DAWSON GEOPHYSICAL CO
Form 10-Q
August 07, 2009

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the Quarterly Period Ended June 30, 2009

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. 001-34404
DAWSON GEOPHYSICAL COMPANY

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

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

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

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

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

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

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

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

Title of Each Class	Outstanding at August 7, 2009
Common Stock, $.33 1/3 par value	**7,822,994 shares**

DAWSON GEOPHYSICAL COMPANY
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DAWSON GEOPHYSICAL COMPANY
STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
Operating revenues	$ 52,319,000	$ 84,568,000	$ 197,160,000	$ 240,530,000
Operating costs:				
Operating expenses	46,374,000	60,457,000	151,126,000	176,111,000
General and administrative	1,761,000	1,649,000	6,324,000	5,192,000
Depreciation	6,521,000	6,317,000	19,651,000	17,722,000
	54,656,000	68,423,000	177,101,000	199,025,000
Income (loss) from operations	(2,337,000)	16,145,000	20,059,000	41,505,000
Other income (expense):				
Interest income	73,000	76,000	213,000	410,000
Interest expense		(116,000)		(316,000)
Other (expense) income	(12,000)	(141,000)	298,000	(42,000)
Income (loss) before income tax	(2,276,000)	15,964,000	20,570,000	41,557,000
Income tax benefit (expense):				
Current	963,000	(4,981,000)	(7,163,000)	(13,631,000)
Deferred	(313,000)	(1,276,000)	(1,129,000)	(2,223,000)
	650,000	(6,257,000)	(8,292,000)	(15,854,000)
Net income (loss)	$ (1,626,000)	$ 9,707,000	$ 12,278,000	$ 25,703,000
Net income (loss) per common share	$ (0.21)	$ 1.27	$ 1.57	$ 3.35
Net income (loss) per common share-assuming dilution	$ (0.21)	$ 1.26	$ 1.57	$ 3.33
Weighted average equivalent common shares outstanding	7,810,592	7,668,651	7,802,186	7,665,253
Weighted average equivalent common shares outstanding -assuming dilution	7,810,592	7,733,076	7,839,324	7,727,205

See accompanying notes to the financial statements (unaudited).

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DAWSON GEOPHYSICAL COMPANY
BALANCE SHEETS

	June 30, 2009 (Unaudited)	September 30, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,920,000	$ 8,311,000
Short-term investments	20,177,000	
Accounts receivable, net of allowance for doubtful accounts of $795,000 in June 2009 and $55,000 in September 2008	50,071,000	76,221,000
Prepaid expenses and other assets	6,425,000	877,000
Current deferred tax asset	1,722,000	873,000
Total current assets	108,315,000	86,282,000
Property, plant and equipment	240,833,000	250,519,000
Less accumulated depreciation	(108,957,000)	(103,180,000)
Net property, plant and equipment	131,876,000	147,339,000
	$ 240,191,000	$ 233,621,000
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 10,825,000	$ 15,308,000
Accrued liabilities:		
Payroll costs and other taxes	1,638,000	3,363,000
Other	10,308,000	14,869,000
Deferred revenue	2,366,000	993,000
Total current liabilities	25,137,000	34,533,000
Deferred tax liability	15,100,000	13,128,000
Stockholders equity:		
Preferred stock-par value $1.00 per share; 5,000,000 shares authorized, none outstanding		
Common stock-par value $.33 1/3 per share; 50,000,000 shares authorized, 7,822,494 and 7,794,744 shares issued and outstanding in each period	2,608,000	2,598,000
Additional paid-in capital	88,766,000	87,051,000
Other comprehensive expense, net of tax	(9,000)	
Retained earnings	108,589,000	96,311,000

Total stockholders equity	199,954,000	185,960,000
	$ 240,191,000	$ 233,621,000

See accompanying notes to the financial statements (unaudited).

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DAWSON GEOPHYSICAL COMPANY
STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 12,278,000	$ 25,703,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	19,651,000	17,722,000
Noncash compensation	1,315,000	932,000
Deferred income tax expense	1,129,000	2,223,000
Excess tax benefit from share-based payment arrangement	(4,000)	(104,000)
Provision for bad debts	1,169,000	81,000
Other	32,000	59,000
Change in current assets and liabilities:		
Decrease (increase) in accounts receivable	21,500,000	(14,355,000)
Increase in prepaid expenses	(5,548,000)	(288,000)
(Decrease) increase in accounts payable	(4,101,000)	2,081,000
Decrease in accrued liabilities	(6,286,000)	(1,172,000)
Increase (decrease) in deferred revenue	1,373,000	(2,277,000)
Net cash provided by operating activities	42,508,000	30,605,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of short-term investments	(20,192,000)	
Proceeds from disposal of assets	101,000	20,000
Partial proceeds on fire insurance claim	2,843,000	
Capital expenditures, net of noncash capital expenditures summarized below in noncash investing activities	(4,062,000)	(47,816,000)
Net cash used in investing activities	(21,310,000)	(47,796,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	407,000	46,000
Proceeds from line of credit		15,000,000
Excess tax benefit from share-based payment arrangement	4,000	104,000
Net cash provided by financing activities	411,000	15,150,000

Net increase (decrease) in cash and cash equivalents	21,609,000	(2,041,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	8,311,000	14,875,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 29,920,000	$ 12,834,000
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest expense	$	$ 375,000
Cash paid during the period for income taxes	$ 13,137,000	$ 14,638,000
NONCASH INVESTING ACTIVITIES:		
Accrued purchases of property and equipment	$ (382,000)	$ (90,000)
Equipment purchase through reduction of insurance proceeds	$ 638,000	$

See accompanying notes to the financial statements (unaudited).

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DAWSON GEOPHYSICAL COMPANY
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND NATURE OF OPERATIONS

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

2. OPINION OF MANAGEMENT

Although the information furnished is unaudited, in the opinion of management of the Company, the accompanying financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results for the periods presented. The results of operations for the three months and the nine months ended June 30, 2009 are not necessarily indicative of the results to be expected for the fiscal year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in this Form 10-Q report pursuant to certain rules and regulations of the Securities and Exchange Commission (the SEC). These financial statements should be read with the financial statements and notes included in the Company s Form 10-K for the fiscal year ended September 30, 2008.

Critical Accounting Policies

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

Concentrations of Credit Risk. Financial instruments which potentially expose the Company to concentrations of credit risk, as defined by SFAS No. 105 (SFAS 105), Disclosure of Information About Financial Instruments with Off-Balance Sheet Risk and Financial Instruments with Concentrations of Credit Risk, at any given time may consist of cash and cash equivalents, money market funds and overnight investment accounts, short-term investments and trade accounts receivable. At June 30, 2009 and September 30, 2008, the Company had deposits in domestic banks in excess of federally insured limits. The Company believes the credit risk associated with these deposits is minimal. Money market funds seek to preserve the value of the investment, but it is possible to lose money investing in these funds. The Company invests funds overnight under a repurchase agreement with its bank which is collateralized by securities of the United States Federal agencies. The Company invests primarily in short-term U.S. Treasury Securities which are believed to be a low risk investment. The Company s sales are to clients whose activities relate to oil and natural gas exploration and production. The Company generally extends unsecured credit to these clients; therefore, collection of receivables may be affected by the economic conditions of the oil and natural gas industry. The Company closely monitors extensions of credit and may negotiate payment terms that mitigate risk.

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

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

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

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

Impairment of Long-lived Assets. Long-lived assets are reviewed for impairment when triggering events occur suggesting deterioration in the assets recoverability or fair value. Recognition of an impairment charge is required if future expected net cash flows are insufficient to recover the carrying value of the assets and the fair value of the assets is below the carrying value of the assets. Management s forecast of future cash flow used to perform impairment analysis includes estimates of future revenues and expenses based on the Company s anticipated future results while considering anticipated future oil and natural gas prices which is fundamental in assessing demand for the Company s services. If the carrying amount of the assets exceeds the estimated expected undiscounted future cash flows, the Company measures the amount of possible impairment by comparing the carrying amount of the assets to their fair value.

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

Depreciation is computed using the straight-line method. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the balance sheet, and any resulting gain or loss is reflected in the results of operations for the period.

Tax Accounting. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109 (SFAS 109), Accounting for Income Taxes, which requires the recognition of amounts of taxes payable or refundable for the current year and an asset and liability approach in recognizing the amount of deferred tax liabilities and assets for the future tax consequences of events that have been recognized in the Company s financial statements or tax returns. Management determines deferred taxes by identifying the types and amounts of existing temporary differences, measuring the total deferred tax asset or liability using the applicable tax rate and reducing the deferred tax asset by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Management s methodology for recording income taxes requires judgment regarding assumptions and the use of estimates, including determining the annual effective tax rate and the valuation of deferred tax assets, which can create variances between actual results and estimates and could have a material impact on the Company s provision or benefit for income taxes.

Stock-Based Compensation. The Company accounts for stock-based compensation in accordance with SFAS No. 123(R) (SFAS 123(R)), Share-Based Payment, which requires companies to measure all employee stock-based compensation awards, including stock options and restricted stock, using the fair value method and recognize compensation cost, net of forfeitures, in its financial statements. The Company records compensation expense as operating or general and administrative expense as appropriate in the Statements of Operations on a straight-line basis over the vesting period.

Reclassifications. Certain prior year amounts have been reclassified in the current year in order to be consistent with the current year presentation.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157 (SFAS 157), Fair Value Measurements. SFAS 157 clarifies that fair value is the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants. Further, the standard establishes a framework for measuring fair value in generally accepted accounting principles and expands certain disclosures about fair value measurements. SFAS 157 became effective for all financial assets and financial liabilities as of October 1, 2008, and upon adoption, SFAS 157 did not have a material impact on the Company s financial statements. In February 2008, the FASB issued FASB Staff Position 157-2 (FSP 157-2), Effective Date of FASB Statement No. 157, which delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company

does not expect the adoption of SFAS 157-2 to have a material impact on its financial statements.

In February 2007, the FASB issued SFAS No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 provides companies with an option to report selected financial assets and liabilities at fair value. As of June 30,

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2009, the Company has not elected the fair value option for any additional financial assets and liabilities beyond those already prescribed by accounting principles generally accepted in the United States.

In April 2009, the FASB issued FASB Staff Position FAS 107-1 and APB 28-1 (FSP FAS 107-1 and APB 28-1), Interim Disclosures About Fair Value of Financial Instruments. FSP FAS 107-1 and APB 28-1 requires fair value disclosures in both interim and annual financial statements in order to provide more timely information about the effects of current market conditions on financial instruments. FSP FAS 107-1 and APB 28-1 became effective for the Company as of June 15, 2009. The adoption of this standard did not have a material impact on its financial statements.

In May 2009, the FASB issued SFAS No. 165 (SFAS 165), Subsequent Events, which establishes general standards of accounting for, and requires disclosure of, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted the provisions of SFAS 165 for the quarter ended June 30, 2009. The adoption of SFAS 165 did not have a material impact on its financial statements. The Company has evaluated events subsequent to the balance sheet date (June 30, 2009) through the issue date of this Form 10-Q (August 7, 2009) and concluded that no subsequent events have occurred that require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

In June 2009, the FASB issued SFAS No. 168 (SFAS 168), The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162. SFAS 168 provides for the FASB Accounting Standards Codification (the Codification) to become the single official source of authoritative, nongovernmental U.S. generally accepted accounting principles. The Codification did not change GAAP but reorganizes the literature. SFAS 168 is effective for interim and annual periods ending after September 15, 2009. The Company does not expect the adoption of SFAS 168 to have an impact on its financial statements.

3. SHORT-TERM INVESTMENTS

The components of the Company s short-term investments are as follows:

	As of June 30, 2009 (in 000 s)			
	Carrying Value	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
U.S. Treasury bills	$ 9,978	$	$ 3	$ 9,975
U.S. Treasury notes	10,214		12	10,202
Total	$ 20,192	$	$ 15(a)	$ 20,177

(a) Other comprehensive expense reflected on the Balance Sheet reflects unrealized losses net of the tax effect of approximately $6,000.

The Company s short-term investments have contractual maturities ranging from December 2009 to September 2010. These investments have been classified as available-for-sale. The Company had no short-term

investments at September 30, 2008.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

At June 30, 2009 and September 30, 2008, the Company s financial instruments included cash and cash equivalents, short-term investments, trade receivables and accounts payable. Due to the short-term maturities of cash and cash equivalents, trade receivables and accounts payables, the carrying amounts approximate fair value at the respective balance sheet dates.

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including short-term investments.

The fair value measurements of these short-term investments were determined using the following inputs:

	As of June 30, 2009 (in 000 s)			
		Fair Value Measurements at Reporting Date Using:		
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments:				
U.S. Treasury bills	$ 9,975	$ 9,975	$	$
U.S. Treasury notes	10,202	10,202		
Total	$ 20,177	$ 20,177	$	$

Investments in U.S. Treasury bills and notes classified as available-for-sale are measured using unadjusted quoted market prices (Level 1) at the reporting date provided by our investment custodian.

The Company had no short-term investments at September 30, 2008.

5. DEBT

The Company s revolving line of credit loan agreement is with Western National Bank. On June 2, 2009, the Company renewed the existing agreement for a two-year term on substantially the same terms as the previous facility. In addition, based on the Company s assessment of its current needs, the Company reduced the size of the facility to $20.0 million from $40.0 million. The agreement permits the Company to borrow, repay and reborrow, from time to time until June 2, 2011, up to $20.0 million based on the borrowing base calculation as defined in the agreement. The Company s obligations under this agreement are secured by a security interest in its accounts receivable, equipment and related collateral. Interest on the facility accrues at an annual rate equal to either the 30-day London Interbank Offered Rate (LIBOR), plus two and one-quarter percent or the Prime Rate, minus three-quarters percent as the Company directs monthly, subject to an interest rate floor of 4%. Interest on the outstanding amount under the loan agreement is payable monthly. The loan agreement contains customary covenants for credit facilities of this type, including limitations on disposition of assets, mergers and reorganizations. The Company is also obligated to meet certain financial covenants under the loan agreement, including maintaining specified ratios with respect to cash flow coverage, current assets and liabilities and debt to tangible net worth. The Company was in compliance with all covenants as of June 30, 2009 and August 7, 2009. The Company has not utilized the line of credit loan agreement since it paid off the entire outstanding balance of $20.0 million as of September 30, 2008.

6. STOCK-BASED COMPENSATION

The Company s stock-based compensation activity for the periods ended June 30, 2009 and 2008 is summarized below.

Incentive Stock Options:

The Company estimates the fair value of each stock option on the date of grant using the Black-Scholes option pricing model. The expected volatility is based on historical volatility over the expected term. As the Company has not historically declared dividends and does not anticipate declaring dividends in the future, the dividend yield used in the calculation is zero. The risk free rate is determined by reference to the U.S. Treasury yield curve in effect at or near the time of grant for the expected term of the award. The expected term is the anticipated average amount of time that an option is outstanding, assuming it will vest, and is determined based on historical experience of similar awards, giving consideration to the contractual term of the awards, vesting schedules and expectations of employee exercise behavior. 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

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the Black-Scholes model. Options granted by the Company vest in equal installments annually over four years from the date of grant. Options granted in the first quarter of fiscal 2009 expire ten years from the date of grant. Options granted prior to fiscal 2009 expire five years from the date of grant. Compensation cost is recognized on a straight-line basis as the options vest.

The Company granted 152,000 stock option awards to officers and employees during the quarter ended December 31, 2008. No options were granted during the quarters ended March 31, 2009 and June 30, 2009 or the nine months ended June 30, 2008. The intrinsic value of options exercised during the nine months ended June 30, 2009 and 2008 was $199,000 and $389,000 for 22,750 and 6,500 shares, respectively.

Stock options issued under the Company s stock-based compensation plans are incentive stock options. No tax deduction is recorded when options are awarded. If an exercise and sale of vested options results in a disqualifying disposition, a tax deduction for the Company occurs. For the nine months ended June 30, 2009 and 2008 there were $4,000 and $104,000, respectively, in excess tax benefits from disqualifying dispositions of options.

The Company recognized compensation expense associated with stock option awards of $222,000 and $59,000 during the nine months ended June 30, 2009 and 2008, respectively. This amount is included in operating expenses and general and administrative costs in the Statements of Operations.

Stock Awards:

No restricted stock awards have been granted during the nine months ended June 30, 2009. The Company granted 38,500 restricted shares during the first nine months of fiscal 2008. The weighted average grant date fair value of the fiscal 2008 awards was $67.25. The fair value of the restricted stock granted equals the market price on the grant date. The restricted shares vest after three years.

The Company s tax benefit with regard to restricted stock awards is consistent with the tax election of the recipient of the award. Historically no elections under IRC Section 83(b) have been made for restricted stock awards granted by the Company. As a result, the compensation expense for restricted stock has generated a deferred tax asset for the Company equal to the tax effect of the amount of compensation expense recorded.

The Company recognized compensation expense related to restricted stock awards of $1,002,000 in the first nine months of fiscal 2009 and $449,000 in the first nine months of fiscal 2008. This amount is included in operating expenses and general and administrative costs in the Statements of Operations.

The Company granted 5,000 shares with immediate vesting to outside directors in the first quarter of fiscal 2009 and 3,000 shares with immediate vesting as compensation to outside directors in the first quarter of fiscal 2008. The grant date fair value for these shares equaled $18.19 and $69.64 in each quarter, respectively. The Company granted 3,500 shares with immediate vesting to employees as compensation during the nine months ended June 30, 2008. The weighted average grant date fair value for these shares equaled $61.57. No shares with immediate vesting were granted during the second or third quarters of fiscal 2009. These compensation amounts are included in operating expenses and general and administrative costs in the Statements of Operations.

The Company recognized compensation expense, as well as the related tax benefit associated with these stock awards of $91,000 in the first nine months of fiscal 2009 and $424,000 in the first nine months of fiscal 2008. This amount is included in wages in the Statements of Operations.

7. COMMITMENTS AND CONTINGENCIES

On March 14, 2008, a wildfire in West Texas burned a remote area in which one of the Company s data acquisition crews was operating. The fire destroyed approximately $2.9 million net book value of the Company s equipment, all of which was covered by the Company s property insurance, net of the deductible. In addition to the loss of equipment, a number of landowners in the fire area suffered damage to their grazing lands, livestock, fences and other improvements. The Company is currently repairing damage incurred by such landowners as a result of the fire. The Company currently estimates the likely amount of the landowner damages will be less than $1.8 million. The Company believes any damages paid will be covered by the Company s general liability insurance. In February 2009, the Company received the remaining insurance proceeds for equipment losses sustained by the Company during the fire and for the Company s debris pick-up costs. The Company recorded an immaterial gain on the receipt of such insurance proceeds in the second quarter of fiscal 2009.

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

The Company experiences contractual disputes with its clients from time to time regarding the payment of invoices or other matters. While the Company seeks to minimize these disputes and maintain good relations with its clients, the Company has in the past and may in the future, experience disputes that could affect its results of operations in any period.

During the quarter ended March 31, 2009, one of the Company s clients filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code. As of June 30, 2009, this client had an accounts receivable balance with the Company of approximately $1.0 million. The Company increased its allowance for doubtful accounts during the second fiscal quarter to cover exposures related to this bankruptcy. During the third quarter of fiscal 2009, management performed an additional review of the Company s current past due accounts. As a result of such review, management made only a nominal adjustment to the Company s allowance for doubtful accounts.

The Company has non-cancelable operating leases for office space in Midland, Houston, Denver, Oklahoma City and Lyon Township, Michigan.

The following table summarizes payments due in specific periods related to the Company s contractual obligations with initial terms exceeding one year as of June 30, 2009.

	Payments Due by Period (in 000 s)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating lease obligations	$ 1,355	$ 585	$ 739	$ 31	$

Some of the Company s operating leases contain predetermined fixed increases of the minimum rental rate during the initial lease term. For these leases, the Company recognizes the related expense on a straight-line basis and records the difference between the amount charged to expense and the rent paid as deferred rent. Rental expense under the Company s operating leases with initial terms exceeding one year was $429,000 and $388,000 for the nine months ended June 30, 2009 and 2008, respectively.

As of June 30, 2009, the Company recognized unused letters of credit totaling $3,580,000. The Company s letters of credit principally back obligations associated with the Company s self-insured retention on workers compensation claims.

8. SUBSEQUENT EVENTS

The Company has evaluated events subsequent to the balance sheet date (June 30, 2009) through the issue date of this Form 10-Q (August 7, 2009) and concluded that no subsequent events have occurred that require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

9. NET INCOME PER COMMON SHARE

The Company accounts for earnings per share in accordance with SFAS No. 128 (SFAS 128), Earnings per Share. Basic net income per share is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of common shares and common share equivalents outstanding during the period.

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

Three Months Ended