

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON D.C. 20549

(Mark One)

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

For the quarterly period ended June 30, 1997

OR

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

For the transition period from _____ to _____

For Quarter Ended June 30, 1997 Commission File number 2-71058

DAWSON GEOPHYSICAL COMPANY

(Exact name of Registrant as specified in its Charter)

TEXAS

75-0970548

(State or other jurisdiction of
incorporation or organization)

(IRS Employer Identification No.)

208 S. Marienfeld, Midland, Texas

79701

(Address of principal executive offices)

(Zip Code)

(Registrant's telephone number, including area code) 915/682-7356

NONE

(Former Name, Former Address & Former Fiscal Year if changed since last report)

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

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

CLASS

Outstanding at June 30, 1997

Common Stock, \$.33 1/3 par value

4,199,150 shares

DAWSON GEOPHYSICAL COMPANY

INDEX

	Page No.

Part I. Financial Information:	
Statements of Operations -- Three Months and Nine Months ended June 30, 1997 and 1996	3
Balance Sheets -- June 30, 1997 and September 30, 1996	4
Statements of Cash Flows -- Nine Months Ended June 30, 1997 and 1996	5
Notes to Financial Statements	6
Management's Discussion and Analysis of Financial Condition and Results of Operations	8
Part II. Other Information	

PART I. FINANCIAL INFORMATION

DAWSON GEOPHYSICAL COMPANY

STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30		Nine Months Ended June 30	
	1997	1996	1997	1996
Operating revenues	\$12,520,000	\$8,555,000	\$34,304,000	\$24,485,000
Operating costs:				
Operating expenses	8,127,000	6,059,000	22,840,000	17,613,000
General and administrative	386,000	293,000	1,052,000	1,031,000
Depreciation	1,685,000	1,453,000	5,456,000	4,104,000
	10,198,000	7,805,000	29,348,000	22,748,000
Income from operations	2,322,000	750,000	4,956,000	1,737,000
Other income (expense):				
Interest income	86,000	75,000	167,000	187,000
Interest expense	(111,000)	(26,000)	(341,000)	(26,000)
Gain on disposal of assets	3,000	--	196,000	9,000
Other income	6,000	1,000	15,000	1,000
Income before income tax	2,306,000	800,000	4,993,000	1,908,000
Income tax expense:				
Current	(622,000)	(76,000)	(1,222,000)	(373,000)
Deferred	(183,000)	(210,000)	(523,000)	(314,000)
	(805,000)	(286,000)	(1,745,000)	(687,000)
Net income	\$ 1,501,000	\$ 514,000	\$ 3,248,000	\$ 1,221,000
Net income per common share	\$.36	\$.12	\$.78	\$.29
Weighted average equivalent shares outstanding	4,216,545	4,204,912	4,190,713	4,197,520

See accompanying notes to the financial statements.

DAWSON GEOPHYSICAL COMPANY

BALANCE SHEETS

	June 30, 1997 ----- (UNAUDITED)	September 30, 1996 -----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 2,645,000	\$ 1,493,000
Marketable securities	3,680,000	988,000
Accounts receivable	8,454,000	6,161,000
Income taxes receivable	--	193,000
Prepaid expenses	293,000	148,000
	-----	-----
Total current assets	15,072,000	8,983,000
	-----	-----
Property, plant and equipment	55,225,000	56,368,000
Less accumulated depreciation	(25,550,000)	(23,442,000)
	-----	-----
Net property, plant and equipment	29,675,000	32,926,000
	-----	-----
	<u>\$44,747,000</u>	<u>\$41,909,000</u>
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 857,000	\$ 857,000
Accounts payable	1,560,000	2,079,000
Accrued liabilities:		
Payroll and other taxes	294,000	560,000
Income taxes payable	174,000	--
Other	297,000	144,000
	-----	-----
Total current liabilities	3,182,000	3,640,000
	-----	-----
Long-term debt, less current maturities	4,214,000	4,857,000
	-----	-----
Deferred income taxes	1,131,000	608,000
	-----	-----
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, 4,199,150 and 4,161,550 shares issued and outstanding	1,400,000	1,387,000
Additional paid-in capital	17,171,000	17,016,000
Retained earnings	17,649,000	14,401,000
	-----	-----
Total stockholders' equity	36,220,000	32,804,000
	-----	-----
	<u>\$44,747,000</u>	<u>\$41,909,000</u>
	=====	=====

Contingencies (See Note 3)

See accompanying notes to the financial statements.

DAWSON GEOPHYSICAL COMPANY

STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended June 30	
	1997	1996
Cash flows from operating activities:		
Net income	\$3,248,000	\$1,221,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,456,000	4,104,000
Gain on disposal of assets	(196,000)	(9,000)
Other	(3,000)	(82,000)
Deferred income tax expense	523,000	314,000
Change in current assets and liabilities:		
Increase in accounts receivable	(2,293,000)	(613,000)
Decrease (increase) in prepaid expenses	(145,000)	13,000
Decrease (increase) in income taxes receivable	193,000	(285,000)
Increase (decrease) in accounts payable	(519,000)	2,163,000
Increase (decrease) in accrued liabilities	(113,000)	22,000
Increase in federal and state income taxes payable	174,000	--
Net cash provided by operating activities	6,325,000	6,848,000
Cash flows from investing activities:		
Proceeds from disposal of assets	288,000	31,000
Capital expenditures	(2,340,000)	(10,490,000)
Proceeds from sale and maturity of marketable securities	742,000	2,845,000
Investment in marketable securities	(3,377,000)	(2,096,000)
Net cash used in investing activities	(4,687,000)	(9,710,000)
Cash flows from financing activities:		
Principal payments on debt	(643,000)	(71,000)
Proceeds from debt	--	3,854,000
Proceeds from exercise of stock options	157,000	52,000
Net cash provided (used) by financing activities	(486,000)	3,835,000
Net increase in cash and cash equivalents	1,152,000	973,000
Cash and cash equivalents at beginning of period	1,493,000	1,671,000
Cash and cash equivalents at end of period	\$2,645,000	\$2,644,000

See accompanying notes to the financial statements.

DAWSON GEOPHYSICAL COMPANY

NOTES TO FINANCIAL STATEMENTS

1. OPINION OF MANAGEMENT

Although the information furnished is unaudited, in the opinion of management of the Registrant, the accompanying financial statements reflect all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the financial condition and results of operations for the period presented. The results of operations for the three months and the nine months ended June 30, 1997, are not necessarily indicative of the results to be expected for the fiscal year.

2. NOTES PAYABLE

As of April 1, 1996, two notes payable exist under a loan agreement with a bank. The loan agreement consists of (1) a revolving line of credit of \$5,000,000 which matured April 15, 1997 with funding availability determined by a borrowing base calculation; and (2) a term note of \$6,000,000 to mature March 15, 2003. Both notes are secured by eligible accounts receivable and equipment purchased from loan proceeds. The loan agreement contains various restrictive covenants and compliance requirements. Among others, the agreement requires that no liens exist upon any of the collateral nor any vehicle owned by the Company. The notes bear interest at the bank's prime rate (8.50% at June 30, 1997). The term note requires monthly principal and interest payments.

In May 1997, the Company amended the April 1, 1996 loan agreement with a bank. The amendment to the loan agreement includes: (1) a renewal and increase of the principal amount of the revolving line of credit to \$6,000,000 with a maturity date of April 15, 1999; and (2) an additional six year term facility for the purchase of capital equipment of \$5,000,000.

During fiscal 1996, the Company was advanced \$6,000,000 on the term note for the purchase of capital equipment. For the fiscal years 1997 through 2002, the annual maturity is \$857,000, and for fiscal 2003 the balance will be due. The Company did not utilize the revolving line of credit which expired April 15, 1997 and has not utilized the existing line of credit.

3. CONTINGENCIES

On July 1, 1995, an accident involving an automobile owned by the Company claimed the

lives of four employees. The Company is a defendant in two lawsuits by a brother individually and the families of four of the employees whose deaths resulted from the accident. The parties filed suit against the Company under the negligence and/or gross negligence provisions of the Texas Workers' Compensation Act. Accordingly, based on currently filed pleadings, the Company believes its exposure is limited to claimed exemplary damages up to \$23 million. The litigation is currently in the discovery stage. The Company has approximately \$12 million of insurance coverage available to provide against an unfavorable outcome in this matter. Due to the uncertainties inherent in litigation, no absolute assurance can be given as to the ultimate outcome of these suits. However, the Company believes, based on knowledge of the facts to date and consultation with its legal advisors, that liabilities, if any, from these suits should not have a material adverse effect on the Company's financial position.

The Company is party to other legal actions arising in the ordinary course of its business, none of which management believes will result in a material adverse effect on the Company's financial position or results of operations, as the Company believes it is adequately insured.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

Through three quarters of fiscal 1997, the Company has reported quarterly income from operations to revenues of 14.4% as compared to 7.1% for the same period of the prior year. The Company's performance in fiscal 1997 is indicative of the operational potential of our five fully complemented crews, demand, and mostly favorable weather. The Company is preparing to place a sixth crew into service which will be equipped with a 2,000 channel Input/Output System Two remote seismic recording system.

Certain statements contained herein constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance, or achievements expressed or implied by such forward-looking statements. Such factors include, among others, the following: weather, the volatility of oil and gas prices, and the availability of capital resources.

RESULTS OF OPERATIONS

The Company's operating revenues for the first nine months of 1997 totaled \$34,304,000 versus \$24,485,000 for the same period of fiscal 1996, an increase of 40.1%. For the three months ended June 30, 1997, operating revenues increased \$3,965,000 or 46.3%. The increase in revenues is primarily due to increased capacity and improved efficiency resulting from fiscal 1996 capital expenditures. The fiscal 1996 capital expenditures consisted of the addition of a fifth crew in the third quarter combined with additional channel capacity of the existing crews and additional energy source units. The Company believes that the revenues of the quarter ended June 30, 1997 are indicative of the level of operations that may be sustained for the remainder of fiscal 1997 and for 1998 based on continued demand, equipment capacity, favorable weather, and other factors. Minimal revenues were generated through the acquisition and processing of 2-D seismic data.

Operating expenses for the nine months ended June 30, 1997 totaled \$22,840,000, an increase of \$5,227,000, or 29.7%, over the same period of fiscal 1996. For the quarter ended June 30, 1997, operating expenses increased \$2,068,000, or 34.1%. Operating expenses increased primarily as a result of increased personnel and other expenses associated with the equipment acquisitions and technological upgrades made primarily during the third quarter of fiscal 1996. The quarter ended June 30, 1997 also contains start up expenses for the new crew to be fielded in August 1997.

General and administrative expenses for the nine months ended June 30, 1997 totaled \$1,052,000, an increase of \$21,000 from the same period of fiscal 1996. For the quarter

ended June 30, 1997, general and administrative expenses totaled \$386,000, an increase of \$93,000 over the same period of fiscal 1996. The increase for fiscal year 1997 is primarily due to timing adjustments of certain expenses. General and administrative expenses totaled 3.1% of operating revenues for the nine months ended June 30, 1997 versus 4.2% of operating revenues for the same period of the prior year.

Depreciation for the nine months ended June 30, 1997 totaled \$5,456,000, an increase of \$1,352,000, or 32.9%, from the same period of fiscal 1996. For the quarter ended June 30, 1997, depreciation increased \$232,000, or 16.0%. Depreciation increased as a result of the capital expansion discussed below in "Liquidity and Capital Resources".

Total operating costs for the first nine months of fiscal 1997 totaled \$29,348,000, an increase of 29.0% over the first nine months of fiscal 1996 due to the factors described above. Income from operations increased to \$4,956,000, 14.4% of revenues, from \$1,737,000, 7.1% of revenues, in the comparable nine month period of the prior year. For the quarter ended June 30, 1997, income from operations is 18.5% of operating revenues as compared to 8.8% in the comparable quarter of fiscal 1996. This increase is the direct result of the Company's operating expenses being relatively fixed as compared to revenue trends. Because of the high proportion of relatively fixed total operating costs (including personnel costs for active crews and depreciation costs), income from operations in fiscal 1997 reflects the benefit of efficient production with steady demand for five crews.

Interest is paid monthly at prime rate on the principal of the term note described below in "Credit Agreement."

Federal and state income tax expense is calculated at the rates of 35% and 36% in fiscal years 1997 and 1996, respectively.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Despite the increase of net income to \$3,248,000 in fiscal 1997 versus \$1,221,000 in fiscal 1996, net cash provided by operating activities of \$6,325,000 for the nine months ended June 30, 1997 as compared to \$6,848,000 for the same period of the prior year reflects a slight decrease primarily due to changes in working capital components. The increase in accounts receivable in fiscal 1997 is the result of increased revenues and all accounts are considered to be collectible.

Net cash used in investing activities decreased to \$4,687,000 for the first nine months of fiscal 1997 from \$9,710,000 in the same period of fiscal 1996. During the second quarter of fiscal 1997, the Company invested cash generated from operations in U. S. Treasury instruments. As discussed below in "Capital Expenditures," the Company is positioning for possible future expansion.

Net cash used in financing activities primarily reflects principal payments on debt. As discussed below in "Credit Agreement," the Company is servicing a term note with monthly principal payments of \$71,400.

Capital Expenditures

Capital expenditures of \$15,597,000 during fiscal year 1996 in addition to capital expenditures during fiscal 1995 and 1994 have positioned the Company to supply market demand with technologically advanced 3-D data acquisition recording systems and leading edge data processing capabilities. Depreciation has increased as a new crew has been placed into service each year for the past several years. During fiscal 1997, some 3-D equipment became fully depreciated.

Capital expenditures of \$2,340,000 for the nine months ended June 30, 1997 include additions and replacements to the myriad of cables and geophones, enhancements to the surveying operation, and additions in support of quality control and operational safety efforts. The capital expenditures to date in fiscal 1997 illustrate an opportunity to examine and fine tune various areas of operation after several years of aggressive expansion.

The Company is in the process of placing a sixth crew into service. It is anticipated that it will be operational during August 1997. The cost of the new crew equipped with a 2,000 channel Input/Output System Two remote seismic recording (RSR) system is expected to be approximately \$6,000,000 to be financed as discussed below in "Credit Agreement."

Credit Agreement

As of April 1, 1996, the Company has a loan agreement with a bank. The loan agreement consists of (1) a revolving line of credit of \$5,000,000 which matured April 15, 1997 and (2) a term note of \$6,000,000 to mature March 15, 2003. Both notes are secured by eligible accounts receivable and equipment purchased from loan proceeds. The term note was fully advanced during fiscal 1996 and no advances were made on the line of credit that matured April 15, 1997.

The loan agreement of April 1, 1996 was amended in May 1997 to include a renewal and increase of the principal amount of the revolving line of credit to \$6,000,000 with a maturity date of April 15, 1999, and an additional six year term facility for the purchase of capital equipment of \$5,000,000. The term facility and working capital will be utilized to finance the equipment to be placed into service in August 1997.

Capital Resources

The Company believes that its capital resources, including the availability of bank borrowings, and cash flow from operations are adequate to meet its current operational needs and finance future capital needs as determined by market demand and technological developments.

SIGNATURE

Pursuant to the requirements 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.

DAWSON GEOPHYSICAL COMPANY
(REGISTRANT)

By: /s/ L. Decker Dawson

L. Decker Dawson
President

/s/ Christina W. Hagan

Christina W. Hagan
Chief Financial Officer

DATE: August 6, 1997

INDEX TO EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
10	First Amendment to Loan Agreement
27	Financial Data Schedule

FIRST AMENDMENT TO LOAN AGREEMENT

This First Amendment to Loan Agreement (the "First Amendment"), dated as of April 15, 1997, is made and entered into by and between Dawson Geophysical Company, a Texas corporation (the "Borrower"), and Norwest Bank Texas, N.A., a national banking association (the "Lender").

W I T N E S S E T H :

WHEREAS, the Borrower and the Lender entered into that certain Loan Agreement, dated as of April 1, 1996 (as amended, renewed and extended by this First Amendment, the "Agreement");

WHEREAS, pursuant to the terms of the Agreement, the Borrower executed, issued and delivered to the Lender (i) that certain Revolving Line of Credit Promissory Note, dated April 1, 1996, in the original principal amount of \$5,000,000 and (ii) that certain Term Promissory Note, dated April 1, 1996, in the original principal amount of \$6,000,000;

WHEREAS, the Borrower has requested that the Lender (i) renew, extend and increase the principal amount of the indebtedness evidenced by the Revolving Line of Credit Promissory Note dated April 1, 1996, (ii) make available to the Borrower an additional six-year term loan facility in the principal amount of \$5,000,000 and (iii) amend certain provisions of the Agreement;

WHEREAS, the Lender is willing to amend the Agreement and provide the additional financing requested by the Borrower, but only upon and subject to the terms of the Agreement as provided therein and in this First Amendment;

NOW, THEREFORE, in consideration of the foregoing and the mutual covenants and agreements herein contained, and intending to be legally bound hereby, the parties hereto hereby agree as follows:

SECTION 1. DEFINED TERMS.

All terms defined in the Agreement, and not otherwise defined in this First Amendment, shall have the meanings given them in the Agreement when used herein.

SECTION 2. AMENDMENTS TO AGREEMENT.

(a) Section 1.1 of the Agreement is amended by deleting the defined terms "Prime Rate" and "Cash Flow", and by adding the following new defined terms:

"EBITDA" means for any period, the revenues of the Borrower for such period from continuing operations, minus associated costs (generally excluding Interest Expense, income taxes, unallocated depreciation, depletion, and amortization and other non-cash expenses), determined in each case on a consolidated basis in accordance with generally accepted accounting principles.

"FIXED CHARGES" means for any period, the sum (without duplication) of (i) Interest Expense for such period, (ii) provision for cash income taxes made by the Borrower on a consolidated basis in respect of such period and (iii) scheduled payments required to be made during such period on account of principal of Debt of the Borrower.

"INTEREST EXPENSE" means for any period, the amount of interest expense, both expensed and capitalized, of the Borrower determined on a consolidated basis in accordance with generally accepted accounting principles, for such period on the aggregate principal amount of Borrower's Debt, determined on a consolidated basis in accordance with generally accepted accounting principles.

"PRIME RATE" shall mean that variable rate of interest per annum published in the Money Rates section of The Wall Street Journal as its "prime rate". In the event that the Money Rates section of The Wall Street Journal does not have a rate designated by it as its "prime rate," then the "Prime Rate" shall be deemed to be the variable rate of interest per annum which is the general reference rate designated by Lender as its "reference rate", "base rate", or other similar rate and which is comparable to the "Prime Rate" as described above.

(b) Section 2.1(a) of the Agreement is amended to read in its entirety as follows:

(a) TERM LOANS - (i) Contemporaneously with the execution and delivery hereof, Borrower shall execute and deliver to the Lender the Term Promissory Note in the form of Exhibit A hereto in the principal amount of \$6,000,000.00 (the "Term Promissory Note"). Subject to and upon the terms and conditions of this Agreement and the Term Promissory Note, Borrower may, at any time and from time to time during the period from the date hereof until December 31, 1996, request one or more Advances and borrow (without the ability to reborrow amounts prepaid under the Term Promissory Note) under the Term Promissory Note; provided, however, the cumulative aggregate principal amount of all

Advances under the Term Promissory Note shall not exceed \$6,000,000.00. The Term Promissory Note, including the loans evidenced thereby, is a multiple advance term loan facility and shall not be construed as a revolving line of credit as reborrowings are not permitted. The Term Promissory Note shall be stated to mature seven years from the date of such note and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in the Term Promissory Note. Principal and interest on the Term Promissory Note shall be payable in the manner and on the dates specified therein.

(ii) Contemporaneously with the execution and delivery hereof, Borrower shall execute and deliver to the Lender the Term Promissory Note in the form of Exhibit A-1 hereto in the principal amount of \$5,000,000.00 (the "Second Term Promissory Note"). Subject to and upon the terms and conditions of this Agreement and the Second Term Promissory Note, Borrower may, at any time and from time to time during the period from the date hereof until April 15, 1998, request one or more Advances and borrow (without the ability to reborrow amounts prepaid under the Second Term Promissory Note) under the Second Term Promissory Note; provided, however, the cumulative aggregate principal amount of all Advances under the Second Term Promissory Note shall not exceed \$5,000,000.00. The Second Term Promissory Note, including the loans evidenced thereby, is a multiple advance term loan facility and shall not be construed as a revolving line of credit as reborrowings are not permitted. The Second Term Promissory Note shall be stated to mature six years from the date of such note and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in the Second Term Promissory Note. Principal and interest on the Second Term Promissory Note shall be payable in the manner and on the dates specified therein.

(c) Section 2.1(b) of the Agreement is amended to read in its entirety as follows:

(b) Contemporaneously with the execution and delivery hereof, Borrower shall execute and deliver to the Lender the Revolving Line of Credit Promissory Note in the form of Exhibit B hereto in the maximum principal amount of \$6,000,000.00 (the "Revolving Line of Credit Promissory Note"). Subject to and upon the terms and conditions of this Agreement and the Revolving Line of Credit Promissory Note, Borrower may request one or more Advances and borrow, prepay and reborrow at any time and from time to time under the Revolving Line of Credit Promissory Note; provided, however, the aggregate principal amount of all Advances outstanding at any one time under the Revolving Line of Credit Promissory Note shall never exceed the lesser of (i) \$6,000,000.00 or (ii) the Borrowing Base then in effect. The Revolving Line of Credit Promissory Note shall be stated to mature on April 15, 1999 and shall bear interest on the unpaid principal amount thereof from time to time outstanding at the applicable interest rate per annum as provided in the Revolving

Line of Credit Promissory Note. Principal and interest on the Revolving Line of Credit Promissory Note shall be payable in the manner and on the dates specified therein.

(d) Section 5.1(d) of the Agreement is hereby amended by deleting the reference to "Cash Flow" therein and substituting in place thereof "Fixed Charge Coverage".

(e) Section 6.10 of the Agreement is hereby amended by deleting said Section in its entirety and substituting in place thereof the following new Section 6.10:

6.10 FIXED CHARGE COVERAGE. Borrower shall not permit the ratio of (i) EBITDA to Fixed Charges to be less than 1.25 to 1.0 for each moving three-month period (each such period a "Test Period") ending on the date such ratio is to be calculated, with the first such calculation to be made and dated as of May 31, 1997, followed by a similar calculation at the end of each succeeding Test Period.

SECTION 3. REPRESENTATIONS AND WARRANTIES.

The Borrower hereby represents and warrants to the Lender as follows:

(a) ORGANIZATION, EXISTENCE AND GOOD STANDING OF BORROWER. Borrower is duly organized, validly existing and in good standing under the laws of its state of organization, having all corporate powers required to enter into and carry out the transactions contemplated by this First Amendment. Borrower is duly qualified, in good standing and authorized to do business in all other jurisdictions wherein the character of Borrower's operations, transaction of business or ownership of property makes such qualification necessary, except where the absence of qualification, good standing or authorization would not have a Material Adverse Effect on the business, properties or financial condition of Borrower.

(b) AUTHORIZATION. Borrower is duly authorized and empowered to create and issue the Revolving Line of Credit Promissory Note and the Second Term Promissory Note pursuant to this First Amendment, and to execute and deliver this First Amendment, the Revolving Line of Credit Promissory Note, Second Term Promissory Note and all other instruments referred to or mentioned herein, and all action (corporate or otherwise) on Borrower's part requisite for the due execution, delivery and performance of this First Amendment, the Revolving Line of Credit Promissory Note, Second Term Promissory Note and the other Loan Papers executed and delivered in connection with this First Amendment has been duly and effectively taken.

(c) ENFORCEABLE OBLIGATIONS. This First Amendment is, and the other Loan Papers to be executed in connection with this First Amendment when duly executed and delivered will be, the legal, valid and binding obligation of Borrower, enforceable in accordance with their respective terms (subject to applicable bankruptcy, insolvency or other laws generally affecting the enforcement of creditors' rights).

(d) NO CONFLICTS OR CONSENTS. The execution and delivery by Borrower of this First Amendment, the Revolving Line of Credit Promissory Note and the Second Term Promissory Note, the performance by Borrower of its obligations under such Loan Papers, and the consummation of the transactions contemplated thereby, do not and will not (1) conflict with any provision of the articles of incorporation or bylaws of Borrower, or (2) except as to matters that could not reasonably be expected to have a Material Adverse Effect, result in the acceleration of any Debt owed by Borrower, or conflict with any law, statute, rule, regulation or Material Agreement, judgment, license, order or permit applicable to or binding upon Borrower or any of its properties or assets, or require the consent, approval, authorization or order of, or notice to or filing with, any Governmental Authority or third party, or result in or require the creation of any Lien upon any material assets or properties of Borrower, except as permitted in the Loan Papers.

(e) USE OF PROCEEDS. The proceeds of the loans to be made to the Borrower shall be used by the Borrower for the following purposes:

- (i) with respect to loans made pursuant to and evidenced by the Second Term Promissory Note, for the purchase of seismic survey equipment and machinery to be used in the ordinary course of Borrower's business; and
- (ii) with respect to loans made pursuant to and evidenced by the Revolving Line of Credit Promissory Note, for general working capital purposes.

The Borrower will not use any of the loan proceeds to purchase any vehicle subject to a certificate of title law of any state.

(f) REPRESENTATIONS AND WARRANTIES. The representations and warranties contained in Article IV of the Agreement are true and correct on and as of the date hereof as though made on and as of the date hereof; and

(g) NO EVENT OF DEFAULT. No Event of Default has occurred and is continuing (before and after giving effect to this First Amendment).

(h) NO MATERIAL ADVERSE CHANGES. Since April 1, 1996, there have been no events, circumstances or other developments of any nature that have had a Material Adverse Effect.

SECTION 4. RATIFICATION AND AMENDMENT OF SECURITY AGREEMENT.

The Borrower hereby (i) ratifies and confirms in all respects all of the terms, provisions and covenants of that certain Security Agreement, dated as of April 1, 1996, between the Borrower and the Lender (the "Security Agreement"), including, without limitation, the grant and conveyance to the Lender of Bank Liens in and to Collateral (as defined in the Security Agreement); (ii) acknowledges and agrees that all of the Notes, including the Second Term Promissory Note, are now and shall remain subject to all of the terms and provisions of the Security Agreement and that the security interests and Bank Liens in and to the Collateral now secure and shall continue to secure the prompt and complete payment and performance when due (whether at the stated maturity, by acceleration or otherwise) of the Obligation; and (iii) represents and warrants that the representations and warranties contained in Section 3 of the Security Agreement are true and correct as of the date hereof as though made on and as of the date of this First Amendment.

SECTION 5. CONDITIONS PRECEDENT.

This First Amendment shall be effective only upon satisfaction of the following conditions precedent:

- (a) the Lender shall have received the Second Term Promissory Note in the form of Exhibit A-1 hereto, executed and delivered by a duly authorized officer of Borrower;
- (b) the Lender shall have received the Revolving Line of Credit Promissory Note in the form of Exhibit B hereto, executed and delivered by a duly authorized officer of Borrower;
- (c) the Lender shall have received counterparts of this First Amendment duly executed and delivered by the Borrower;
- (d) no Event of Default shall have occurred and be continuing as of the date of this First Amendment, both before and after giving effect to this First Amendment;

- (e) the Lender shall have received a copy of the resolutions, in form and substance satisfactory to the Lender, of the Board of Directors of the Borrower authorizing (i) the execution, delivery and performance of this First Amendment and the other Loan Papers to be entered into in connection herewith, and (ii) the additional borrowings contemplated by this First Amendment, such resolutions to be certified by its Secretary or Assistant Secretary as of the date hereof, which certificate shall state that the resolutions thereby certified have not been amended, modified, revoked or rescinded as of the date of such certificate and such certificate shall be in form and substance satisfactory to the Lender;
- (f) the Lender shall have received the favorable opinion of counsel for Borrower covering the matters requested by Lender; and
- (g) the Lender shall have received such other agreements, documents, certificates and instruments as Lender may require.

SECTION 6. NO OTHER AMENDMENTS; RATIFICATION.

Except as expressly amended and modified by this First Amendment, all of the provisions and covenants of the Agreement, all exhibits thereto and all other Loan Papers are and shall continue to remain in full force and effect in accordance with the terms thereof and all of such provisions, covenants, exhibits and Loan Papers are hereby ratified and confirmed by the Borrower as of the date of this First Amendment as if the Agreement were executed as of the date of this First Amendment.

SECTION 7. COUNTERPARTS.

This First Amendment may be executed by one or more of the parties hereto in any number of separate counterparts and all of said counterparts taken together shall be deemed to constitute one and the same instrument.

SECTION 8. GOVERNING LAW.

THIS FIRST AMENDMENT SHALL BE GOVERNED BY AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS.

SECTION 9. GLOBAL AMENDMENT OF LOAN PAPERS.

All of the Loan Papers are hereby modified wherever necessary or appropriate, and even though not specifically addressed herein, so as to conform to the amendments to the Agreement as set forth herein, and the Borrower covenants to observe, comply with and perform each and all of the terms and provisions of the Loan Papers, as modified hereby. Each Loan Paper is hereby amended so that any reference in each such Loan Paper to the Agreement shall mean a reference to the Agreement as amended hereby.

Without limiting the generality of the foregoing paragraph:

(a) all references to the "Notes" appearing in the Agreement and in the Security Agreement shall mean and be deemed to include the Term Promissory Note, Second Term Promissory Note and the Revolving Line of Credit Promissory Note; and

(b) the references to "Term Promissory Note" in Sections 1.1, 2.2, 2.7, 3.2, 4.10, 5.4 and 5.12 of the Agreement shall be deemed to include and constitute separate references to each of the Term Promissory Note and the Second Term Promissory Note, and the provisions of each such Section shall apply to the Second Term Promissory Note with full force and effect as if express reference to the Second Term Promissory Note were contained in each such Section.

THIS FIRST AMENDMENT AND THE OTHER LOAN PAPERS REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS OR SUBSEQUENT ORAL AGREEMENTS BETWEEN THE PARTIES. THERE ARE NO UNWRITTEN AGREEMENTS BETWEEN THE PARTIES.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be executed and delivered by their respective duly authorized officers as of the date and year first above written.

NORWEST BANK TEXAS, N.A., a
national banking association

By: /s/ Mark D. McKinney

Mark D. McKinney, Senior
Vice President

DAWSON GEOPHYSICAL COMPANY

By: /s/ L. Decker Dawson

L. Decker Dawson, President

EXHIBIT A-1

TERM PROMISSORY NOTE

\$5,000,000.00

April 15, 1997

FOR VALUE RECEIVED, in the manner, on the dates and in the amounts herein stipulated, DAWSON GEOPHYSICAL COMPANY, a Texas corporation ("Borrower"), hereby promises and agrees to pay to the order of NORWEST BANK TEXAS, N.A, a national banking association ("Lender"), in Midland, Midland County, Texas, the principal sum of FIVE MILLION AND NO/100 DOLLARS (\$5,000,000.00) or, if less, the aggregate unpaid principal amount outstanding hereunder, in lawful money of the United States of America, which shall be legal tender in payment of all debts and dues, public and private, at the time of payment, together with interest on the unpaid principal amount hereof from time to time outstanding until maturity at a rate per annum which shall from day to day be equal to the lesser of (a) the Prime Rate in effect from day to day (calculated on the basis of actual days elapsed, but computed as if each calendar year consisted of 360 days) or (b) the Highest Lawful Rate. Each change in the rate of interest charged under this Term Promissory Note (this "Note") shall, subject to the terms hereof, become effective, without notice to Borrower, upon the effective date of each change in the Prime Rate or the Highest Lawful Rate, as the case may be. Notwithstanding the foregoing, if at any time the Prime Rate exceeds the Highest Lawful Rate, the rate of interest on this Note shall be limited to the Highest Lawful Rate, but any subsequent reductions in the Prime Rate shall not reduce the rate of interest hereon below the Highest Lawful Rate until the total amount of interest accrued hereon approximately equals the amount of interest which would have accrued hereon if the Prime Rate had at all times been in effect. In the event that at maturity (stated or by acceleration), or at final payment of this Note, the total amount of interest paid or accrued hereon is less than the amount of interest which would have accrued if the Prime Rate had at all times been in effect, then, at such time and to the extent permitted by applicable laws, Borrower shall pay to Lender an amount equal to the difference between (a) the lesser of the amount of interest which would have accrued if the Prime Rate had at all times been in effect or the amount of interest which would have accrued if the Highest Lawful Rate had at all times been in effect, and (b) the amount of interest actually paid or accrued on this Note. All of the past-due principal and accrued interest hereunder shall, at the option of Lender, bear interest from maturity (stated or by acceleration) until paid at a rate per annum equal to the Highest Lawful Rate. Interest calculations may be made ten days prior to any interest installment due date under this Note, in which event, if there is an adjustment in the interest rate in accordance with the terms hereof during such ten-day period, then Borrower shall subsequently, on demand, pay to Lender any underpayment, or Lender shall pay to Borrower, any overpayment, as the case may be, as a result of any adjustment during such ten-day period.

This Note is the Term Promissory Note referred to in the Loan Agreement, dated as of April 1, 1996, as amended by that certain First Amendment to Loan Agreement, dated as of the date hereof (as the same may be further amended, supplemented or otherwise modified from time to time, the "Loan Agreement"), by and between Borrower and Lender, and is subject to the terms and conditions thereof. Reference is made to the Loan Agreement for provisions for the disbursement of funds hereunder and for a further statement of the rights, remedies, powers, privileges, benefits, duties and obligations of Borrower and Lender under the Loan Agreement and this Note. Terms used herein which are defined in the Loan Agreement shall have such defined meanings unless otherwise defined herein. The holder of this Note shall be entitled to the benefits of the Loan Agreement.

Subject to the terms hereof and of the Loan Agreement, from the date of this Note until April 15, 1998, the Lender will make Advances and Subsequent Advances under this Note in accordance with the provisions of the Loan Agreement. The aggregate principal amount of all such Advances as may be made by the Lender to the Borrower under this Note shall never exceed Five Million and No/100 Dollars (\$5,000,000.00).

The principal of this Note shall be due and payable (a) in seventy-one consecutive monthly installments of \$69,400.00 each (the "Monthly Payment Amount"), with the first such installment being due and payable on May 15, 1997, and a like installment being due and payable on the fifteenth day of each succeeding calendar month to and including March 15, 2003; provided that, if on the due date of any such monthly installment the principal amount then outstanding on this Note is less than the Monthly Payment Amount, such lesser amount shall be due and payable on such installment due date, and (b) one final installment in an amount equal to all unremaining unpaid principal and accrued and unpaid interest on this Note shall be due and payable on April 15, 2003. Interest, computed on the unpaid balance of this Note, shall be due and payable as it accrues, on the same dates as, but in addition to, the installments of principal. All payments and prepayments shall be applied first to accrued interest, the balance to principal. If partial prepayments are applied to principal, installments of principal shall continue as scheduled. All past due principal and interest shall bear interest at the lesser of the Prime Rate plus two percent (2%) or the Highest Lawful Rate.

This Note is secured as provided in the Loan Agreement and in the other Loan Papers, to which reference is hereby made for a description of the properties and assets in which a lien and security interest has been granted, the nature and extent of the security, the terms and conditions upon which the liens and security interest were granted and the rights of the holder of this Note with respect thereto.

Time is of the essence of this Note. Upon the occurrence of any one or more of the Events of Default specified in the Loan Agreement, all amounts then remaining unpaid on

this Note shall become, or may be declared to be, immediately due and payable, all as provided therein.

Borrower and any and all co-makers, endorsers, guarantors and sureties severally waive notice (including, but not limited to, notice of protest, notice of dishonor, notice of intent to accelerate and notice of acceleration), demand, presentment for payment, protest, diligence in collecting or bringing suit and the filing of suit for the purpose of fixing liability, and consent that the time of payment hereof may be extended and re-extended from time to time without notice to them or any of them, and each agrees that his, her or its liability on or with respect to this Note shall not be affected, diminished or impaired by any (a) release of any security at any time existing for this Note, (b) substitution for any security at any time existing for this Note, or (c) failure to perfect (or to maintain perfection of) any lien on or security interest in any such security, in each case in whole or in part, with or without notice, before or after maturity.

It is the intention of Borrower and Lender that Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated by the Loan Agreement and this Note would be usurious as to Lender under laws applicable to it (including the laws of the United States of America and the State of Texas or any other jurisdiction whose laws may be mandatorily applicable to Lender notwithstanding the other provisions of the Loan Agreement and this Note), then, in that event, notwithstanding anything to the contrary in this Note, the Loan Agreement or any other Loan Paper or other agreement entered into in connection with or as security for this Note, (i) the aggregate of all consideration which is contracted for, taken, reserved, charged or received by Lender under this Note, the Loan Agreement or any other Loan Paper or agreement entered into in connection with or as security for this Note shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be credited by Lender on the principal amount of the Obligation to Lender (or, to the extent that the principal amount of the Obligation shall have been or would thereby be paid in full, refunded by Lender to the Borrower); and (ii) in the event that the maturity of this Note is accelerated by reason of an Event of Default under the Loan Agreement or otherwise, or in the event of any prepayment, then such consideration that constitutes interest under law applicable to Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in this Note, the Loan Agreement or otherwise shall be cancelled automatically by Lender as of the date of such acceleration of prepayment and, if theretofore paid, shall be credited by Lender on the principal amount of the Obligation (or, to the extent that the principal amount of such Obligation shall have been or would thereby be paid in full, refunded by Lender to the Borrower).

To the extent that Article 5069-1.04 of the Texas Revised Civil Statutes is relevant to Lender for the purpose of determining the Highest Lawful Rate, the applicable rate ceiling

under such Article shall be determined by the indicated (weekly) rate ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law.

This Note is performable and payable in the County of Midland, State of Texas, and shall be construed in accordance with, and governed by, the laws of the State of Texas; provided, however, that the laws pertaining to allowable rates of interest may, from time to time, be governed by the laws of the United States of America.

DAWSON GEOPHYSICAL COMPANY

By: /s/ L. Decker Dawson

L. Decker Dawson, President

EXHIBIT B

REVOLVING LINE OF CREDIT PROMISSORY NOTE

\$6,000,000.00

April 15, 1997

FOR VALUE RECEIVED, in the manner, on the dates and in the amounts herein stipulated, DAWSON GEOPHYSICAL COMPANY, a Texas corporation ("Borrower"), hereby promises and agrees to pay to the order of NORWEST BANK TEXAS, N.A., a national banking association ("Lender"), in Midland, Midland County, Texas, the principal sum of SIX MILLION AND NO/100 DOLLARS (\$6,000,000.00) or, if less, the aggregate unpaid principal amount outstanding hereunder, in lawful money of the United States of America, which shall be legal tender in payment of all debts and dues, public and private, at the time of payment, together with interest on the unpaid principal amount hereof from time to time outstanding until maturity at a rate per annum which shall from day to day be equal to the lesser of (a) the Prime Rate in effect from day to day (calculated on the basis of actual days elapsed, but computed as if each calendar year consisted of 360 days) or (b) the Highest Lawful Rate. Each change in the rate of interest charged under this Revolving Line of Credit Promissory Note (this "Note") shall, subject to the terms hereof, become effective, without notice to Borrower, upon the effective date of each change in the Prime Rate or the Highest Lawful Rate, as the case may be. Notwithstanding the foregoing, if at any time the Prime Rate exceeds the Highest Lawful Rate, the rate of interest on this Note shall be limited to the Highest Lawful Rate, but any subsequent reductions in the Prime Rate shall not reduce the rate of interest hereon below the Highest Lawful Rate until the total amount of interest accrued hereon approximately equals the amount of interest which would have accrued hereon if the Prime Rate had at all times been in effect. In the event that at maturity (stated or by acceleration), or at final payment of this Note, the total amount of interest paid or accrued hereon is less than the amount of interest which would have accrued if the Prime Rate had at all times been in effect, then, at such time and to the extent permitted by applicable laws, Borrower shall pay to Lender an amount equal to the difference between (a) the lesser of the amount of interest which would have accrued if the Prime Rate had at all times been in effect or the amount of interest which would have accrued if the Highest Lawful Rate had at all times been in effect, and (b) the amount of interest actually paid or accrued on this Note. All of the past-due principal and accrued interest hereunder shall, at the option of Lender, bear interest from maturity (stated or by acceleration) until paid at a rate per annum equal to the Highest Lawful Rate. Interest calculations may be made ten days prior to any interest installment due date under this Note, in which event, if there is an adjustment in the interest rate in accordance with the terms hereof during such ten-day period, then Borrower

shall subsequently, on demand, pay to Lender any underpayment, or Lender shall pay to Borrower, any overpayment, as the case may be, as a result of any adjustment during such ten-day period.

This Note (i) is given in renewal, extension and increase in principal amount, but not in extinguishment, of that certain Revolving Line of Credit Promissory Note, dated April 1, 1996, in the original principal amount of \$5,000,000, and (ii) is the Revolving Line of Credit Promissory Note referred to in the Loan Agreement, dated as of April 1, 1996, as amended by that certain First Amendment to Loan Agreement, dated as of the date hereof (as the same may be further amended, supplemented or otherwise modified from time to time, the "Loan Agreement"), by and between Borrower and Lender, and is subject to the terms and conditions thereof. Reference is made to the Loan Agreement for provisions for the disbursement of funds hereunder and for a further statement of the rights, remedies, powers, privileges, benefits, duties and obligations of Borrower and Lender under the Loan Agreement and this Note. Terms used herein which are defined in the Loan Agreement shall have such defined meanings unless otherwise defined herein. The holder of this Note shall be entitled to the benefits of the Loan Agreement.

Advances and Subsequent Advances under this Note shall be made in accordance with the provisions of the Loan Agreement. Subject to the terms hereof and of the Loan Agreement, Borrower may borrow, repay and reborrow at any time and from time to time under this Note; provided, however, that the principal sum outstanding hereunder at any one time shall never exceed the lesser of \$6,000,000.00 or the Borrowing Base then in effect.

Interest on the outstanding principal balance of this Note shall be due and payable monthly on the fifteenth day of each calendar month, commencing May 15, 1997. The then outstanding principal balance of this Note and all accrued and unpaid interest shall be due and payable on April 15, 1999.

This Note is secured as provided in the Loan Agreement and in the other Loan Papers, to which reference is hereby made for a description of the properties and assets in which a lien and security interest has been granted, the nature and extent of the security, the terms and conditions upon which the liens and security interest were granted and the rights of the holder of this Note with respect thereto.

Time is of the essence of this Note. Upon the occurrence of any one or more of the Events of Default specified in the Loan Agreement, all amounts then remaining unpaid on this Note shall become, or may be declared to be, immediately due and payable, all as provided therein.

Borrower and any and all co-makers, endorsers, guarantors and sureties severally waive notice (including, but not limited to, notice of protest, notice of dishonor, notice of intent to accelerate and notice of acceleration), demand, presentment for payment, protest, diligence in collecting or bringing suit and the filing of suit for the purpose of fixing liability, and consent that the time of payment hereof may be extended and re-extended from time to time without notice to them or any of them, and each agrees that his, her or its liability on or with respect to this Note shall not be affected, diminished or impaired by any (a) release of any security at any time existing for this Note, (b) substitution for any security at any time existing for this Note, or (c) failure to perfect (or to maintain perfection of) any lien on or security interest in any such security, in each case in whole or in part, with or without notice, before or after maturity.

It is the intention of Borrower and Lender that Lender shall conform strictly to usury laws applicable to it. Accordingly, if the transactions contemplated by the Loan Agreement and this Note would be usurious as to Lender under laws applicable to it (including the laws of the United States of America and the State of Texas or any other jurisdiction whose laws may be mandatorily applicable to Lender notwithstanding the other provisions of the Loan Agreement and this Note), then, in that event, notwithstanding anything to the contrary in this Note, the Loan Agreement or any other Loan Paper or other agreement entered into in connection with or as security for this Note, (i) the aggregate of all consideration which is contracted for, taken, reserved, charged or received by Lender under this Note, the Loan Agreement or any other Loan Paper or agreement entered into in connection with or as security for this Note shall under no circumstances exceed the maximum amount allowed by such applicable law, and any excess shall be credited by Lender on the principal amount of the Obligation to Lender (or, to the extent that the principal amount of the Obligation shall have been or would thereby be paid in full, refunded by Lender to the Borrower); and (ii) in the event that the maturity of this Note is accelerated by reason of an Event of Default under the Loan Agreement or otherwise, or in the event of any prepayment, then such consideration that constitutes interest under law applicable to Lender may never include more than the maximum amount allowed by such applicable law, and excess interest, if any, provided for in this Note, the Loan Agreement or otherwise shall be canceled automatically by Lender as of the date of such acceleration of prepayment and, if theretofore paid, shall be credited by Lender on the principal amount of the Obligation (or, to the extent that the principal amount of such Obligation shall have been or would thereby be paid in full, refunded by Lender to the Borrower).

To the extent that Article 5069-1.04 of the Texas Revised Civil Statutes is relevant to Lender for the purpose of determining the Highest Lawful Rate, the applicable rate ceiling under such Article shall be determined by the indicated (weekly) rate ceiling from time to time in effect, subject to Lender's right subsequently to change such method in accordance with applicable law.

This Note is performable and payable in the County of Midland, State of Texas, and shall be construed in accordance with, and governed by, the laws of the State of Texas; provided, however, that the laws pertaining to allowable rates of interest may, from time to time, be governed by the laws of the United States of America.

DAWSON GEOPHYSICAL COMPANY

By: /s/ L. Decker Dawson

L. Decker Dawson, President

9-MOS
SEP-30-1997
JUN-30-1997
2,645,000
3,680,000
8,454,000
0
0
15,072,000
55,225,000
(25,550,000)
44,747,000
3,182,000
0
0
1,400,000
0
36,220,000
34,304,000
34,304,000
29,348,000
29,348,000
0
0
(341,000)
4,993,000
(1,745,000)
3,248,000
0
0
0
3,248,000
.78
0