DAWSON GEOPHYSICAL CO
Form 10-K
December 07, 2007

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

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Fiscal Year Ended September 30, 2007

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Transition Period From to

Commission File No. 0-10144

DAWSON GEOPHYSICAL COMPANY

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

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

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

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

Title of Each Class

Common Stock, $.331/3 par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K 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. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):

Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o

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

As of March 31, 2007, the aggregate market value of Dawson Geophysical Company common stock, par value $0.331/3 per share, held by non-affiliates (based upon the closing transaction price on Nasdaq) was approximately $361,107,553.

On November 23, 2007, there were 7,658,744 shares of Dawson Geophysical Company common stock, $0.331/3 par value, outstanding.

As used in this report, the terms we, our, us, Dawson and the Company refer to Dawson Geophysical Company the context indicates otherwise.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant s Proxy Statement for its 2007 Annual Meeting of Shareholders to be held on January 22, 2008 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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DAWSON GEOPHYSICAL COMPANY

FORM 10-K
For the Fiscal Year Ended September 30, 2007

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

All statements other than statements of historical fact included in this Form 10-K, including without limitation statements under Management s Discussion and Analysis of Financial Condition and Results of Operations and Business regarding technological advancements and our financial position, business strategy and plans and objectives of our management 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 re us or our management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of our management, as well as assumptions made by and information currently available to management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to dependence upon energy industry spending, the volatility of oil and natural gas prices, high fixed costs of operations, weather interruptions, inability to obtain land access rights of way, industry competition, managing growth, and the availability of capital resources. See Risk Factors for more information on these and other factors. These forward-looking statements reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategies and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. We assume no obligation to update any such forward-looking statements.

Part I

Item 1. ***BUSINESS***

General

Dawson Geophysical Company (the Company) is the leading provider of onshore seismic data acquisition services in the lower 48 states of the United States as measured by the number of active data acquisition crews. Founded in 1952, we acquire and process 2-D, 3-D, and multi-component seismic data for our clients, ranging from major oil and gas companies to independent oil and gas operators, as well as providers of multi-client data libraries. Our clients rely on seismic data to identify areas where subsurface conditions are favorable for the accumulation of hydrocarbons and to optimize the development and production of hydrocarbon reservoirs. During fiscal 2007, substantially all of our revenues were derived from 3-D seismic data acquisition operations.

As of September 30, 2007, we operated fifteen 3-D seismic data acquisition crews in the lower 48 states of the United States and a seismic data processing center. We market and supplement our services from our headquarters in Midland, Texas and from additional offices in Houston, Denver, Oklahoma City, and Michigan. Our geophysicists perform data processing in our Midland, Houston, and Oklahoma City offices, and our field operations are supported from our field office facility in Midland. The results of a seismic survey conducted for a client belong to that client. To avoid potential conflicts of interest with our clients, we do not acquire seismic data for our own account nor do we participate in oil and gas ventures.

Higher commodity prices in recent years have led to a significant increase in the level of spending for domestic exploration and development of oil and natural gas reserves. This resulted in greater demand for newly-acquired

seismic data by many exploration companies particularly those seeking natural gas reserves. These factors have enabled us to expand our data acquisition and processing capacity during the last few years. By increasing the number and size of our data acquisition crews and our channel count, we have fortified our position as the leading provider of onshore seismic data acquisition services in the United States, resulting in increased market share in terms of the number of active crews operating. This expansion occurred in fiscal 2004, 2005 and 2006 with the addition of a total of six data acquisition crews during this period, as well as increases in recording capacity and channel count company-wide and improvements to our data processing center. During fiscal 2007, we continued

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our growth by fielding three additional crews. These recent expansions were in response to continued demand for our high-resolution 3-D seismic services despite fluctuations in natural gas prices during fiscal 2007.

Business Strategy

Our strategy is to maintain our leadership position in the U.S. onshore market. Key elements of our strategy include:

Attracting and retaining skilled and experienced personnel for our data acquisition and processing operations;

Providing integrated in-house services necessary in each phase of seismic data acquisition and processing, including project design, land access permitting, surveying and related support functions as well as continuing the enhancement of our in-house health, safety, security and environmental programs;

Maintaining the focus of our operations solely on the domestic onshore seismic market;

Continuing to operate with conservative financial discipline;

Updating our capabilities to incorporate advances in geophysical and supporting technologies; and

Acquiring equipment to expand the recording channel capacity on our existing crews and equipping additional crews as market conditions permit.

Business Description

Geophysical Services Overview. Our business consists of the acquisition and processing of seismic data to produce an image of the earth s subsurface. The seismic method involves the recording of reflected acoustic or sonic waves from below the ground. In our operations, we introduce acoustic energy into the ground by using an acoustic energy source, usually large vibrating machines and occasionally through the detonation of dynamite. We then record the subsequent reflected energy, or echoes, with recording devices placed along the earth s surface. These recording devices, or geophones, are placed on the ground in groups of six or more and connected together as a single recording channel. We generally use multiple recording channels in our seismic surveys. Additional recording channels enhance the clarity of the seismic survey much in the same way as additional pixels add resolution to televisions and computer monitors.

We are able to collect seismic data using either 2-D or 3-D methods. The 2-D method involves the collection of seismic data in a linear fashion thus generating a single plane of subsurface seismic data. Recent technological advances in seismic equipment and computing allow us to economically acquire and process data by placing large numbers of energy sources and recording channels over a broad area. The industry refers to the technique of broad distribution of energy sources and recording channels as the 3-D seismic method. The 3-D method produces an immense volume of seismic data which produces more precise images of the earth s subsurface. Geophysicists use computers to interpret 3-D seismic data volumes, generate geologic models of the earth s subsurface, and identify subsurface features that are favorable for the accumulation of hydrocarbons.

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 high resolution 3-D seismic surveys into exploration and development programs include reducing drilling risk, decreasing oil and natural gas finding costs and increasing the efficiencies of reservoir location, delineation and management. In order to meet the requirements necessary to fully realize the benefits of 3-D seismic data, there is an increasing demand for improved data quality with greater subsurface resolution. We are prepared to meet such demands with the

implementation of improved techniques and evolving technology. One such technique is better survey design integrating a greater number of recording channels, more dense energy source distribution and improved seismic data processing technologies. Our geophysicists perform these design tasks.

Data Acquisition. The seismic survey begins at the time a client requests that we formulate a proposal to acquire seismic data on its behalf. Geophysicists then assist the client in designing the specifications of the proposed

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3-D survey. If the client accepts our proposal, permit agents then obtain access rights of way from surface and mineral estate owners or lessees where the survey is to be conducted.

Utilizing electronic surveying equipment, survey personnel precisely locate the energy source and receiver positions from which the seismic data are collected. We primarily use vibrator energy sources which are mounted on vehicles, the majority of which weigh 62,000 pounds each, to generate seismic energy, but occasionally we detonate dynamite charges placed in drill holes below the earth s surface. We use third-party contractors for the drilling of holes and the purchasing, handling and disposition of dynamite charges.

We began fiscal 2004 with an operating capacity of six land-based seismic data acquisition crews with an aggregate recording channel count of approximately 25,000 and 52 vibrator energy source units. At fiscal year-end 2007, we operated fifteen crews, 113 vibrator energy source units, and had capacity in excess of 102,000 recording channels, any of which may be configured to meet the demands of specific survey designs. Each crew consists of approximately 40 to 80 technicians, 25 or more vehicles with off-road capabilities, over 60,000 geophones, a seismic recording system, energy sources, electronic cables and a variety of other equipment.

During the fiscal year, we added three data acquisition crews. The first additional crew, equipped with an existing I/O System II cable-based recording system, was deployed in October 2006. The second crew, equipped with a 10,000-channel ARAM ARIES cable-based recording system, was deployed in April 2007. The third and newest crew, equipped with a 5,000-channel ARAM ARIES system, was deployed in September 2007. In July 2007, we replaced an existing I/O System II cable-based system with a 9,500-channel ARAM ARIES recording system. We purchased an additional 5,000-channel ARAM ARIES system in the last quarter of fiscal 2007 which replaced an existing I/O System II MRX system in November 2007.

Of the fifteen crews in operation at December 5, 2007, six are equipped with I/O System II RSR radio-based recording systems, three with I/O System II cable-based recording systems, and six with ARAM ARIES cable-based recording systems. From time to time, one crew is equipped with a WesternGeco (subsidiary of Schlumberger) Q-Land recording system under an agreement described below. All of our recording systems utilize similar types of geophones and record equivalent seismic information but vary in the manner by which seismic data are transferred to the central recording unit.

During fiscal 2006, we entered into an agreement with WesternGeco, a subsidiary of Schlumberger, to provide Q-Land seismic data acquisition services in the lower 48 states of the United States. The Q-Land system is a unique integrated acquisition and processing system that is producing superior imaging results throughout the Middle East and North Africa. The Q-Land system uses 30,000 channels of finely spaced point-receivers to correctly sample both signal and noise. By removing noise, the resolution of the subsurface is dramatically increased. Under the terms of the agreement, the Company will provide crew personnel, energy source units, necessary vehicles, land access permitting and surveying. WesternGeco will provide survey design, the seismic recording system with operators, and all Q-Land data processing services. Both companies will share marketing services. During fiscal 2007, the Company deployed the Q-Land recording system on an existing crew and completed operations in West Texas on a multi-client data library program for WesternGeco. The Company will continue to deploy the Q-Land system on an existing crew or additional crews as demand for the technology dictates.

Client demand for more recording channels continues to increase as the industry strives for improved data quality with greater subsurface resolution. We believe our ability to deploy a large number of recording channels provides us with the competitive advantages of operational versatility and increased productivity, in addition to improved data quality.

Data Processing. We currently operate a computer center located in Midland, Texas and provide additional processing services through our Houston and Oklahoma City offices. Such data processing primarily involves the

enhancement of seismic data by improving reflected signal resolution, removing ambient noise and establishing proper spatial relationships of geological features. The data are then formatted in such a manner that computer graphic technology may be employed for examination and interpretation of the data by the user.

We continue to improve data processing efficiency and accuracy with the addition of improved processing software and high-speed computer technology. We purchase, develop or lease, under non-exclusive licensing arrangements, seismic data processing software.

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Our computer center processes seismic data collected by our crews, as well as by other geophysical contractors. In addition, we reprocess previously recorded seismic data using current technology to enhance the data quality. Our processing contracts may be awarded jointly with, or independently from, data acquisition services. Data processing services comprise a small portion of our overall revenues.

Integrated Services. We maintain integrated in-house operations necessary to the development and completion of seismic surveys. Our experienced personnel have the capability to conduct or supervise the seismic survey design, permitting, surveying, data acquisition and processing functions for each seismic program. In-house support operations include health, safety, security and environmental programs as well as facilities for automotive repair, automotive paint and body repair, electronics repair, electrical engineering and software development. In addition, we maintain a fleet of tractor trailers to transport our seismic acquisition equipment to our survey sites. We believe that maintaining as many of these functions in-house as possible contributes to better quality control and improved efficiency in our operations. Our clients generally provide their own interpretation of the seismic data provided by us.

Equipment Acquisition and Capital Expenditures

We monitor and evaluate advances in geophysical technology and commit capital funds to purchase equipment we deem most effective to maintain our competitive position. Purchasing new assets and upgrading existing capital assets requires a commitment to capital spending. For fiscal year 2007, we made capital expenditures of $54,591,000, in part to complete the fielding of three additional data acquisition crews, to expand channel count on existing crews, to purchase eighteen additional energy source units, and to replace two I/O System II recording systems on existing crews with ARAM ARIES recording systems. The Board of Directors approved an initial fiscal 2008 budget of $30,000,000 to add to the Company s energy source fleet, to purchase additional recording channels, to make technical improvements in various phases of the Company s operations, and to meet maintenance capital requirements. These additions will allow the Company to maintain its competitive position as it responds to client desire for higher resolution subsurface images.

Clients

Our 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.

Our clients range from major oil companies to small independent oil and gas operators and also include providers of multi-client data libraries. The services we provide to our clients vary according to the size and needs of each client. During fiscal 2007, sales to our largest client represented 49% of our revenues and 40% of our revenue net of third-party charges. The remaining balance of our fiscal 2007 revenue was derived from varied clients and none represented 10% or more of our fiscal 2007 revenues. Although 49% of our fiscal 2007 revenues were derived from one client, our evaluation indicates that our relationship is well founded for continued contractual commitments for the foreseeable future in multiple producing basins across the lower 48 states. While still expected to be a significant client, we do anticipate a fiscal 2008 reduction in sales to this client. Because of our relatively large client base, our largest clients have historically varied from year to year. Current demand for our services indicates that while the loss of our largest client may have a material short-term negative impact, it would not have a long-term effect on our business.

We do not acquire data for our own account or for future sale, maintain any multi-client data libraries or participate in oil and gas ventures. The results of a seismic survey conducted for a client belong to that client. It is also our policy that none of our officers, directors or employees participate in any oil and gas venture. All of our clients information is maintained in the strictest confidence.

Contracts

Our data acquisition services are conducted under master service contracts with our clients. These master service contracts define certain obligations for us and for our clients. A supplemental agreement setting forth the terms of a specific project, which may be cancelled by either party on short notice, is entered into for every data

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acquisition project. The supplemental agreements are either turnkey agreements that provide for a fixed fee to be paid to us for each unit of data acquired, or term agreements that provide for a fixed hourly, daily or monthly fee during the term of the project or projects. Turnkey agreements generally provide us more profit potential, but involve more risks because of the potential of crew downtime or operational delays. We attempt to negotiate on a project-by-project basis, some level of weather downtime protection within the turnkey agreements. Under the term agreements, we forego an increased profit potential in exchange for a more consistent revenue stream with improved protection from crew downtime or operational delays.

We currently operate under both turnkey and term supplemental agreements.

Competition

The acquisition and processing of 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 crew safety performance history and technological and operational expertise are often determinative. Our competitors include companies with financial resources that are significantly greater than our own as well as companies of comparable and smaller size. Our primary competitors are CGG Veritas, Petroleum Geo-Services ASA, Geokinetics Inc., Global Geophysical Services, and Tidelands Geophysical Company.

Employees

As of October 20, 2007, we employed approximately 1,345 persons, of which 1,225 were engaged in providing energy sources and acquiring data. With respect to the remainder of our employees, 12 are engaged in data processing, 30 are administrative personnel, 67 are engaged in equipment maintenance and transport and 11 are officers. Of the employees listed above, 10 are geophysicists. Our employees are not represented by a labor union. We believe we have good relations with our employees.

Available Information

All of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports filed with or furnished to the Securities and Exchange Commission (SEC) on or after May 9, 1995 are available free of charge through our Internet Website, www.dawson3d.com, as soon as reasonably practical after we have electronically filed such material with, or furnished it to, the SEC. Information contained on our Internet Website is not incorporated by reference in this Annual Report on Form 10-K. In addition, the SEC maintains an Internet site containing reports, proxy and information statements, and other information filed electronically at www.sec.gov. You may also read and copy this information, for a copying fee, at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 to obtain information on the operation of the Public Reference Room.

Item 1A. ***RISK FACTORS***

An investment in our common stock is subject to a number of risks discussed below. You should carefully consider these discussions of risk and the other information included in this Form 10-K. If any of the following risks were actually to occur, our business, financial condition or results of operations could be materially adversely affected.

If oil and gas prices or the level of capital expenditures by oil and gas companies were to decline, demand for our services would decline and our results of operations would be adversely affected.

Demand for our services depends upon the level of spending by oil and gas companies for exploration, production, development and field management activities, which depend in part on oil and natural gas prices. Significant fluctuations in oil and gas exploration activities and commodity prices have adversely affected the demand for our services and our results of operations in years past and would do so again if prices for oil and gas were to decline. In particular, we incurred losses in fiscal years 2000 through 2003 as a result of decreased demand for seismic services during these years due to the effects of lower oil and gas prices. While in recent years, the price

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of oil and natural gas has been historically high and exploration activities have been strong, there can be no assurance that the current level of energy prices will be sustained or that exploration and development activities by our clients will continue to be strong. Because the majority of our current clients projects are focused on the exploration for natural gas, a sustained significant decline in the price of natural gas would have an adverse effect on the demand for our services. Any significant decline in exploration or production-related spending by our clients could cause us to alter our capital spending plans and would have a material adverse effect on our results of operations. Additionally, increases in oil and gas prices may not increase demand for our products and services or otherwise have a positive effect on our results of operations or financial condition.

Factors affecting the price of oil and natural gas include:

- level of demand for oil and natural gas;
- worldwide political, military and economic conditions, including the ability of the Organization of Petroleum Exporting Countries to set and maintain production levels and prices for oil;
- level of oil and natural gas production;
- government policies regarding the exploration for, and production and development of, oil and natural gas reserves;
- level of taxation relating to the energy industry, including taxation of consumption of energy sources; and
- weather conditions.

The markets for oil and natural gas have historically been volatile and are likely to continue to be so in the future.

The high fixed costs of our operations could adversely affect our results of operations.

Our business has high fixed costs. As a result, any significant downtime or low productivity caused by reduced demand, weather interruptions, equipment failures, permit delays or other causes could adversely affect our results of operations.

Our revenues are subject to fluctuations that are beyond our control which could adversely affect our results of operations in any financial period.

Our operating results vary in material respects from quarter to quarter and will continue to do so in the future. Factors that cause variations include the timing of the receipt and commencement of contracts for data acquisition, permit delays, weather delays and crew productivity. Combined with our high fixed costs, these revenue fluctuations could produce unexpected adverse results of operations in any fiscal period.

Our operations are subject to weather conditions which could adversely affect our results of operations.

Our seismic data acquisition operations could be adversely affected by inclement weather conditions. Delays associated with weather conditions could adversely affect our results of operations. See Business Contracts.

Our operations are subject to delays related to obtaining land access rights of way from third parties which could affect our results of operations.

Our seismic data acquisition operations could be adversely affected by our inability to obtain timely right of way usage from both public and private land and/or mineral owners. Delays associated with obtaining such rights of way could negatively affect our results of operations.

We face intense competition in our business that could result in downward pricing pressure and the loss of market share.

The acquisition and processing of seismic data for the oil and natural gas industry is a highly competitive business in the United States. Some of our competitors have financial resources that are significantly greater than

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our own. Competition from these and other competitors could result in downward pricing pressure and the loss of market share. See Business Competition.

If we do not manage our recent growth effectively, our results of operations could be affected.

We have experienced substantial growth during the last four fiscal years, adding nine seismic data acquisition crews during this period. This growth has presented a challenge to our systems, processes, resources, personnel, management and other infrastructure and support mechanisms. If we do not manage these growth challenges effectively, our profitability and results of operations could be adversely affected, our management resources may be diverted and our future growth could be impeded.

We may be unable to attract and retain skilled and technically knowledgeable employees which could adversely affect our business and our growth.

Our success depends upon attracting and retaining highly skilled professionals and other technical personnel. A number of our employees are highly skilled scientists and highly trained technicians, and our failure to continue to attract and retain such individuals could adversely affect our ability to compete in the seismic services industry. We may confront significant and potentially adverse competition for these skilled and technically knowledgeable personnel, particularly during periods of increased demand for seismic services. The increased demand for seismic services during the past few years has also made it difficult for the Company to hire additional skilled persons to join the Company s data acquisition crews. Should this trend continue, the Company s ability to expand the number of operating data acquisition crews may be impaired. None of our employees are under employment contracts and we have no key man insurance.

A limited number of customers account for a significant portion of our revenues, and the loss of one of these customers could harm our results of operations.

Although our ten largest customers in fiscal 2007 and 2006 have varied, these customers accounted for approximately 88% and 68% of our total revenue for these respective periods. For the year ended September 30, 2007, the Company s largest client represented approximately 49% of total revenues or 40% of revenues before third-party charges. If any of these significant clients were to terminate their contracts or fail to contract for our services in the future because they are acquired, alter their exploration or development strategy, or for any other reason, our results of operations could be affected.

Capital requirements for our operations are large. If we are unable to finance these requirements, our ability to continue our expansion and maintain our profitability could be affected.

Our sources of working capital are limited. We have historically funded our working capital requirements with cash generated from operations, cash reserves and short-term borrowings from commercial banks. In the past, we have also funded our capital expenditures and other financing needs through public equity offerings. Our working capital requirements continue to increase, primarily due to the expansion of our infrastructure. If we were to expand our operations at a rate exceeding operating cash flow, or if current demand or pricing of geophysical services were to decrease substantially, additional financing could be required. If we were not able to obtain such financing when needed, our failure could have a negative impact on our ability to pursue expansion and maintain our profitability. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Technological change in our business creates risks of technological obsolescence and requirements for future capital expenditures. If we are unable to keep up with these technological advances, we may not be able to compete

effectively.

Seismic data acquisition and data processing technologies historically have progressed rather rapidly and we expect this progression to continue. Our strategy is to regularly upgrade our data acquisition and processing equipment to maintain our competitive position. However, due to potential advances in technology and the related

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costs associated with such technological advances, we might not be able to fulfill this strategy, thus possibly affecting our ability to compete.

We operate under hazardous conditions that subject us to risk of damage to property or personal injuries and may interrupt our business.

Our business is subject to the general risks inherent in land-based seismic data acquisition activities. Our 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. Our crews are mobile, and equipment and personnel are subject to vehicular accidents. We use diesel fuel which is classified by the U.S. Department of Transportation as a hazardous material. These risks could cause us to experience equipment losses, injuries to our personnel and interruptions in our business.

In addition, we could be subject to personal injury or real property damage claims in the normal operation of our business. Such claims may not be covered under the indemnification provisions in our master service agreements to the extent that the damage was due to our negligence, gross negligence or intentional misconduct.

We do not carry insurance against certain risks that we could experience, including business interruption resulting from equipment losses or weather delays. We obtain insurance against certain property and personal casualty risks and other risks when such insurance is available and when our management considers it advisable to do so. Such coverage is not always available or applicable and, when available, is subject to unilateral cancellation by the insuring companies on very short notice.

Our industry is subject to governmental regulation which may adversely affect our future operations.

Our operations are subject to a variety of federal, state and local laws and regulations, including laws and regulations relating to protection of the environment and archeological sites. We are required to expend financial and managerial resources to comply with such laws and related permit requirements in our operations, and we anticipate that we will continue to be required to do so in the future. The fact that such laws or regulations change frequently makes it impossible for us to predict the cost or impact of such laws and regulations on our 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 our operations by reducing the demand for our services.

Certain provisions of our charter and bylaws and our shareholder rights plan may make it difficult for a third party to acquire us, even in situations that may be viewed as desirable by shareholders.

Our articles of incorporation and bylaws contain provisions that authorize the issuance of preferred stock and establish advance notice requirements for director nominations and actions to be taken at shareholder meetings. These provisions could discourage or impede a tender offer, proxy contest or other similar transaction involving control of us, even in situations that may be viewed as desirable by our shareholders. In addition, we have adopted a shareholder rights plan that would likely discourage a hostile attempt to acquire control of us.

Failure to maintain effective internal controls in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our stock price.

If, in the future, we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act. Failure to achieve and maintain an effective internal control environment could have a material adverse effect on

the price of our common stock.

Item 1B. ***UNRESOLVED STAFF COMMENTS***

None.

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Item 2. ***PROPERTIES***

Our principal facilities are summarized in the table below.

Location	Owned or Leased	Purpose	Building Area Square Feet
Midland, TX	Leased	Executive offices and data processing	29,960
Midland, TX	Owned	Field office Equipment fabrication facility Maintenance and repairs shop	58,472

We have operating leases in Houston, Denver and Oklahoma City for general office space. In addition, we have an operating lease for general office purposes, maintenance and repairs in Michigan.

Our operations are limited to one industry segment and the United States.

Item 3. ***LEGAL PROCEEDINGS***

From time to time, we are a party to various legal proceedings arising in the ordinary course of business. Although we cannot predict the outcomes of any such legal proceedings, our management believes that the resolution of pending legal actions will not have a material adverse effect on our 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 2007 fiscal year to a vote of our security holders, through the solicitation of proxies or otherwise. However, please refer to our Proxy Statement for the Annual Meeting to be held on January 22, 2008 (the Proxy Statement), filed with the Securities and Exchange Commission, notifying security holders as to the election of directors and selection of KPMG LLP as our independent registered public accounting firm.

Executive Officers

Set forth below are the names, ages and positions of the Company s executive officers.

Name	Age	Position
L. Decker Dawson	87	Chairman of the Board of Directors
Stephen C. Jumper	46	President, Chief Executive Officer and Director
C. Ray Tobias	50	Executive Vice President, Chief Operating Officer
Christina W. Hagan	52	Executive Vice President, Secretary and Chief Financial Officer
Howell W. Pardue	71	Executive Vice President
K.S. Forsdick	56	Vice President

The Board of Directors elects executive officers annually. Executive officers hold office until their successors are elected and have qualified.

Set forth below are descriptions of the principal occupations during at least the past five years of the Company s executive officers.

L. Decker Dawson. Mr. Dawson founded the Company in 1952. He served as President of the Company until being elected as Chairman of the Board of Directors and Chief Executive Officer in January 2001. In January 2006, Mr. Dawson was reelected as Chairman of the Board of Directors and retired as Chief Executive Officer of the Company. Prior to 1952, Mr. Dawson was a geophysicist with Republic Exploration Company, a geophysical company. Mr. Dawson served as President of the Society of Exploration Geophysicists (1989-1990), received its Enterprise Award in 1997 and was awarded honorary membership in 2002. He was Chairman of the Board of

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Directors of the International Association of Geophysical Contractors in 1981 and is an honorary life member of such association. He was inducted into the Permian Basin Petroleum Museum s Hall of Fame in 1997.

Stephen C. Jumper. Mr. Jumper, a geophysicist, joined the Company in 1985, was elected Vice President of Technical Services in September 1997 and was subsequently elected President, Chief Operating Officer and Director in January 2001. In January 2006, Mr. Jumper was elected President, Chief Executive Officer and Director. Prior to 1997, Mr. Jumper served the Company as manager of technical services with an emphasis on 3-D processing. Mr. Jumper has served the Permian Basin Geophysical Society as Second Vice President (1991), First Vice President (1992) and as President (1993).

C. Ray Tobias. Mr. Tobias joined the Company in 1990, and was elected Vice President in September 1997 and Executive Vice President and Director in January 2001. In January 2006, Mr. Tobias was elected Executive Vice President and Chief Operating Officer. Mr. Tobias supervises client relationships and survey cost quotations to clients. He has served on the Board of Directors of the International Association of Geophysical Contractors and is Past President of the Permian Basin Geophysical Society. Prior to joining the Company, Mr. Tobias was employed by Geo-Search Corporation where he was an operations supervisor.

Christina W. Hagan. Ms. Hagan joined the Company in 1988, and was elected Chief Financial Officer and Vice President in 1997 and Senior Vice President, Secretary and Chief Financial Officer in January 2003. In January 2004, Ms. Hagan was elected as Executive Vice President, Secretary and Chief Financial Officer. Prior thereto, Ms. Hagan served the Company as Controller and Treasurer. Ms. Hagan is a certified public accountant.

Howell W. Pardue. Mr. Pardue joined the Company in 1976 as Vice President of Data Processing and Director. Mr. Pardue was elected Executive Vice President of Data Processing in 1997. Prior to joining the Company, Mr. Pardue was employed in data processing for 17 years by Geosource, Inc. and its predecessor geophysical company.

K.S. Forsdick. Mr. Forsdick joined the Company in 1993 and was elected Vice President in January 2001. Mr. Forsdick is responsible for soliciting, designing and bidding seismic surveys for prospective clients. Prior to joining the Company, Mr. Forsdick was employed by Grant Geophysical Company and Western Geophysical Company and was responsible for marketing and managing land and marine seismic surveys for domestic and international operations. He has served on the Governmental Affairs Committee of the International Association of Geophysical Contractors.

Part II

Item 5. *MARKET FOR OUR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS*

Our common stock trades on the Nasdaq Stock Market® under the symbol DWSN. The table below represents the high and low sales prices for the period shown.

Quarter Ended	High	Low
December 31, 2005	$ 32.44	$ 25.00
March 31, 2006	$ 34.74	$ 23.74
June 30, 2006	$ 39.06	$ 27.51
September 30, 2006	$ 32.85	$ 25.70
December 31, 2006	$ 40.26	$ 26.56

March 31, 2007	$ 53.82	$ 30.50
June 30, 2007	$ 63.89	$ 48.03
September 30, 2007	$ 85.67	$ 51.52

As of November 23, 2007, the market price for our common stock was $67.42 per share and we had 159 common stockholders of record, as reported by our transfer agent.

We have not paid cash dividends on our common stock since becoming a public company and have no plans to do so in the foreseeable future.

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The following table summarizes certain information regarding securities authorized for issuance under our equity compensation plans as of September 30, 2007.

Equity Compensation Plan Information

	Number of Securities to be Issued Upon Exercise	Weighted-Average Exercise	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securitie