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

# FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1999   COMMISSION FILE NO. 0-10144

## DAWSON GEOPHYSICAL COMPANY

INCORPORATED IN THE STATE OF TEXAS   75-0970548 (I.R.S. EMPLOYER IDENTIFICATION NO.)

508 WEST WALL, SUITE 800, MIDLAND, TEXAS 79701
(PRINCIPAL EXECUTIVE OFFICE)
TELEPHONE NUMBER: 915-684-3000

------------------

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 | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| COMMON STOCK, $.33 1/3 PAR VALUE | NONE |

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

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

The aggregate market value of the Common Stock of the Registrant based upon the mean between the closing high and low price of the Common Stock as of November 26, 1999 (as reported by NASDAQ), held by non-affiliates was approximately $42,006,105 (See Item 12). On that date, there were 5,411,794 shares of Dawson Geophysical Company Common stock, $.33 1/3 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 1, 5, 6, 7 and 8 of Parts I and II hereof is incorporated by reference to the Registrant's 1999 Annual Report filed or to be filed with the Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K.

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

# PART I

## ITEM 1. BUSINESS

There are no patents, trademarks, franchises or concessions held by the Registrant. Software licenses held by the Registrant are considered ordinary and replaceable. Although the Registrant has individual customers that comprise more than 10% of its total annual revenues, the Registrant does not consider the loss of any individual customer to have a material adverse effect on the Registrant due to the demand for the Registrant's services and for the services of the industry in which the Registrant competes. Competitors of the Registrant consist primarily of subsidiary companies of large corporations. Services provided by competitor companies other than provided by the Registrant may include marine geophysics, speculative acquisition of seismic data, a library of seismic data, or a combination of these services. The Registrant considers price and quality of service to be its principal methods of competition. Indicative of its level of commitment to the proprietary data of its customers, the Registrant does not maintain a library of seismic data or participate in speculative seismic data acquisition. Although the business of the Registrant is not considered seasonal, it does depend on favorable weather.

At September 30, 1999, the Company had 260 full-time employees. None of the Company's employees are subject to a collective bargaining agreement. The Company considers its relations with its employees to be good.

Additional information required by this Item 1 is hereby incorporated by reference to the Registrant's 1999 Annual Report (inside front cover, page 2 and page 20) filed or to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities and Exchange Act of 1934 within 120 days after the end of the fiscal year covered by this Form 10-K. (Exhibit 13 hereto.)

## ITEM 2. PROPERTIES

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

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

The Registrant owns additional undeveloped real property used for employee parking consisting of approximately 21,000 square feet in Midland, Texas, in the vicinity of the headquarters office building.

The Registrant has placed for sale the office building consisting of approximately 10,400 square feet previously occupied by the Registrant for executive offices and data processing.

The Registrant operates only in one industry segment and only in the United States.

ITEM 3. LEGAL PROCEEDINGS

The Registrant is a defendant in two lawsuits pending in the 112th and 83rd District Courts of Pecos County, Texas (respectively, Cause No. 8812, Ernestine Bernal, et al. vs. Javier Antonio Orona, et al.; and Cause No. P5565-83-CV, Carla Jaquez, et al. vs. Javier Antonio Orona, et al.) relating to a July 1995 accident involving a van owned by the Registrant which was used to transport employees to various job sites and a non-Registrant owned vehicle. The accident resulted in the deaths of four Registrant employees who were passengers in such van. The Registrant is one of several named defendants in such suits. Other named defendants include the estate of the deceased driver of such van, who was an employee of the Registrant, the driver of such non-Registrant owned vehicle, who was then an employee of the Registrant, the owner of such vehicle, and Ford Motor Company, the manufacturer of the Registrant van involved in such accident. In general, the claims against the Registrant include allegations of negligence, gross negligence and/or intentional tort as a result of, among other things, the Registrant's alleged failure to provide safe transportation for its employees and to properly select, train and supervise the deceased driver of such van. The plaintiffs in such suits are seeking actual damages from the defendants of $15.5 million, additional unspecified actual damages, pre-judgment and post-judgment interest and costs of suit as well as exemplary and punitive damages in an amount not to exceed four times the amount of actual damages. The Registrant believes that it has meritorious defenses to the claims asserted against it in such suits and it intends to continue to vigorously defend itself against such claims. In addition, the Registrant believes that it has approximately $11 million of liability insurance coverage to provide against an unfavorable outcome. The court has heard a motion for summary judgment in both cases requesting that the Registrant be dismissed from such suit based upon various legal theories. Such motion has not yet been ruled on by the court. Due to the uncertainties inherent in litigation, no assurance can be given as to the ultimate outcome of such suits or the adequacy or availability of the Registrant's liability insurance to cover the damages, if any, which may be assessed against the Registrant in such suits. A judgment awarding plaintiffs an amount significantly exceeding the Registrant's available insurance coverage could have a material adverse effect on the Registrant's financial condition, results of operations and liquidity.

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

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

No matter has been submitted during the fourth quarter of the 1999 fiscal year to a vote of security holders, through the solicitation of proxies or otherwise. However, please refer to the Registrant's Proxy Statement dated November 26, 1999, filed or to be filed with the Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K, notifying as to the election of Directors and selection of KPMG LLP as independent certified public accountants of the Company (requiring an affirmative vote of a majority of shares present or represented by proxy), at the Annual Meeting to be held on January 25, 2000.

# PART II

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

The information required by this Item 5 is hereby incorporated by reference to the Registrant's 1999 Annual Report (page 28 "Common Stock Information") referred to in Item 1 above.

## ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item 6 is hereby incorporated by reference to the Registrant's 1999 Annual Report (page 1 "Financial Highlights") referred to above in Item 1.

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

The information required by this Item 7 is hereby incorporated by reference to the Registrant's 1999 Annual Report (pages 12 to 14) referred to in Item 1.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary sources of market risk include fluctuations in commodity prices which effect demand for and pricing of the Company's services and interest rate fluctuations. At September 30, 1999, the Company had no indebtedness. The Company's short-term investments are fixed rate and the Company does not necessarily intend to hold them to maturity, and therefore, the short-term investments expose the Company to the risk of earnings or cash flow loss due to changes in market interest rates. As of September 30, 1999, the carrying value of the investments approximate fair value. The Company has not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other derivative financial instruments. The Company does not currently conduct business internationally so it is generally not subject to foreign currency exchange rate risk.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of independent public accountants appearing on page 15 and the financial statements appearing on pages 16 through 27 of Registrant's 1999 Annual Report for the year ended September 30, 1999, referred to above in Item 1, are incorporated herein by reference.

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

None

## PART III

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

The information required by this Item 10 with respect to Directors and Executive Officers is hereby incorporated by reference to the Registrant's Proxy Statement dated November 26, 1999 (page 2), filed or to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities and Exchange Act of 1934 within 120 days after the end of the fiscal year covered by this Form 10-K.

### ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item 11 is hereby incorporated by reference to the Registrant's Proxy Statement (page 3) referred to above in Item 10.

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

The information required by this Item 12 with respect to security ownership of certain beneficial owners is hereby incorporated by reference to the Registrant's Proxy Statement (page 6, "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT") referred to above in Item 10.

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

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) 1. Financial Statements

The following financial statements of the Registrant, included in pages 16 through 27 of the Registrant's 1999 Annual Report to Shareholders for the year ended September 30, 1999, and the Independent Auditors' Report on page 15 of such report, are incorporated herein by reference:

DESCRIPTION

Balance Sheets, September 30, 1999 and 1998

Statements of Operations
For the Years Ended
September 30, 1999, 1998 and 1997

Statements of Cash Flows
For the Years Ended
September 30, 1999, 1998 and 1997

Statements of Stockholders' Equity
For the Years Ended
September 30, 1999, 1998 and 1997

Notes to Financial Statements

Independent Auditors' Report

(a) 2. All schedules are omitted because they are not applicable, not required or because the required information is included in the financial statements or notes thereof.

(a) 3. Exhibits

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

(3) Restated Articles of Incorporation and Bylaws.

(4) Instruments defining the rights of security holders, including indentures.

(9) Voting Trust Agreement -- None; consequently, omitted.

(10) Material Contracts.

(11) Statement re: computation of per share earnings -- Not Applicable.

(12) Statement re: Computation of ratios -- Not Applicable.

(13) 1999 Annual Report.

(18) Letter re: change in accounting principles -- Not Applicable.

(19) Previously unfiled documents -- No documents have been executed or in effect during the reporting period which should have been filed; consequently, this exhibit has been omitted.

(22) Subsidiaries of the Registrant -- There are no subsidiaries of the Registrant; consequently, this exhibit has been omitted.

(23) Published report regarding matters submitted to vote of security holders -- None; consequently, omitted.

(24) Consent of experts and counsel -- Not applicable.

(25) Power of Attorney -- There are no signatures contained within this report pursuant to a power of attorney; consequently, this exhibit has been omitted.

(b) Reports on Form 8-K

The Registrant filed a report dated July 13, 1999 on Form 8-K during the last quarter of the year ended September 30, 1999.

(28) Additional Exhibits -- None.

(29) Information from reports furnished to state insurance regulatory authorities -- None.

EXHIBIT INDEX

| NUMBER | EXHIBIT | PAGE |
|---|---|---|
| (1) | * | |
| (2) | * | |
| (3) | Articles of Incorporation** and Bylaws | E-2 |
| (4) | Instruments defining the rights of security | ** |
| | holders, including indentures--Shareholder Rights Plan | *** |
| (5) | * | |
| (6) | * | |
| (7) | * | |
| (8) | * | |
| (9) | Voting Trust Agreement | Omit |
| (10) | Material Contracts | ** |
| (11) | Statement re: computation of per share earnings | Omit |
| (12) | Statement re: computation of ratios | Omit |
| (13) | 1999 Annual Report to Stockholders | E-1 |
| (14) | * | |
| (15) | * | |
| (16) | * | |
| (17) | * | |
| (18) | Letter re: change in accounting principles | Omit |
| (19) | Previously unfiled documents | Omit |
| (20) | * | |
| (21) | * | |
| (22) | Subsidiaries of the Registrant | Omit |
| (23) | Published report regarding matters submitted to vote of security holders | Omit |
| (24) | Consent of experts | |
| (25) | Power of Attorney | Omit |
| (26) | * | |
| (27) | * | |
| (28) | Additional Exhibits | Omit |
| (29) | Information from reports furnished to state insurance regulatory authorities | Omit |

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

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Midland, and the State of Texas, on the 26th day of November, 1999.

DAWSON GEOPHYSICAL COMPANY

By: /s/ L. Decker Dawson, President
L. Decker Dawson, President

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

| SIGNATURE | TITLE | DATE |
|---|---|---|
| /s/ L. Decker Dawson<br>L. Decker Dawson | President, Principal Executive and Director | 11-26-99 |
| /s/ Howell W. Pardue<br>Howell W. Pardue | Executive Vice President and Director | 11-26-99 |
| /s/ Paul H. Brown<br>Paul H. Brown | Director | 11-26-99 |
| /s/ Calvin J. Clements<br>Calvin J. Clements | Director | 11-26-99 |
| /s/ Floyd B. Graham<br>Floyd B. Graham | Director | 11-26-99 |
| /s/ Matthew P. Murphy<br>Matthew P. Murphy | Director | 11-26-99 |
| /s/ Tim C. Thompson<br>Tim C. Thompson | Director | 11-26-99 |
| /s/ Paula W. Henry<br>Paula W. Henry | Secretary | 11-26-99 |
| /s/ Christina W. Hagan<br>Christina W. Hagan | Vice President and Chief Financial Officer | 11-26-99 |

INDEX TO EXHIBITS

| EXHIBIT NUMBER | DESCRIPTION |
|---|---|
| 3 | Articles of Incorporation and Bylaws |
| 13 | 1999 Annual Report to Stockholders |
| 27 | Financial Data Schedule |

EXHIBIT 3

# DAWSON GEOPHYSICAL COMPANY

## BYLAWS

## ARTICLE I

## OFFICES

Section 1. The principal office of the Corporation shall be in the City of Midland, County of Midland, State of Texas, and the name of the resident agent in charge thereof is L. Decker Dawson.

Section 2. The Corporation may also have offices at such other places both within and without the State of Texas as the Board of Directors may from time to time determine or the business of the Corporation may require.

## ARTICLE II

## MEETINGS OF STOCKHOLDERS

Section 1. All meetings of the stockholders for the election of directors shall be held at the offices of the Corporation in Midland, Texas, unless otherwise provided by resolution by the Board of Directors. Meetings of stockholders for any other purpose may be held at such time and place, within or without the State of Texas, as shall be stated in the Notice of Meeting or in a duly executed waiver of notice thereof.

Section 2. An Annual Meeting of Stockholders shall be held on the fourth Tuesday of January at 10:00 a.m. in each year if not a legal holiday, and if a legal holiday, then on the next secular day following, at which time they shall elect a Board of Directors and transact such other business as may be properly brought before the meeting.

Section 3. Written notice of the Annual Meeting shall be served upon or mailed to each stockholder entitled to vote thereat at such address as appears on the books of the Corporation, at least ten days prior to the meeting.

Section 4. At least ten days before every election of Directors, a complete list of the stockholders entitled to vote at said election, arranged in alphabetical order with the residence of each and the number of voting shares held by each, shall be prepared by the Secretary. Such list shall be open at the principal office of the Corporation for said ten days to the examination of any stockholder, and shall be produced and kept at the time and place of election during the whole time thereof, and subject to the inspection of any stockholder who may be present.

Section 5. Special meetings of the stockholders, for any purpose or purposes, and unless otherwise prescribed by statute or by the certificate of incorporation, may be called by the President or Secretary at the request in writing of stockholders owning twenty-five percent (25%) or more in amount of the entire capital stock of the Corporation issued and outstanding and entitled to vote. Such request shall state the purpose or purposes of the proposed meeting.

Section 6. Written notice of a special meeting of stockholders, stating the time and place and object thereof, shall be served upon or mailed to each stockholder entitled to vote thereat at such address as appears on the books of the Corporation, at least ten (10) days before such meeting.

Section 7. Business transacted at all special meetings shall be confined to the objects stated in the call.

Section 8. The holders of a majority of the stock issued and outstanding and entitled to vote thereat, present in person or represented by proxy, shall be requisite and shall constitute a quorum at all meetings of the stockholders for the transaction of business except as otherwise provided by statute, by the Certificate of Incorporation or by these Bylaws. If, however, such quorum shall not be present or represented at any meeting of the stockholders, the stockholders entitled to vote thereat, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present or represented. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

Section 9. When a quorum is present at any meeting, the vote of the holders of a majority of the stock having voting power present in person or represented by proxy shall decide any question brought before such meeting, unless the question is one upon which by express provision of the statutes or of the Certificate of Incorporation or of these Bylaws, a different vote is required in which case such express provision shall govern and control the decision of such question.

Section 10. At any meeting of the stockholders, every stockholder having the right to vote shall be entitled to vote in person, or by proxy appointed by an instrument in writing subscribed by such stockholder and bearing a date not more than eleven months prior to said meeting, unless said instrument provides for a longer period. Each stockholder shall have one vote for each share of stock having voting power, registered in the stockholder's name on the books of the Corporation. Each outstanding share having voting power shall be entitled to one vote for each Director to be elected. Except where the transfer books of the Corporation shall have closed or a date shall have been fixed as a record date for the determination of its stockholders entitled to vote, no share of stock shall be voted on at any election for Directors which shall have been transferred on the books of the Corporation within twenty days next preceding such election of Directors.

Section 11. Whenever the vote of stockholders at a meeting thereof is required or permitted to be taken in connection with any corporate action by any provisions of the statutes or of the Certificate of Incorporation or of these Bylaws, the meeting and vote of stockholders may be dispensed with, if all the stockholders who would have been entitled to vote upon the action if such meeting were held shall consent in writing to such corporate action being taken.

Section 12. Nomination of Directors. Subject to the rights of holders of any class or series of stock having a preference over common stock of the Corporation as to dividends or upon liquidation and to elect Directors under specified circumstances, nominations of persons for election to the Board of Directors may be made only (a) by the Board of Directors or a committee appointed by the Board of Directors or (b) by any shareholder who is a shareholder of record at the time of giving the shareholders' notice provided for in this Section 12, who shall be entitled to vote at such meeting and who complies with the notice procedures set forth in this Section 12. A shareholder wishing to nominate one or more individuals to stand for election in the election of members of the Board of Directors at any annual or special meeting must provide written notice thereof to the Board of Directors not less than 80 days in advance of such meeting; provided, however, that in the event that the date of the meeting was not publicly announced by the Corporation by a mailing to shareholders, a press release or a filing with the Securities and Exchange Commission pursuant to Section 13(a) or 14(a) of the Securities and Exchange Act of 1934 more than 90 days prior to the meeting, such notice, to be timely, must be delivered to the Board of Directors not later than the close of business on the tenth day following the day on which the date of the meeting was publicly announced. A shareholder's notice shall set forth (i) the name and address, as they appear on the Corporation's books, of the shareholder making the nomination or nominations; (ii) such information regarding the nominee(s) proposed by such shareholder as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the nominee(s) been nominated or intended to be nominated by the Board of Directors; (iii) a representation of the shareholder as to the class and number of shares of stock of the Corporation that are beneficially owned by such shareholder, and the shareholder's intent to appear in person or by proxy at the meeting to propose such nomination; and (iv) the written consent of the nominee(s) to serve as a member of the Board of Directors if so elected. No shareholder nomination shall be effective unless made in accordance with the procedures set forth in this Section 12. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a shareholder nomination was not made in accordance with the provisions of these bylaws, and if the Chairman should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

Section 13. Proposals of Shareholders. At any meeting of shareholders, there shall be conducted only such business as shall have been brought before the meeting (a) by or at the direction of the Board of Directors or (b) by any shareholder of the Corporation who is a shareholder of record at the time of giving of the shareholders' notice provided for in this Section 13, who shall be entitled to vote at such meeting and who complies with the notice procedure set forth in this Section 13. For business to be properly brought before a meeting of shareholders by a shareholder, the shareholder shall have given timely notice thereof in writing to the Secretary of the Corporation. To be timely, a shareholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 80 days in advance of such meeting; provided, however, that in the event that the date of the meeting was not publicly announced by the Corporation by a mailing to shareholders, a press release or a filing with the Securities and Exchange Commission pursuant to Section 13(a) or 14(a) of the Securities and Exchange Act of 1934 more than 90 days prior to the meeting, such notice, to be timely, must be delivered to the Board of Directors not later than the close of business on the tenth day following the day on which the date of the meeting was first so publicly announced. A shareholder's notice shall set forth as to each matter proposed to be brought before the meeting: (1) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting and, in the event that such business includes a proposal regarding the amendment of either the Articles of Incorporation of the Corporation or these Bylaws, the language of the proposed amendment; (2) the name and address, as they appear on the Corporation's books, of the shareholder proposing such business; (3) a representation of the shareholder as to the class and number of shares of capital stock of the Corporation that are beneficially owned by such shareholder, and the shareholder's intent to appear in person or by proxy at the meeting to propose such business; and (4) any material interest of such shareholder in such proposal or business. Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at a shareholders meeting unless brought before the meeting in accordance with the procedure set forth in this Section 13. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that business was not properly brought before the meeting and in accordance with the provisions of these Bylaws, and if the Chairman should so determine, the Chairman shall so declare to the meeting and any such business not properly brought before the meeting shall not be transacted.

## ARTICLE III

## DIRECTORS

Section 1. The number of Directors which shall constitute the whole Board shall not be less than five nor more than fifteen. Within the limits above specified, the number of Directors shall be determined by resolution of the Board of Directors or by the stockholders at the Annual Meeting. The Directors shall be elected at the Annual Meeting of the Stockholders, except as provided in Section 2 of this Article, and each Director elected shall hold office until his successor shall be elected and shall qualify. Directors need not be stockholders.

Section 2. If any vacancies occur in the Board of Directors caused by death, resignation, retirement, disqualification, or removal from office of any Directors or otherwise, or any new directorship is created by an increase in the authorized number of Directors, a majority of the Directors then in office though less than a quorum may choose a successor or successors, or fill the newly created directorship and the Directors so chosen shall hold office until the next annual election of Directors and until their successors shall be duly elected and qualified, unless sooner displaced.

Section 3. The property and business of the Corporation shall be managed by its Board of Directors which may exercise all such powers of the Corporation and do all such lawful acts and things as are not by statute or by the Certificate of Incorporation or by these Bylaws directed or required to be exercised or done by the stockholders.

### MEETINGS OF THE BOARD

Section 4. The Directors of the Corporation may hold their meetings, both regular and special, either within or without the State of Texas.

Section 5. The first meeting of each newly elected Board shall be held at such time and place as shall be fixed by the vote of the stockholders at the Annual Meeting and no notice of such meeting shall be necessary to the newly elected Directors in order to legally constitute the meeting provided a quorum shall be present, or they may meet at such place and time as shall be fixed by the consent in writing of all the Directors.

Section 6. Regular meetings of the Board may be held without notice at such time and place as shall, from time to time, be determined by the Board.

Section 7. Special meetings of the Board may be called by the President on five days' notice to each Director, either personally or by mail or by telegram; special meetings shall be called by the President or Secretary in like manner and on like notice on the written request of two Directors.

Section 8. At all meetings of the Board the presence of a majority of the Directors shall be necessary and sufficient to constitute a quorum for the transaction of business and the act of a majority of the Directors present at any meetings at which there is a quorum shall be the act of the Board of Directors, except as may be otherwise specifically provided by statute or by the Certificate of Incorporation or by these Bylaws. If a quorum shall not be present at any meeting of Directors, the Directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

## COMMITTEES OF DIRECTORS

Section 9. The Board of Directors, by resolution passed by a majority of the whole Board, may designate one or more committees, each committee to consist of two or more of the Directors of the Corporation, which, to the extent provided in said resolution, shall have and may exercise the powers of the Board of Directors in the management of the business and affairs of the Corporation, and may have power to authorize the seal of the Corporation to be affixed to all papers which may require it. Such committee or committees shall have such name for names as may be determined from time to time by resolution adopted by the Board of Directors.

Section 10. The committees shall keep regular minutes of their proceedings and report the same to the Board when required.

COMPENSATION OF DIRECTORS

Section 11. Directors, as such, shall not receive any stated salary for their services, but, by resolution of the Board, a fixed sum and expenses of attendance, if any, may be allowed for attendance at each regular or special meeting of the Board; provided that nothing herein contained shall be construed to preclude any Director from serving the Corporation in any other capacity and receiving compensation therefor. Members of special or standing committees may be allowed like compensation for attending committee meetings.

ARTICLE IV

NOTICES

Section 1. Whenever under the provisions of the statutes or of the Certificate of Incorporation or of these Bylaws, notice is required to be given to any Director or stockholder, it shall not be construed to mean personal notice, but such notice may be given in writing, by mail, addressed to such Director or stockholder at such address as appears on the books of the Corporation, and such notice shall be deemed to be given at the time when the same shall be thus mailed.

Section 2. Whenever any notice is required to be given under the provisions of the statutes or of the Certificate of Incorporation or of these Bylaws, a waiver thereof in writing signed by the person or persons entitled to said notice, whether before or after the time stated thereon, shall be deemed equivalent thereto.

ARTICLE V

OFFICERS

Section 1. The officers of the Corporation shall be chosen by the Directors and shall be a President, Vice President, a Secretary and a Treasurer. The Board of Directors may also choose additional Vice Presidents, and one or more Assistant Secretaries and Assistant Treasurers. Two or more offices may be held by the same person, except that the offices of President and Secretary shall not be held by the same person.

Section 2. The Board of Directors at its first meeting after each Annual Meeting of Stockholders shall choose a President from its members, and shall choose one or more Vice Presidents, a Secretary and a Treasurer, none of whom need be a member of the Board.

Section 3. The Board may appoint such other offices and agents as it shall deem necessary, who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

Section 4. The salaries of all officers and agents of the Corporation shall be fixed by the Board of Directors.

Section 5. The officers of the Corporation shall hold office until their successors are chosen and qualify in their stead. Any officer elected or appointed by the Board of Directors may be removed at any time by the affirmative vote of a majority of the whole Board of Directors. If the office of any officer becomes vacant for any reason, the vacancy shall be filled by the Board of Directors.

## THE PRESIDENT

Section 6. The President shall be the Chief Executive Officer of the Corporation. The President shall preside at all meetings of the stockholders and Directors, shall be ex officio, a member of all standing committees, shall have general and active management of the business of the Corporation, and shall see that all orders and resolutions of the Board are carried into effect.

Section 7. The President shall execute contracts, sales agreements, licensing and royalty agreements, bonds, mortgages, deeds of trust, deeds, leases, agreements and instruments necessary or desired in the transaction of the authorized business of the Corporation and, if requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board of Directors to some other office or agent of the Corporation.

## VICE PRESIDENTS

Section 8. The Vice Presidents in the order of their seniority shall, in the absence or disability of the President, perform the duties and exercise the powers of the President, and shall perform such other duties as the Board of Directors shall prescribe.

## THE SECRETARY AND ASSISTANT SECRETARIES

Section 9. The Secretary shall attend all sessions of the Board and all meetings of the stockholders and record all votes and the minutes of all proceedings in a book to be kept for that purpose and shall perform like duties for the standing committees when required. The Secretary shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board of Directors, and shall perform such other duties as may be prescribed by the Board of Directors or President, under whose supervision the Secretary shall be. The Secretary shall keep in safe custody the seal of the Corporation and, when authorized by the Board, affix the same to any instrument requiring it and, when so fixed, it shall be attested by the Secretary's signature or by the signature of the Treasurer or an Assistant Secretary.

Section 10. The Assistant Secretaries in order of their seniority shall, in the absence or disability of the Secretary, perform the duties and exercise the powers of the Secretary and shall perform such other duties as the Board of Directors shall prescribe.

THE TREASURER AND ASSISTANT TREASURERS

Section 11. The Treasurer shall have the custody of corporate funds and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board of Directors.

Section 12. The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board, taking proper vouchers for such disbursements, and shall render to the President and Directors, at the regular meetings of the Board, or whenever they may require it, an account of all the Treasurer's transactions as Treasurer and of the financial condition of the Corporation.

Section 13. If required by the Board of Directors, the Treasurer shall give the Corporation a bond (which shall be renewed every six years) in such sum and with such surety or sureties as shall be satisfactory to the Board for the faithful performance of the duties of the Treasurer's office and for the restoration to the Corporation, in case of the Treasurer's death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in the Treasurer's possession or under the Treasurer's control, belonging to the Corporation.

Section 14. The Assistant Treasurers in order of their seniority shall, in the absence or disability of the Treasurer, perform the duties and exercise the powers of the Treasurer and shall perform such other duties as the Board of Directors shall prescribe.

ARTICLE VI

CERTIFICATES OF STOCK

Section 1. The certificates of stock of the Corporation shall be numbered and shall be entered in the books of the Corporation as they are issued. They shall exhibit the holder's name and number of shares and shall be signed by the President or Vice President and the Treasurer or an Assistant Treasurer or the Secretary or an Assistant Secretary. The designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations, or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificates which the Corporation shall issue to represent such class or series of stock. If any stock certificate is signed by (1) a transfer agent or an assistant transfer agent, or (2) a transfer clerk acting on behalf of the Corporation and a Registrar, the signature of any such office may be facsimile.

LOST CERTIFICATES

Section 2. The Board of Directors may direct a new certificate or certificates to be issued in place of any certificate or certificates theretofore issued by the Corporation alleged to have been lost or destroyed, upon the making of an affidavit of that fact by the person claiming the certificate or stock to be lost or destroyed. When authorizing such issue of a new certificate or certificates, the Board of Directors, in its discretion and as a condition precedent to the issuance thereof, may require the owner of such lost or destroyed certificate or certificates, or the owner's legal representatives, to advertise the same in such manner as it shall require and/or give the Corporation a bond in such sum as it may direct as indemnity against any claim that may be made against the Corporation with respect to the certificate alleged to have been lost or destroyed.

TRANSFER OF STOCK

Section 3. Upon surrender to the Corporation or the transfer agent of the Corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignment or authority to transfer, it shall be the duty of the Corporation to issue a new certificate to the person entitled thereto, cancel the old certificate and record the transaction upon its books.

CLOSING OF TRANSFER BOOKS

Section 4. The Board of Directors may close the stock transfer books of the Corporation for a period of not less than ten days nor more than sixty days preceding the date of any meeting of stockholders or the date for payment of any dividend or the date for the allotment of rights or the date when any change or conversion or exchange of capital stock shall go into effect or for a period of not less than ten days nor more than sixty days in connection with obtaining the consent of stockholders for any purpose. In lieu of closing the stock transfer books as aforesaid, the Board of Directors may fix in advance a date, not less than ten days nor more than sixty days preceding the date of any meeting of stockholders, or the date for the payment of any dividend, or the date for the allotment of rights, or the date when any change or conversion or exchange of capital stock shall go into effect, or a date in connection with obtaining such consent, as a record date for the determination of the stockholders entitled to notice of, and to vote at, any such meeting, and any adjournment thereof, or entitled to receive payment of any such dividend, or to any such allotment of rights, or to exercise the rights in respect of any change, conversion or exchange of capital stock, or to give such consent, and in such case such stockholders and only such stockholders as shall be stockholders of record on the date so fixed shall be entitled to such notice of, and to vote at, such meeting and any adjournment thereof, or to receive payment of such dividend, or to receive such allotment of rights, or to exercise such rights, or to give such consent, as the case may be, notwithstanding any transfer of any stock on the books of the Corporation after any such record date fixed as aforesaid.

REGISTERED STOCKHOLDERS

Section 5. The Corporation shall be entitled to treat the holder of record of any share or shares of stock as the holder in fact thereof, and, accordingly, shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Texas.

## ARTICLE VII

## GENERAL PROVISIONS

### DIVIDENDS

Section 1. Dividends upon the capital stock of the Corporation, subject to the provisions of the Certificate of Incorporation, if any, may be declared by the Board of Directors at any regular or special meeting, pursuant to law. Dividends may be paid in cash, in property, or in shares of the capital stock, subject to the provisions of the Certificate of Incorporation.

Section 2. Before payment of any dividend, there may be set aside out of any funds of the Corporation available for dividends such sum or sums as the Directors from time to time, in their absolute discretion, think proper as a reserve fund to meet contingencies, or for equalizing dividends, or for repairing or maintaining any property of the Corporation, or for such other purpose as the Directors shall think conducive to the interest of the Corporation, and the Directors may modify or abolish any such reserve in the manner in which it was created.

ANNUAL STATEMENT

Section 3. The Board of Directors shall present at each Annual Meeting and when called for by vote of the stockholders at any special meeting of the stockholders, a full and clear statement of the business and conditions of the Corporation.

CHECKS

Section 4. All checks or demands for money and notes of the Corporation shall be signed by such officer or officers or such other person or persons as the Board of Directors may from time to time designate.

FISCAL YEAR

Section 5. The fiscal year of the Corporation shall begin on the first day of October of each year and end on the last day of September of each year.

SEAL

Section 6. The corporate seal shall have inscribed thereon the name of the Corporation and the words "Corporate Seal" so as to make an impression similar to that on the margin hereof. Said seal may be used by causing it or a facsimile thereof to be impressed or affixed or reproduced or otherwise.

ARTICLE VIII

AMENDMENTS

Section 1. These Bylaws may be altered or repealed at any regular meeting of the stockholders or at any special meeting of the stockholders at which a quorum is present or represented, provided notice of the proposed alteration or repeal be contained in the notice of such special meeting, by the affirmative vote of a majority of the stock entitled to vote at such meeting and present or represented thereat, or by the affirmative vote of a majority of the Board of Directors at any regular meeting of the Board or at any special meeting of the Board if notice of the board proposed alteration or repeal be contained in the notice of such special meeting; provided, however, that no change of the time or place of the meeting for the election of Directors shall be made within sixty days next before the day on which such meeting is to be held, and that in case of any change of such time or place, notice thereof shall be given to each stockholder in person or by letter mailed to the stockholder's last known post office address at least twenty days before the meeting is held.

ARTICLE IX

INDEMNIFICATION OF DIRECTORS, OFFICERS AND EMPLOYEES

To the extent permitted by Texas Business Corporation Act Article 2.02-1, the Corporation shall indemnify any present or former Director, officer, employee or agent of the Corporation against judgments, penalties (including excise and similar taxes), fines, settlements, and reasonable expenses actually incurred by the person in connection with a proceeding in which the person was, is, or is threatened to be made a named defendant or respondent because the person is or was a Director, officer, employee or agent of the Corporation.

EXHIBIT 13

# INVESTOR INFORMATION

## CORPORATE OFFICES

508 West Wall, Suite 800
Midland, Texas 79701-5010
915/684-3000 Phone
915/684-3030 Fax
info@dawson3d.com Email
http://www.dawson3d.com

## ANNUAL MEETING

The Annual Meeting of Shareholders will be held January 25, 2000, at 10:00 a.m. at The Petroleum Club of Midland, 501 West Wall, Midland,Texas 79701.

## 10-K AVAILABLE

A copy of Form 10-K, as filed with the Securities and Exchange Commission, may be obtained by contacting the Corporate Secretary at the corporate offices listed above.

## REGISTRAR AND TRANSFER AGENT

ChaseMellon Shareholder Services
Dallas, Texas

## STOCK EXCHANGE LISTING

Nasdaq National Market System
Symbol:  DWSN

## INDEPENDENT PUBLIC ACCOUNTANTS

KPMG LLP
Midland, Texas

## DIRECTORS

Paul H. Brown
Sugar Land, Texas
Management Consultant

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

L. Decker Dawson
Midland, Texas
President of the Company

Floyd B. Graham
Midland, Texas
Retired Executive Vice President of the Company

Matthew P. Murphy
Midland, Texas
Retired Banking Executive

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

Tim C. Thompson
Midland, Texas
Management Consultant

## OFFICERS

L. Decker Dawson
President

Howell W. Pardue
Executive Vice President

Christina W. Hagan
Vice President,
Chief Financial Officer

Edward L. Huff
Vice President

Stephen C. Jumper
Vice President

C. Ray Tobias
Vice President

Paula W. Henry
Secretary

## COMMON STOCK INFORMATION

The Company's common stock trades on The Nasdaq Stock Market(R) under the symbol DWSN. The table below represents the high and low sales prices for the period shown.

| Quarter Ended | High | Low |
|---|---|---|
| December 31, 1997 | $27.375 | $ 14.00 |
| March 31, 1998 | $18.875 | $11.563 |
| June 30, 1998 | $ 19.75 | $ 14.50 |
| September 30, 1998 | $ 19.50 | $ 11.50 |
| December 31, 1998 | $11.875 | $ 6.625 |
| March 31, 1999 | $ 9.25 | $ 6.063 |
| June 30, 1999 | $10.875 | $ 7.50 |
| September 30, 1999 | $12.438 | $ 9.125 |

As of November 26, 1999, the Company had 278 stockholders of record as reported by the Company's transfer agent.

CONTENTS



FINANCIAL HIGHLIGHTS

| YEARS ENDED SEPTEMBER 30 (IN THOUSANDS, EXCEPT PER SHARE AMOUNTS) | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|
| Operating revenues | $ 24,198 | $ 61,400 | $ 48,227 | $ 33,518 | $ 28,188 |
| Net income (loss) | $ (6,430) | $ 6,628 | $ 4,570 | $ 1,888 | $ 2,174 |
| Net income (loss) per common share | $ (1.19) | $ 1.27 | $ 1.09 | $ .45 | $ .54 |
| Weighted average equivalent common shares outstanding | 5,398 | 5,206 | 4,183 | 4,153 | 3,990 |
| Total assets | $ 61,418 | $ 71,459 | $ 53,561 | $ 41,909 | $ 32,342 |
| Long term debt-less current maturities | $ -- | $ -- | $ 7,893 | $ 4,857 | $ -- |
| Stockholders' equity | $ 59,468 | $ 65,642 | $ 37,545 | $ 32,804 | $ 30,856 |

[PICTURE]

FROM THE PRESIDENT

Dear Shareholder:

Fiscal years 1998 and 1999 set Company records. However, the distinction for 1999 was that of a 180-degree polarity reversal from 1998. Fiscal 1998: the best year in the Company's history. Fiscal 1999: the worst. This past year has been disastrous for the petroleum exploration industry due to abnormally low crude oil prices prevailing in late 1998 and early 1999. Although crude oil prices have regained their losses, much damage remains in the industry, particularly among the companies unable to service debt. Unfortunately, many of these companies were among the most aggressive explorers and users of geophysics.

In dollar terms, your Company lost almost as much in 1999 as it earned in 1998. The primary problems are on the revenue side, down due to both reduced demand and geophysical industry price competition. Your Company's response has been, as always, to continue to provide our market with the highest quality operation attainable. Accordingly, we have retained essentially all our key technical, professional and support personnel in order to provide superior service, regardless of the economic environment. This approach has stood us well in prior downturns, recognizing that our people are our most valuable resource.

As this goes to press, we are operating four of our six data acquisition crews, probably the highest current utilization rate in our industry. The downside is that contract fees are approximately one-half those of a year ago. Our aim is to press on as vigorously as ever and continue operating with positive cash flow. We intend not only to survive but to prosper by continuing to be the best at what we do.

Our recent expansions have placed us at the top of the line in seismic exploration. We continue to add those hardware and software advances that add value to our products. Our outstanding people have earned for your Company an excellent reputation. Our clients know first hand of our dependable capabilities, the strengths we offer from the total vertical integration of our business, our high employee retention and lengths of service, and a long history of doing things right since 1952.

I am confident of better days ahead. Natural gas is gaining prominence as a clean burning fuel for many expanded applications. Gas is, however, expensive to import. Plus, with many areas in the U.S. remaining virtually unexplored, along with the fact that most of the unexplored gas will be found at significant depths, it is logical to expect 3-D seismic technology will be instrumental in locating gas deposits. Therefore, it is also logical to expect that many of our long-time, loyal clients will figure prominently in the next generation of exploration and Dawson will receive their calls to pinpoint where to drill.

We have not lost sight of the future of seismic technology as discussed elsewhere in this report, especially as it pertains to 4-D and 3-component (3-C) reservoir characterization. We have learned much from our association with and support of research conducted by Colorado School of Mines in an industry consortium. Moreover, we are well equipped for the necessary shear wave data acquisition required for 3-C surveys. Note: you may hear some call this process 9-C because nine sets of data are acquired in a 3-C survey.

We are riding another wave of the future, the honing and upgrading of the 3-D seismic method, 3-D having achieved workhorse status for the foreseeable future. Your Company has been a leader in developing means of improving data quality while effecting significant cost reductions. Our recent random-source, random-receiver approach achieves these objectives in addition to being considerably more friendly to the environment.

Oil and gas are totally consumed by their use. Their only replacement comes from exploration and development of new reserves. World wide consumption continues to increase at a much faster rate than that of discovery. Our civilization is virtually addicted to the comforts and conveniences of oil and gas-produced energy. The reflection seismograph, your Company's stock in trade, is a vital element in oil and gas exploration. Worried about the future? Not I.

For the support we get from all concerned, shareholders, clients, employees and friends, I am exceedingly grateful.

Sincerely,
L. Decker Dawson

/s/ L. DECKER DAWSON
President
October 27, 1999

[PICTURE]

## WEATHERING THE STORM

All too often, when companies look for ways to cut costs, experienced employees are the first to go. It's no secret that for months the domestic oil industry has faced innumerable challenges posed by a glut of cheap foreign crude -- and over the past two years, 50,000 industry workers have lost their jobs in America. As a result, employers are less likely to be able to respond quickly and effectively when the industry rebounds.

Dawson Geophysical, however, has the strength, history and resources to survive the storm, maintaining state-of-the-art equipment and an experienced staff who are ready to go when a client needs quality data acquired and processed by quality professionals.

Regardless of the industry's economic status, Dawson will continue to place its confidence in its people, the asset the Company believes is vital to the creation of a superior product. "We are still in the people business," says L. Decker Dawson. "Anyone can spend millions on seismic equipment, but without the expertise to operate it, they will be totally helpless."

Since its inception in 1952, Dawson has earned a reputation for its expertise and service. Today, the Company remains committed to training, rewarding and earning the loyalty of its team of geophysical professionals. To deliver the most value for a client's geophysical dollar, Dawson believes it's crucial to have the experience of key people who understand the process by which 3-D seismic data are collected and processed.

[PICTURE]

## DELIVERING SUPERIOR VALUE

Since 1989, Dawson Geophysical has been offering clients the Dawson 3-D Total Package, a compilation of services that add value to the entire seismic data gathering process. This concept has been well-received and has helped expand Dawson's client base to include companies that are more oriented toward management, technology and financial issues than with data collection and processing.

The 3-D Total Package addresses all facets of the geophysical process: project management, survey design, permitting, surveying, field acquisition, data processing, as well as health, safety and environmental (HS&E) issues. Throughout this value-added process, Dawson not only performs the work but also helps its clients make the most efficient and cost-effective use of its services - - often saving those clients thousands of dollars per survey.

Dawson also incorporates its considerable expertise in its industry-recognized HS&E program. Daily and ongoing field safety briefings, environmental consciousness, nonstop equipment maintenance and other practical field procedures not only ensure the well-being of Company employees and equipment, but also help save time, increase efficiency and provide superior overall value to the client.

Today, major and intermediate-sized oil and gas companies rely on Dawson to provide technologically advanced data acquisition and processing services plus a comprehensive list of value-added services - the Dawson 3-D Total Package.

[PICTURE]

7

EXCELLING IN SCIENCE

Dawson has a long history of operations in the San Juan Basin of Northwest New Mexico and Southwest Colorado, as well as in its traditional Permian Basin areas of West Texas and New Mexico. In December 1998, Dawson completed two notable projects, further demonstrating its scientific expertise to the geophysical industry.

In the Delaware Basin of West Texas, Dawson is nearing completion of the largest single onshore 3-D data acquisition project in history. The 600 square-mile project, which spanned more than a year, will serve as a major exploration focal point for Dawson's client companies for their foreseeable futures.

The Company continued its support of research of shear wave technology. The project was conducted to determine migration of injected fluids in subsurface reservoirs following enhanced recovery efforts. The test succeeded in allowing project geophysicists to observe the reservoir in 3-D as well as in a fourth dimension: elapsed time, or 4-D.

The test proved Dawson's commitment to the development of shear wave technology. As a result of the experiment, the Company gained important insight on how to make the technology more effective in extracting additional oil from existing reservoirs.

While shear wave technology is a major enhancement to 3-D methods, it is now perceived in much the same way 3-D technology was in the 1980s. At the time, the industry knew it was practical, but it was also slow, meticulous and expensive. For shear wave applications to become as widespread and accepted on land as 3-D is today, the commodity price will have to be much higher and more predictable to justify the investment.

[PICTURE]

9

## TAKING COMFORT IN THE FUTURE

Today, 3-D remains the most cost-effective way to determine where, miles beneath the Earth's surface, geologists are most likely to find commercial quantities of oil and gas. As the domestic petroleum industry regains its health, Dawson crews will return to the field, using 3-D technology to help its clients find and produce more oil and gas from where it is already known to be located.

The Company estimates that at current rates, it will take nearly 40 years to re-survey the existing 2-D database in the Southwestern United States. What's more, by solid engineering estimates, there remains as much oil and gas below the earth today as has been produced since the beginning of the oil and gas industry.

Clearly, geophysics is a long-term investment. As exploration increases and data-gathering technologies are fine-tuned, Dawson will continue to be in demand for companies that want reliable, effective data. And despite today's low commodity prices, Dawson's unique differences - its people, equipment, financial strength and lack of debt - are precisely what has and will continue, to ensure the Company's survival through turbulent times.

Oil and gas are still some of the most valued commodities in the world, and the long-term outlook for the oil and gas industry remains optimistic. So does the Company's confidence. The success of the geophysical industry is a function of the value of the commodity. If oil and gas are worth looking for, Dawson Geophysical is still the best suited to do the looking.

[PICTURE]

11

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

The following discussion should be read in conjunction with the Company's financial statements. In addition, in reviewing the Company's financial statements it should be noted that the Company's revenues directly relate to oil and gas exploration and production activity, and fluctuations in the Company's results of operations may occur due to weather, land use permitting and other factors. Declines in crude oil prices during the first six months of the Company's fiscal year have negatively impacted the profitability of our clients. This situation has negatively impacted the Company's revenues and earnings during the year.

FORWARD LOOKING STATEMENTS

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

OVERVIEW

The revenues of the Company continue to be severely impacted although crude oil and natural gas prices have recovered relative to earlier this year. Demand for the Company's services is expected to be related to crude oil and natural gas prices; however, the Company is prepared for some delay in demand for its services as its clients and potential clients recover from their losses. The Company has taken cost reduction measures in response to price competition and decreased demand for its services. In addition, the Company has initiated an allowance for doubtful accounts. In prior periods, uncollectable amounts had been immaterial. While the Company is pursuing collection of all accounts receivable, it recognizes that the reduction in crude oil and natural gas prices has had a negative effect on cash flow for many companies and therefore has made specific provision on accounts for which collection is significantly in doubt.

FISCAL YEAR ENDED SEPTEMBER 30, 1999 VERSUS FISCAL YEAR ENDED SEPTEMBER 30, 1998

The Company's operating revenues decreased 60.6% from $61,400,000 to $24,198,000 in fiscal year 1999. Demand for the Company's services has been negatively impacted by low crude oil and natural gas prices. During the quarter ended December 31, 1998, the Company reduced the number of operating crews from six to three. The Company is currently operating four crews although for a brief period of time during the quarter ended June 30, 1999, the Company operated only one crew. In addition to the decrease in the number of operating crews, the decrease in revenues reflects severe price competition.

Operating expenses decreased 45.5% in fiscal 1999 as compared to fiscal 1998 as a result of decreased demand for the Company's services. Additional cost reduction measures, such as employee layoffs and salary reductions, were implemented in January 1999. The Company has reduced the number of employees from 377 at September 30, 1998 to 260 at September 30, 1999. The Company has retained key field personnel in anticipation of increased demand.

General and administrative expenses for fiscal 1999 totaled $2,390,000, an increase of $459,000 from fiscal 1998. The increase primarily consists of a provision for doubtful accounts of $300,000 recognized during September 30, 1999.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONT.)

Depreciation for fiscal 1999 totaled $10,585,000, an increase of $1,113,000 from fiscal 1998. Depreciation increased as a result of capital expansion during fiscal 1998.

Total operating costs for fiscal 1999 totaled $34,937,000, a decrease of 32.5% from fiscal 1998, due to the factors described above. The 60.6% decrease of revenues as compared to the 32.5% decrease of total operating costs for fiscal 1999 reflects the high proportion of relatively fixed total operating costs (including personnel costs of active crews and depreciation costs) inherent in the Company's business and fierce price competition in the bidding process for geophysical services.

FISCAL YEAR ENDED SEPTEMBER 30, 1998 VERSUS FISCAL YEAR ENDED SEPTEMBER 30, 1997

The Company's operating revenues increased 27.3% to $61,400,000 in fiscal year 1998. The increase was due to the Company's added production capacity in response to demand for 3-D seismic services that was sustained through the fourth quarter of fiscal 1998. In May 1998, a 3,100-channel Input/Output System Two Remote System Recorder became productive. The Company increased capacity on each of its existing six crews by adding channels.

Operating expenses increased 24.9% in fiscal 1998 as compared to fiscal 1997 as a result of increased personnel and other expenses associated with equipment acquisitions and technological upgrades.

General and administrative expenses for fiscal 1998 totaled $1,931,000, an increase of $454,000 from fiscal 1997. The increase reflects additional personnel required to support expanding operations.

Depreciation for fiscal 1998 totaled $9,472,000, an increase of 29.4% from fiscal 1997. Depreciation continues to increase as a result of capital expansion discussed below in "Liquidity and Capital Resources."

Total operating costs for fiscal 1998 totaled $51,729,000, an increase of 25.9% over fiscal 1997, due to the factors described above. Income from operations in fiscal 1998 increased to $9,671,000, 15.8% of revenues, from $7,136,000, 14.8% of revenues in fiscal 1997. This increase is a direct result of the Company's operating expenses being relatively fixed as compared to revenue trends.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities of $6,429,000 in fiscal 1999 as compared to $11,307,000 in fiscal 1998 primarily reflects a negative swing of approximately $13 million from a net income in fiscal 1998 of $6,628,000 to a net loss in fiscal 1999 of $6,430,000 offset by decreases in accounts receivable. The decrease in deferred income taxes in fiscal 1999 is a result of the reversal of temporary differences due to depreciation offset by an alternative minimum tax credit carryforward generated.

Net cash used in investing activities decreased to $7,181,000 from $22,210,000 resulting from significantly decreased capital expenditures in fiscal 1999 as compared to fiscal 1998. Approximately $6,000,000 of collected accounts receivable were invested in U.S. Treasury securities during fiscal 1999.

The cash flows provided by financing activities for fiscal 1998 represent the net of the offering proceeds reduced by the retirement of debt.

Capital Expenditures

The Company continually strives to supply market demand with technologically advanced 3-D data acquisition recording systems and leading edge data processing capabilities. Capital expenditures for fiscal 1999 are minimal in comparison to the capital expansion effort in fiscal 1998 and the five prior fiscal years. Depreciation has increased as a new crew, as well as additions and replacements of cables and geophones, vehicles, and other data acquisition peripheral equipment, has been placed into service each year for the past several years. The Company will maintain equipment in and out of service in anticipation of increased future demand of the Company's services.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONT.)

Capital Resources

The Company believes that its capital resources including its short-term investments and cash flow from operations are adequate to meet its current operational needs and finance capital needs as determined by market demand and technological developments.

LITIGATION

The Company is a defendant in two lawsuits relating to a July 1995 accident involving a van owned by the Company in which four Company employees died. The Company believes that it has meritorious defenses to the claims asserted against it in such suits. Further, while the plaintiffs seek damages in excess of the Company's liability insurance policies, the Company believes that its liability insurance should provide adequate coverage of the damages, if any, which may be assessed against the Company in such litigation. Due to the uncertainties inherent in litigation, no assurance can be given as to the ultimate outcome of such suits or the adequacy or availability of the Company's liability insurance to cover any such damages. A judgment awarding plaintiffs an amount significantly exceeding the Company's available insurance coverage could have a material adverse effect on the Company's financial condition, results of operations and liquidity.

YEAR 2000

The Company utilizes software and technologies throughout its operations that may be vulnerable to the date change in the year 2000. Identification, assessment, and in some cases, replacement of equipment that may be affected by the year 2000 is underway. Remediation is expected to be complete by November 1, 1999 in those instances in which a problem has been identified. Software controlled by the Company, including its proprietary seismic processing package, has been tested successfully. Replacements and upgrades have not been accelerated by the year 2000 issue and do not represent costs in addition to normal operating expenditures. The Company has completed communications with its significant suppliers to determine if those parties have appropriate plans to remedy year 2000 issues when their systems interface with the Company's systems or may otherwise impact the operations of the Company. However, there can be no guarantee that the systems of other companies, on which the Company's systems rely, will be timely converted or that a failure to convert by another company or a conversion that is incompatible with the Company's systems would not have a material adverse effect on the Company. To date, the Company has spent approximately $30,000 primarily in the assessment of and testing for year 2000 compliance. Assessment will continue throughout the first quarter of fiscal 2000, with an additional estimated cost of $10,000. Although the Company is not aware of any material operational issues, there can be no assurance that there will not be a delay in, or increased costs associated with, the implementation of the necessary systems and changes to address the year 2000. A potential source of risk includes, but is not limited to, the inability of principal suppliers to be year 2000 compliant, which could result in an interruption of the Company's services. The Company currently does not have a formal contingency plan. If unforeseen problems are encountered that relate to the year 2000, possible solutions will be evaluated and the most efficient will be enacted, such as converting to manual operations until the problems are remedied.

The failure to correct a material year 2000 problem could result in an interruption in, or a failure of, certain normal business activities or operations that could materially and adversely affect the Company's operations, liquidity and financial condition. Because of the uncertainty surrounding year 2000 issues, primarily those associated with third party suppliers, the Company is unable to determine at this time whether year 2000 failures will have a material impact on operations. However, the Company's remediation efforts are expected to reduce the risk of year 2000 issues significantly, particularly regarding the compliance and readiness of material vendors and suppliers. The Company believes that the timely completion of its remediation efforts will reduce the possibility of significant interruptions of normal business operations.

INDEPENDENT AUDITORS' REPORT

[KPMG LOGO]

The Board of Directors and Stockholders
Dawson Geophysical Company:

We have audited the accompanying balance sheets of Dawson Geophysical Company as of September 30, 1999 and 1998, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dawson Geophysical Company as of September 30, 1999 and 1998, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 1999, in conformity with generally accepted accounting principles.

/s/ KPMG LLP

October 29, 1999

BALANCE SHEETS

September 30, 1999 and 1998

| | 1999 | 1998 |
|---|---|---|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | $ 4,993,000 | $ 5,745,000 |
| Short-term investments | 13,547,000 | 6,515,000 |
| Accounts receivable, net of allowance for doubtful accounts of $133,000 in 1999 and none in 1998 | 5,567,000 | 11,821,000 |
| Income taxes receivable | 1,668,000 | 1,050,000 |
| Prepaid expenses | 466,000 | 416,000 |
| Total current assets | 26,241,000 | 25,547,000 |
| Property, plant and equipment | 71,706,000 | 73,584,000 |
| Less accumulated depreciation | (36,529,000) | (27,672,000) |
| Net property, plant and equipment | 35,177,000 | 45,912,000 |
| | $ 61,418,000 | $ 71,459,000 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | $ 778,000 | $ 1,766,000 |
| Accrued liabilities: | | |
| Payroll costs and other taxes | 506,000 | 635,000 |
| Other | 21,000 | 810,000 |
| Total current liabilities | 1,305,000 | 3,211,000 |
| Deferred income taxes | 645,000 | 2,606,000 |
| Stockholders' equity: | | |
| Preferred stock--par value $1.00 per share; 5,000,000 shares authorized, none outstanding | -- | -- |
| Common stock - par value $.33 1/3 per share; 10,000,000 shares authorized, 5,406,794 and 5,361,000 shares issued and outstanding in 1999 and 1998, respectively | 1,802,000 | 1,787,000 |
| Additional paid-in capital | 38,497,000 | 38,256,000 |
| Retained earnings | 19,169,000 | 25,599,000 |
| Total stockholders' equity | 59,468,000 | 65,642,000 |
| Contingencies (see note 10) | | |
| | $ 61,418,000 | $ 71,459,000 |

See accompanying notes to the financial statements.

STATEMENTS OF OPERATIONS

Years Ended September 30, 1999, 1998 and 1997

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Operating revenues | $ 24,198,000 | $ 61,400,000 | $ 48,227,000 |
| Operating costs: | | | |
| Operating expenses | 21,962,000 | 40,326,000 | 32,293,000 |
| General and administrative | 2,390,000 | 1,931,000 | 1,477,000 |
| Depreciation | 10,585,000 | 9,472,000 | 7,321,000 |
| | 34,937,000 | 51,729,000 | 41,091,000 |
| Income (loss) from operations | (10,739,000) | 9,671,000 | 7,136,000 |
| Other income (expense): | | | |
| Interest income | 872,000 | 720,000 | 260,000 |
| Interest expense | -- | (125,000) | (486,000) |
| Gain (loss) on disposal of assets | (5,000) | 134,000 | 196,000 |
| Other | 43,000 | 25,000 | 10,000 |
| Income (loss) before income tax | (9,829,000) | 10,425,000 | 7,116,000 |
| Income tax benefit (expense): | | | |
| Current | 1,441,000 | (2,607,000) | (1,738,000) |
| Deferred | 1,958,000 | (1,190,000) | (808,000) |
| | 3,399,000 | (3,797,000) | (2,546,000) |
| Net income (loss) | $ (6,430,000) | $ 6,628,000 | $ 4,570,000 |
| Net income (loss) per common share | $ (1.19) | $ 1.27 | $ 1.09 |
| Net income (loss) per common share-assuming dilution | $ (1.19) | $ 1.27 | $ 1.08 |
| Weighted average equivalent common shares outstanding | 5,397,624 | 5,205,926 | 4,182,882 |
| Weighted average equivalent common shares outstanding-assuming dilution | 5,397,624 | 5,232,007 | 4,212,419 |

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

Years Ended September 30, 1999, 1998 and 1997

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net income (loss) | $ (6,430,000) | $ 6,628,000 | $ 4,570,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 10,585,000 | 9,472,000 | 7,321,000 |
| Loss (gain) on disposal of assets | 5,000 | (134,000) | (196,000) |
| Non-cash interest income | (32,000) | (31,000) | (63,000) |
| Non-cash compensation | 256,000 | -- | -- |
| Deferred income tax (benefit) expense | (1,958,000) | 1,190,000 | 808,000 |
| Other | 323,000 | 262,000 | 91,000 |
| Change in current assets and liabilities: | | | |
| Decrease (increase) in accounts receivable | 6,254,000 | (3,097,000) | (2,563,000) |
| Increase in prepaid expenses | (50,000) | (128,000) | (140,000) |
| Decrease (increase) in income taxes receivable | (618,000) | (1,050,000) | 193,000 |
| Decrease in accounts payable | (988,000) | (2,190,000) | (42,000) |
| Increase (decrease) in accrued liabilities | (918,000) | 385,000 | 267,000 |
| Increase in income taxes payable | -- | -- | 89,000 |
| Net cash provided by operating activities | 6,429,000 | 11,307,000 | 10,335,000 |
| Cash flows from investing activities: | | | |
| Proceeds from disposal of assets | 29,000 | 287,000 | 340,000 |
| Capital expenditures | (164,000) | (19,959,000) | (8,528,000) |
| Proceeds from sale of short-term investments | -- | 5,993,000 | 742,000 |
| Proceeds from maturity of short-term investments | 7,500,000 | 9,000,000 | 750,000 |
| Investment in short-term investments | (14,546,000) | (17,531,000) | (4,383,000) |
| Net cash used in investing activities | (7,181,000) | (22,210,000) | (11,079,000) |
| Cash flows from financing activities: | | | |
| Principal payments on debt | -- | (9,583,000) | (927,000) |
| Proceeds from debt | -- | -- | 4,795,000 |
| Issuance of common stock | -- | 21,371,000 | -- |
| Proceeds from exercise of stock options | -- | 86,000 | 157,000 |
| Net cash provided by financing activities | -- | 11,874,000 | 4,025,000 |
| Net increase (decrease) in cash and cash equivalents | (752,000) | 971,000 | 3,281,000 |
| Cash and cash equivalents at beginning of year | 5,745,000 | 4,774,000 | 1,493,000 |
| Cash and cash equivalents at end of year | $ 4,993,000 | $ 5,745,000 | $ 4,774,000 |

See accompanying notes to the financial statements.

STATEMENTS OF STOCKHOLDERS' EQUITY

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Additional Paid-in Capital | Net Unrealized Loss on Short-term Investments | Retained Earnings | Total |
| Balance, September 30, 1996 | 4,161,550 | $ 1,387,000 | $ 17,021,000 | $ (5,000) | $ 14,401,000 | $ 32,804,000 |
| Issuance of common stock | 1,200 | 1,000 | 8,000 | -- | -- | 9,000 |
| Exercise of stock options | 36,500 | 12,000 | 145,000 | -- | -- | 157,000 |
| Net unrealized gain on marketable securities | -- | -- | -- | 5,000 | -- | 5,000 |
| Net income | -- | -- | -- | -- | 4,570,000 | 4,570,000 |
| Balance, September 30, 1997 | 4,199,250 | 1,400,000 | 17,174,000 | -- | 18,971,000 | 37,545,000 |
| Issuance of common stock | 1,151,100 | 384,000 | 20,999,000 | -- | -- | 21,383,000 |
| Exercise of stock options | 10,650 | 3,000 | 83,000 | -- | -- | 86,000 |
| Net income | -- | -- | -- | -- | 6,628,000 | 6,628,000 |
| Balance, September 30, 1998 | 5,361,000 | 1,787,000 | 38,256,000 | -- | 25,599,000 | 65,642,000 |
| Issuance of common stock as compensation | 45,794 | 15,000 | 241,000 | -- | -- | 256,000 |
| Net loss | -- | -- | -- | -- | (6,430,000) | (6,430,000) |
| Balance, September 30, 1999 | 5,406,794 | $ 1,802,000 | $ 38,497,000 | $ -- | $ 19,169,000 | $ 59,468,000 |

See accompanying notes to the financial statements.

# NOTES TO FINANCIAL STATEMENTS

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Organization and Nature of Operations

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

The Company acquires and processes 3-D seismic data for major and intermediate-sized oil and gas companies and independent oil operators who retain exclusive rights to the information obtained. The Company's land-based acquisition crews operate primarily in the southwestern United States, and data processing is performed by geophysicists at the Company's computer center in Midland, Texas.

### Cash Equivalents

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

### Short-Term Investments

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

### Fair Value of Financial Instruments

The carrying amounts for cash and cash equivalents, short-term investments, accounts receivable, other current assets, accounts payable and other current liabilities approximate fair value due to the short maturity of these instruments.

### Concentrations of Credit Risk

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

### Property, Plant and Equipment

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

### Impairment of Long-Lived Assets

The Company accounts for its long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (Statement 121) which requires companies to assess their long-lived assets for impairment. Statement 121 requires companies to review for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. No provision was recorded in the Statement of Operations for the years ended September 30, 1999, 1998 and 1997.

Income Taxes

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

Use of Estimates in the Preparation of Financial Statements

Preparation of the accompanying financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Stock-Based Compensation

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

2. SHORT-TERM INVESTMENTS

Investment in securities, consisting entirely of U. S. Treasury Securities, had a cost and market value of approximately $13,547,000 at September 30, 1999 and $6,515,000 at September 30, 1998.

Short-term investments held at September 30, 1999, consisting of U.S. Treasury Securities, have contractual maturities from December, 1999 through March, 2002. Securities that mature after September 30, 2000 are expected to be sold within one year and are properly classified as current assets.

3. PROPERTY, PLANT AND EQUIPMENT

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

| | September 30 | | |
|---|---|---|---|
| | 1999 | 1998 | Rates |
| Land, building and improvements | $ 2,545,000 | $ 2,545,000 | 3 to 12.5 percent |
| Machinery and equipment | 69,119,000 | 70,249,000 | 10 to 20 percent |
| Equipment in process(a) | 42,000 | 790,000 | -- |
| | $ 71,706,000 | $ 73,584,000 | |

- ----------

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

NOTES TO FINANCIAL STATEMENTS (CONT.)

The office building previously occupied by the Company was placed for sale on April 1, 1999. In accordance with Statement 121, the building is carried at the lower of net basis or fair value less costs to sell.

4. STOCK OPTIONS

The Company's 1991 Incentive Stock Option Plan, which extends the 1981 Plan, provides options to purchase 150,000 shares of authorized but unissued common stock of the Company. The option price is the market value of the Company's common stock at date of grant. Options are exercisable 25% annually from the date of the grant and the options expire five years from date of grant.

The Company adopted the 2000 Incentive Stock Plan during fiscal 1999, which extends the 1991 Plan and provides options to purchase 500,000 shares of authorized but unissued common stock of the Company. In addition to the conditions described above regarding the 1991 Plan, the 2000 Plan provides that 50,000 of the 500,000 shares of authorized but unissued common stock may be awarded to officers, directors and employees of the Company for the purpose of additional compensation.

The transactions under the Plans are summarized as follows:

| | Weighted Average Price | Number of Optioned Shares |
|---|---|---|
| Balance as of September 30, 1997 | $ 14.15 | 89,750 |
| Exercised | $ 8.11 | (10,650) |
| Cancelled or expired | $ 9.31 | (27,100) |
| Balance as of September 30, 1998 | $ 17.91 | 52,000 |
| Granted | $ 6.50 | 166,000 |
| Cancelled or expired | $ 7.25 | (10,000) |
| Balance as of September 30, 1999 | $ 9.32 | 208,000 |

Options for 27,000, 24,000 and 47,500 shares were exercisable with weighted average exercise prices of $18.40, $12.27 and $8.92 as of September 30, 1999, 1998 and 1997, respectively.

Outstanding options at September 30, 1999 expire between January, 1999 and February, 2004 and have exercise prices ranging from $6.50 to $24.125.

Options for 30,000 shares were granted in fiscal year 1997 and for 166,000 shares in fiscal 1999. The expected life of the options granted is five years. The weighted average fair value of options granted during 1997 and 1999 is $10.64 and $5.47, respectively. The fair value of each option grant is estimated on the date of grant, using the Black-Scholes options-pricing model.

The model assumed expected volatility of 120% and 42% and risk-free interest rate of 4.8% and 6.4% for grants in 1999 and 1997, respectively. As the Company has not declared dividends since it became a public entity, no dividend yield was used. Actual value realized, if any, is dependent on the future performance of the Company's common stock and overall stock market

NOTES TO FINANCIAL STATEMENTS (CONT.)

conditions. There is no assurance the value realized by an optionee will be at or near the value estimated by the Black-Scholes model.

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

| | | Year Ended September 30, 1999 | Year Ended September 30, 1997 |
|---|---|---|---|
| Net income | As reported | $ (6,430,000) | $ 4,570,000 |
| | Pro forma | $ (6,510,000) | $ 4,352,000 |
| Earnings per share | | | |
| | As reported | $ (1.19) | $ 1.09 |
| | Pro forma | $ (1.21) | $ 1.04 |

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

5. EMPLOYEE STOCK PURCHASE PLAN

The Company has an employee stock purchase plan to invest in the Company's common stock for the benefit of eligible employees. Participants are entitled to contribute a percentage, not to exceed 5%, of their bi-weekly salary to the plan. On a bi-weekly basis, the Company matches the participants' contributions and directs the purchase of shares of the Company's common stock. There are no vesting requirements for the participants. The Company contributed $214,347, $254,582 and $217,723 to the plan during 1999, 1998 and 1997, respectively.

6. INCOME TAXES

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Current: | | | |
| U.S. federal | $ (1,441,000) | $ 2,349,000 | $ 1,585,000 |
| State | -- | 258,000 | 153,000 |
| | (1,441,000) | 2,607,000 | 1,738,000 |
| Deferred: U. S. Federal | (1,958,000) | 1,190,000 | 808,000 |
| Total | $ (3,399,000) | $ 3,797,000 | $ 2,546,000 |

NOTES TO FINANCIAL STATEMENTS (CONT.)

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

| | Year Ended September 30, | | |
|---|---|---|---|
| | 1999 | 1998 | 1997 |
| Expense (benefit) computed at statutory rates | $(3,342,000) | $ 3,545,000 | $ 2,420,000 |
| Effect of: | | | |
| State income taxes, net of federal income tax benefit | -- | 170,000 | 101,000 |
| Other | (57,000) | 82,000 | 25,000 |
| Income tax expense (benefit) | $(3,399,000) | $ 3,797,000 | $ 2,546,000 |

The net deferred tax liability as of September 30, 1999 is the result of tax depreciation in excess of book depreciation by $8,894,000, offset by book bad debt expense in excess of tax bad debt expense by $133,000 and an AMT credit carryforward of $2,333,071.

A valuation allowance is provided when it is more likely than not that some portion of the deferred tax assets will not be realized.

7. NET INCOME (LOSS) PER COMMON SHARE

The Company accounts for earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("Statement 128"). Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share exclude any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and when appropriate, restated to conform to the Statement 128 requirements.

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

| | 1999 | 1998 | 1997 |
|---|---|---|---|
| Numerator: | | | |
| Net income (loss) and numerator for basic and diluted net income (loss) per common share-income available to common stockholders | $ (6,430,000) | $ 6,628,000 | $ 4,570,000 |
| Denominator: | | | |
| Denominator for basic net income (loss) per common share-weighted average common shares | 5,397,624 | 5,205,926 | 4,182,882 |
| Effect of dilutive securities-employee stock options | -- | 26,081 | 29,537 |
| Denominator for diluted net income (loss) per common share-adjusted weighted average common shares and assumed conversions | 5,397,624 | 5,232,007 | 4,212,419 |
| Net income (loss) per common share | $ (1.19) | $ 1.27 | $ 1.09 |
| Net income (loss) per common share-assuming dilution | $ (1.19) | $ 1.27 | $ 1.08 |

NOTES TO FINANCIAL STATEMENTS (CONT.)

Employee stock options to purchase shares of common stock were outstanding during fiscal year 1999 but were not included in the computation of diluted net loss per share because either (i) the employee stock options' exercise price was greater than the average market price of the common stock of the Company, or (ii) the Company had a net loss from continuing operations and, therefore, the effect would be antidilutive.

8. STATEMENT OF CASH FLOWS

The Company paid current and estimated tax payments of $3,533,000 and $1,553,000 in 1998 and 1997, respectively. Payments of interest were $125,000 and $486,000 in 1998 and 1997, respectively.

9. MAJOR CUSTOMERS

The Company operates in only one business segment, contract seismic data acquisition and processing services. During each of 1999 and 1998, sales to only one customer, which was not the same customer each year, exceeded 10% of operating revenue. The percentage of sales to these customers in 1999 and 1998 were 30.9% and 16.7%, respectively. During 1997, sales to no customers exceeded 10% of operating revenue.

10. CONTINGENCIES

The Company is a defendant in two lawsuits pending in the 112th and 83rd District Courts of Pecos County, Texas (respectively, Cause No. 8812, Ernestine Bernal, et al. vs. Javier Antonio Orona, et al.; and Cause No. P5565-83-CV, Carla Jaquez, et al. vs. Javier Antonio Orona, et al.) relating to a July 1995 accident involving a van owned by the Company which was used to transport employees to various job sites and a non-Company owned vehicle. The accident resulted in the deaths of four Company employees who were passengers in such van. The Company is one of several named defendants in such suits. Other named defendants include the estate of the deceased driver of such van, who was an employee of the Company, the driver of such non-Company owned vehicle, who was then an employee of the Company, the owner of such vehicle, and Ford Motor Company, the manufacturer of the Company van involved in such accident. In general, the claims against the Company include allegations of negligence, gross negligence and/or intentional tort as a result of, among other things, the Company's alleged failure to provide safe transportation for its employees and to properly select, train and supervise the deceased driver of such van. The plaintiffs in such suits are seeking actual damages from the defendants of $15.5 million, additional unspecified actual damages, pre-judgment and post-judgment interest and costs of suit as well as exemplary and punitive damages in an amount not to exceed four times the amount of actual damages. The Company believes that it has meritorious defenses to the claims asserted against it in such suits and it intends to continue to vigorously defend itself against such claims. In addition, the Company believes that it has approximately $11 million of liability insurance coverage to provide against an unfavorable outcome. The Court has heard a motion for summary judgment in both cases requesting that the Company be dismissed from such suit based upon various legal theories. Such motion has not yet been ruled on by the Court. Due to the uncertainties inherent in litigation, no assurance can be given as to the ultimate outcome of such suits or the adequacy or availability of the Company's liability insurance to cover the damages, if any, which may be assessed against the Company in such suits. A judgment awarding plaintiffs an amount significantly exceeding the Company's available insurance coverage could have a material adverse effect on the Company's financial condition, results of operations and liquidity.

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 operation, as the Company believes it is adequately insured.

NOTES TO FINANCIAL STATEMENTS (CONT.)

On February 18, 1998 the Company entered into a five year, non-cancellable operating lease for office space. Future minimum lease commitments under the lease at September 30, of each year are $142,716 through 2002, declining to $107,037 in 2003.

11. RIGHTS AGREEMENT

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

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

Subsequent to the acquisition by a person or group of beneficial ownership of 20% or more of the Company's common stock and prior to the acquisition of beneficial ownership of 50% or more of the Company's common stock, the Board of Directors of the Company may exchange the Rights (other than Rights owned by such acquiring person or group, which will have become null and void and nontransferable), in whole or in part, at an exchange ratio of one share of the Company's common stock (or one one-hundredth of a Preferred Share) per Right.

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

NOTES TO FINANCIAL STATEMENTS (CONT.)

12. QUARTERLY FINANCIAL DATA (UNAUDITED)

| | Quarter Ended | | | |
|---|---|---|---|---|
| | December 31 | March 31 | June 31 | September 30 |
| Fiscal 1999: | | | | |
| Operating revenues | $ 8,018,000 | $ 6,053,000 | $ 4,575,000 | $ 5,552,000 |
| Loss from operations | $ (1,672,000) | $ (2,447,000) | $ (3,091,000) | $ (3,529,000) |
| Net loss | $ (974,000) | $ (1,461,000) | $ (1,890,000) | $ (2,105,000) |
| Net loss per common share | $ (.18) | $ (.27) | $ (.35) | $ (.39) |
| Net loss per common share assuming dilution | $ (.18) | $ (.27) | $ (.35) | $ (.39) |
| Fiscal 1998: | | | | |
| Operating revenues | $ 13,787,000 | $ 13,557,000 | $ 18,647,000 | $ 15,409,000 |
| Income from operations | $ 2,101,000 | $ 1,022,000 | $ 4,515,000 | $ 2,033,000 |
| Net income | $ 1,483,000 | $ 817,000 | $ 3,087,000 | $ 1,241,000 |
| Net income per common share | $ .31 | $ .15 | $ .58 | $ .23 |
| Net income per common share assuming dilution | $ .31 | $ .15 | $ .57 | $ .23 |

YEAR
SEP-30-1999
SEP-30-1999
4,993,000
13,547,000
5,700,000
133,000
0
26,241,000
71,706,000
(36,529,000)
61,418,000
1,305,000
0
0
0
1,802,000
57,666,000
61,418,000
24,198,000
24,198,000
34,637,000
34,637,000
0
300,000
0
(9,829,000)
3,399,000
(6,430,000)
0
0
0
(6,430,000)
(1.19)
(1.19)