Investment in securities consists primarily of U.S. Treasury Securities. At September 30, 2002, the Company reported an unrealized gain on short-term investments of \$208,000, which was \$137,000 net of the tax effect of \$71,000.

Short-term investments held at September 30, 2002 consisting of U.S. Treasury Securities and certificates of deposit have contractual maturities from November, 2002 through May, 2004. Securities that mature after September 30, 2003 are expected to be sold within one year and accordingly are classified as current assets.

### 3. PROPERTY, PLANT AND EQUIPMENT

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

	September 30		
	2002	2001	Rates
Land, building and improvements	\$ 1,303,000	\$ 1,303,000	3 to 12.5 percent
Machinery and equipment	73,583,000	72,313,000	7 to 20 percent
Equipment in process (a)	763,000	40,000	--
	\$ 75,649,000	\$ 73,656,000	
	=====	=====	

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

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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 to depreciation and to the net loss for the three months and the twelve months ended September 30, 2002 is:

	As Reported		Pro Forma (As If No Change)	
	Three Months	Twelve Months	Three Months	Twelve Months
Depreciation	\$ 985,000	\$ 4,233,000	\$ 1,684,000	\$ 7,516,000
	=====	=====	=====	=====
Net Loss	\$ (557,000)	\$ (2,292,000)	\$ (1,256,000)	\$ (5,575,000)
	=====	=====	=====	=====
Net loss per share	\$ (.10)	\$ (.42)	\$ (.23)	\$ (1.02)

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### 4. STOCK OPTIONS

The Company's 1991 Incentive Stock Option Plan provides options to purchase 150,000 shares of authorized but unissued common 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 Company adopted the 2000 Incentive Stock Plan during fiscal 1999, which extends the 1991 Plan and provides options to purchase 500,000 shares of authorized but unissued common stock of the Company. In addition to the conditions described above regarding the 1991 Plan, 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, 2000	\$ 8.93	181,000
Granted	\$ 8.65	70,000
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

Options for 130,750, 103,000 and 57,750 shares were exercisable with weighted average exercise prices of \$6.79, \$10.78 and \$12.22 as of September 30, 2002, 2001 and 2000, respectively.

Outstanding options at September 30, 2002 expire between February, 2004 and April, 2007 and have exercise prices ranging from \$6.50 to \$8.65.

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Options for 98,000 shares were granted in fiscal year 2002. The expected life of the options granted is five years. The weighted average fair value of options granted during 2002 is \$6.50. 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 .74% and risk-free interest rate of 1.24% for grants in 2002. 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.

No compensation expense has been recorded for the Company's stock options under the intrinsic value method. Had compensation cost for the 1991 Plan and the 2000 Plan been determined based on the fair value at the grant dates for awards made after September 30, 1995 under the 1991 Plan, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

Year Ended	Year Ended
September 30, 2002	September 30, 2001

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Net loss	As reported	\$ (2,292,000)	\$ (4,978,000)
	Pro forma	\$ (2,518,000)	\$ (5,098,000)
Earnings per share	As reported	\$ (.42)	\$ (0.91)
	Pro forma	\$ (.46)	\$ (0.94)

Under the provisions of Statement No. 123, the pro forma disclosures above indicate only the effects of stock options granted by the Company subsequent to September 30, 1995. During this initial phase-in period, the pro forma disclosures as required by Statement No. 123 are not necessarily representative of the effects on reported net income for future years as options vest over several years.

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, \$223,360 and \$240,328 to the plan during 2002, 2001 and 2000, 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 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 contributions for fiscal 2002 were approximately \$259,000.

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6. INCOME TAXES

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 will file for a refund of alternative minimum tax paid in prior years of approximately \$400,000 and is recorded in receivables at September 30, 2002. The remaining benefit is 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. Income tax expense (benefit) attributable to income before extraordinary item consists of:

	Year Ended September 30,		
	2002	2001	2000
Current - U.S. federal	\$ (400,000)	\$ --	\$ (2,163,000)
Deferred - U. S. Federal	(71,000)	--	(474,000)
Total	\$ (471,000)	\$ --	\$ (2,637,000)



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Income tax benefit 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,		
	2002	2001	2000
Benefit computed at statutory rates			
Effect of:	\$ (939,000)	\$ (1,690,000)	\$ (4,682,000)
Change in valuation allowance	428,000	1,659,000	1,848,000
Other	40,000	(31,000)	197,000
Income tax benefit	\$ (471,000)	\$ --	\$ (2,637,000)

	September 30,	
	2002	2001
Deferred tax assets:		
Net operating loss carryforwards	\$ 5,997,000	\$ 4,691,000
Alternative minimum tax credit carryforwards	413,000	813,000
Receivables	24,000	41,000
Other	109,000	20,000
Total deferred tax assets	6,543,000	5,565,000
Less valuation allowance	(3,935,000)	(3,507,000)
Total gross deferred tax assets	2,608,000	2,058,000
Deferred tax liabilities:		
Other property and equipment	(2,533,000)	(2,053,000)
Investments	(71,000)	--
Other	(4,000)	(5,000)
Total gross deferred tax liabilities	(2,608,000)	(2,058,000)
Net deferred tax asset (liability)	\$ --	\$ --

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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 not likely be sufficient to fully utilize available carryforwards prior to their ultimate expiration. As such, the Company has recorded a valuation allowance of \$3,935,000 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, 2002, the Company had a net operating loss carryforward for U.S. federal income tax purposes of approximately \$17,460,000, which is available to offset future regular taxable income, if any. Net operating loss

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carryforward will begin to expire in 2019. 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"). Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and when appropriate, restated to conform to the Statement 128 requirements.

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

	2002	2001	2000
	-----	-----	-----
<b>NUMERATOR:</b>			
Net loss and numerator for basic and diluted net loss per common share-income available to common stockholders	\$ (2,292,000)	\$ (4,978,000)	\$ (11,135,000)
	=====	=====	=====
<b>DENOMINATOR:</b>			
Denominator for basic net loss per common share-weighted average common shares	5,462,936	5,442,627	5,425,210
Effect of dilutive securities-employee stock options	--	--	--
	-----	-----	-----
Denominator for diluted net loss per common share-adjusted weighted average common shares and assumed conversions	5,462,936	5,442,627	5,425,210
	=====	=====	=====
Net loss per common share	\$ (.42)	\$ (.91)	\$ (2.00)
	=====	=====	=====
Net loss per common share-assuming dilution	\$ (.42)	\$ (.91)	\$ (2.00)
	=====	=====	=====

Employee stock options to purchase shares of common stock were outstanding during fiscal year 2002 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.

### 8. MAJOR CUSTOMERS

The Company operates in only one business segment, contract seismic data acquisition and processing services. During each of 2000 and 2001, sales to no customers exceeded 10% of operating revenue. During 2002, sales to only one customer exceeded 10% of operating revenue.

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### 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

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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. Future minimum lease commitments under the lease at September 30, 2002 are \$107,037.

### 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 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

The FASB has issued Statement No. 143 "Accounting for Asset Retirement Obligations" which establishes requirements for the accounting of removal-type costs associated with asset retirements. The standard is effective for fiscal years beginning after June 15, 2002, with earlier application encouraged. As of September 30, 2002, the Company expects no impact to the financial statements, upon adoption, as we have not incurred any obligations associated with asset retirements.

On October 3, 2001, the FASB issued Statement No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets". This pronouncement supercedes FAS 121 "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed" and eliminates the requirement of Statement 121 to

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allocate goodwill to long-lived assets to be tested for impairment. Statement 144 also describes a probability-weighted cash flow estimation approach to deal with situations in which alternative courses of action to recover the carrying amount of a long-lived asset are under consideration or a range is estimated for the amount of possible future cash flows. The statement also establishes a "primary-asset" approach to determine the cash flow estimation period for a group of assets and liabilities that represents the unit of accounting for a long-lived asset to be held and used. The provisions of this Statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption encouraged. The Company will adopt this statement in fiscal year ending September 30, 2003 and does not expect a significant impact to its financial statements.

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In April, 2002, the FASB issued Statement No. 145, "Recission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections". Most significantly, this Statement eliminates the requirement under Statement 4 to aggregate all gains and losses from extinguishments of debt, and if material, be classified as an extraordinary item. As a result, gains and losses from extinguishments of debt should be classified as extraordinary items only if they meet the criteria in Opinion 30. Applying the provisions of Opinion 30 will distinguish transactions that are part of an entity's recurring operations from those that are unusual or infrequent or that meet the criteria for classification as an extraordinary item. There is no current impact to the Company as there is no debt.

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. The Company expects no impact to its financial statements as the Company does not anticipate exiting or disposing of any of its activities.

### 12. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
	December 31	March 31	June 30	September 30
<b>Fiscal 2002:</b>				
Operating revenues	\$ 8,220,000	\$ 8,962,000	\$ 9,096,000	\$ 9,800,000
Loss from operations (a)	\$ (1,403,000)	\$ (257,000)	\$ (550,000)	\$ (1,156,000)
Net loss (a)	\$ (1,173,000)	\$ (134,000)	\$ (428,000)	\$ (557,000)
Net loss per common share	\$ (.22)	\$ (.02)	\$ (.08)	\$ .09
Net loss per common share assuming dilution	\$ (.22)	\$ (.02)	\$ (.08)	\$ .09
<b>Fiscal 2001:</b>				
Operating revenues	\$ 6,349,000	\$ 10,071,000	\$ 12,051,000	\$ 9,407,000
Income (loss) from operations	\$ (3,485,000)	\$ (1,104,000)	\$ 325,000	\$ (1,512,000)
Net income (loss)	\$ (3,292,000)	\$ (876,000)	\$ 500,000	\$ (1,310,000)
Net income (loss) per common share	\$ (.61)	\$ (.16)	\$ .09	\$ .09
Net income (loss) per common share assuming dilution	\$ (.61)	\$ (.16)	\$ .09	\$ .09

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(a) Reflects a change in certain estimates as described in footnote 3.

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Founded in 1952, Dawson Geophysical Company acquires and processes 2-D, 3-D, 4-D and multicomponent seismic data used in analyzing subsurface geologic conditions for the potential of oil and natural gas accumulation. Dawson's clients - major and intermediate-sized oil and gas companies and independent oil operators - retain exclusive rights to the information obtained.

The Company operates highly mobile, land-based acquisition crews throughout the lower 48 states. The Company has earned a 50-year reputation for state-of-the-art equipment, technology and safety, as well as for having crews that are among the most experienced and competent in the industry. Data processing is performed by geophysicists at Dawson's computer center in Midland, Texas.

### INVESTOR INFORMATION

#### CORPORATE OFFICES

508 West Wall, Suite 800  
Midland, Texas 79701-5010  
Phone: 915-684-3000  
Fax: 915-684-3030  
Email: [info@dawson3d.com](mailto:info@dawson3d.com)  
<http://www.dawson3d.com>

#### ANNUAL MEETING

The Annual Meeting of Shareholders will be held January 28, 2003, at 10:00 a.m. at The Petroleum Club of Midland, 501 West Wall, Midland, Texas 79701

#### REGISTRAR AND TRANSFER AGENT

Mellon Investor Services LLC  
Dallas, Texas

#### STOCK EXCHANGE LISTING

Nasdaq National Market System  
Symbol: DWSN

#### DIRECTORS

Paul H. Brown  
Sugar Land, Texas  
Management Consultant

Calvin J. Clements  
Lubbock, Texas  
Retired Vice President  
of the Company

L. Decker Dawson  
Midland, Texas  
Chairman of the Board of  
Directors and Chief Executive  
Officer of the Company

Gary M. Hoover, Ph.D.  
Bartlesville, Oklahoma  
Retired Geophysicist

Stephen C. Jumper  
Midland, Texas  
President and Chief Operating  
Officer of the Company

#### OFFICERS

L. Decker Dawson  
Chief Executive Officer

Stephen C. Jumper  
President/  
Chief Operating Officer

Howell W. Pardue  
Executive Vice President

C. Ray Tobias  
Executive Vice President

Christina W. Haga  
Vice President/  
Chief Financial Officer

Frank D. Brown  
Vice President

K.S. Forsdick  
Vice President

Edward L. Huff

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INDEPENDENT PUBLIC ACCOUNTANTS  
KPMG LLP  
Midland, Texas

Matthew P. Murphy  
Midland, Texas  
Retired Banking Executive

Vice President

Paula G. Waldrop  
Secretary

Howell W. Pardue  
Midland, Texas  
Executive Vice President  
of the Company

Tim C. Thompson  
Midland, Texas  
Management Consultant

C. Ray Tobias  
Midland, Texas  
Executive Vice President  
of the Company

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We are pleased to offer you the opportunity to receive future quarterly and annual reports electronically over the internet. In utilizing this service, you are not only improving the efficiency of your access to information, you will also help reduce printing and postage costs for your Company.

Forms 10-Q and 10-K reports will be available on the internet at [www.sec.gov](http://www.sec.gov) each quarter and additional information will be available at [www.dawson3d.com](http://www.dawson3d.com).