



**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the Quarterly Period Ended June 30, 2011

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

For the Transition Period From \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-34404

**DAWSON GEOPHYSICAL COMPANY**

Texas  
(State or other jurisdiction of  
incorporation or organization)

75-0970548  
(I.R.S. Employer  
identification No.)

508 West Wall, Suite 800, Midland, Texas 79701  
(Principal Executive Office)

Telephone Number: 432-684-3000

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

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

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

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

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

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

<u>Title of Each Class</u>	<u>Outstanding at August 9, 2011</u>
Common Stock, \$.33 1/3 par value	7,910,885 shares

# DAWSON GEOPHYSICAL COMPANY

## INDEX

	<u>Page Number</u>
<b><u>Part I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements</u>	3
<u>Statements of Operations for the Three Months and the Nine Months Ended June 30, 2011 and 2010 (unaudited)</u>	3
<u>Balance Sheets at June 30, 2011 (unaudited) and September 30, 2010</u>	4
<u>Statements of Cash Flows for the Nine Months Ended June 30, 2011 and 2010 (unaudited)</u>	5
<u>Notes to Financial Statements (unaudited)</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	17
<u>Item 4. Controls and Procedures</u>	17
<b><u>Part II. OTHER INFORMATION</u></b>	17
<u>Item 1. Legal Proceedings</u>	17
<u>Item 1A. Risk Factors</u>	18
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	19
<u>Item 6. Exhibits</u>	19
<u>Signatures</u>	19
<u>Index to Exhibits</u>	20
<u>Certification of CEO Pursuant to Rule 13a-14(a)</u>	
<u>Certification of CFO Pursuant to Rule 13a-14(a)</u>	
<u>Certification of CEO Pursuant to Rule 13a-14(b)</u>	
<u>Certification of CFO Pursuant to Rule 13a-14(b)</u>	
<u>EX-10.2</u>	
<u>EX-10.3</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	

**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****DAWSON GEOPHYSICAL COMPANY  
STATEMENTS OF OPERATIONS  
(UNAUDITED)**

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Operating revenues	\$98,033,000	\$61,178,000	\$249,023,000	\$146,093,000
Operating costs:				
Operating expenses	85,431,000	54,098,000	225,324,000	133,245,000
General and administrative	3,804,000	1,635,000	9,396,000	5,281,000
Depreciation	7,900,000	7,016,000	22,767,000	20,188,000
	<u>97,135,000</u>	<u>62,749,000</u>	<u>257,487,000</u>	<u>158,714,000</u>
Income (loss) from operations	898,000	(1,571,000)	(8,464,000)	(12,621,000)
Other income:				
Interest income	2,000	20,000	33,000	78,000
Other income	21,000	126,000	603,000	223,000
Income (loss) before income tax	<u>921,000</u>	<u>(1,425,000)</u>	<u>(7,828,000)</u>	<u>(12,320,000)</u>
Income tax (expense) benefit	<u>(587,000)</u>	<u>406,000</u>	<u>1,638,000</u>	<u>4,379,000</u>
Net income (loss)	<u>\$ 334,000</u>	<u>\$ (1,019,000)</u>	<u>\$ (6,190,000)</u>	<u>\$ (7,941,000)</u>
Basic income (loss) per common share	<u>\$ 0.04</u>	<u>\$ (0.13)</u>	<u>\$ (0.79)</u>	<u>\$ (1.02)</u>
Diluted income (loss) per common share	<u>\$ 0.04</u>	<u>\$ (0.13)</u>	<u>\$ (0.79)</u>	<u>\$ (1.02)</u>
Weighted average equivalent common shares outstanding	<u>7,812,519</u>	<u>7,779,256</u>	<u>7,801,396</u>	<u>7,776,740</u>
Weighted average equivalent common shares outstanding -assuming dilution	<u>7,925,181</u>	<u>7,779,256</u>	<u>7,801,396</u>	<u>7,776,740</u>

See accompanying notes to the financial statements (unaudited).

**DAWSON GEOPHYSICAL COMPANY**  
**BALANCE SHEETS**

	June 30, 2011 (Unaudited)	September 30, 2010
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 12,004,000	\$ 29,675,000
Short-term investments	—	20,012,000
Accounts receivable, net of allowance for doubtful accounts of \$155,000 and \$639,000 at June 30, 2011 and September 30, 2010, respectively	84,451,000	57,726,000
Prepaid expenses and other assets	11,936,000	7,856,000
Current deferred tax asset	1,545,000	1,764,000
Total current assets	109,936,000	117,033,000
<b>Property, plant and equipment</b>	300,649,000	248,943,000
Less accumulated depreciation	(149,274,000)	(130,900,000)
Net property, plant and equipment	151,375,000	118,043,000
Total assets	<u>\$ 261,311,000</u>	<u>\$ 235,076,000</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 23,078,000	\$ 14,274,000
Accrued liabilities:		
Payroll costs and other taxes	2,940,000	3,625,000
Other	8,400,000	7,963,000
Deferred revenue	5,031,000	204,000
Current maturities of notes payable	5,264,000	—
Total current liabilities	44,713,000	26,066,000
<b>Long-term liabilities:</b>		
Notes payable less current maturities	11,163,000	—
Deferred tax liability	20,444,000	18,785,000
Total long-term liabilities	31,607,000	18,785,000
<b>Stockholders' equity:</b>		
Preferred stock-par value \$1.00 per share; 5,000,000 shares authorized, none outstanding	—	—
Common stock-par value \$.33 1/3 per share; 50,000,000 shares authorized, 7,910,885 and 7,902,106 shares issued and outstanding at June 30, 2011 and September 30, 2010, respectively	2,637,000	2,634,000
Additional paid-in capital	91,363,000	90,406,000
Other comprehensive income, net of tax	—	4,000
Retained earnings	90,991,000	97,181,000
Total stockholders' equity	184,991,000	190,225,000
Total liabilities and stockholders' equity	<u>\$ 261,311,000</u>	<u>\$ 235,076,000</u>

See accompanying notes to the financial statements (unaudited).

**DAWSON GEOPHYSICAL COMPANY**  
**STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

	Nine Months Ended June 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (6,190,000)	\$ (7,941,000)
Adjustments to reconcile net loss to net cash (used) provided by operating activities:		
Depreciation	22,767,000	20,188,000
Noncash compensation	1,422,000	1,153,000
Deferred income tax expense	1,449,000	360,000
Provision for bad debts	213,000	199,000
Other	(631,000)	(234,000)
Change in current assets and liabilities:		
Increase in accounts receivable	(27,696,000)	(12,970,000)
Increase in prepaid expenses and other assets	(4,230,000)	(364,000)
Increase in accounts payable	7,847,000	5,687,000
Decrease in accrued liabilities	(247,000)	(2,376,000)
Increase (decrease) in deferred revenue	4,827,000	(2,230,000)
Net cash (used) provided by operating activities	<u>(469,000)</u>	<u>1,472,000</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures, net of noncash capital additions summarized below in noncash investing activities	(55,307,000)	(16,585,000)
Acquisition of short-term investments	(2,500,000)	(9,971,000)
Proceeds from maturity of short-term investments	22,500,000	15,000,000
Proceeds from disposal of assets	623,000	499,000
Partial proceeds on fire insurance claim	758,000	—
Net cash used in investing activities	<u>(33,926,000)</u>	<u>(11,057,000)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from note payable	16,427,000	—
Proceeds from exercise of stock options	297,000	—
Net cash provided by financing activities	<u>16,724,000</u>	<u>—</u>
Net decrease in cash and cash equivalents	(17,671,000)	(9,585,000)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>	<u>29,675,000</u>	<u>36,792,000</u>
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<u>\$ 12,004,000</u>	<u>\$ 27,207,000</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid during the period for income taxes	\$ 508,000	\$ 797,000
Cash received during the period for income taxes	\$ 202,000	\$ 6,000,000
<b>NONCASH INVESTING ACTIVITIES:</b>		
Accrued purchases of property and equipment	\$ 957,000	\$ 305,000
Equipment purchase through asset trade in	\$ —	\$ 2,170,000
Unrealized gain on investments	\$ —	\$ 48,000

See accompanying notes to the financial statements (unaudited).

**DAWSON GEOPHYSICAL COMPANY**  
**NOTES TO FINANCIAL STATEMENTS (UNAUDITED)**

**1. ORGANIZATION AND NATURE OF OPERATIONS**

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

**2. OPINION OF MANAGEMENT**

Although the information furnished is unaudited, in the opinion of management of the Company, the accompanying financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results for the periods presented. The results of operations for the three months and the nine months ended June 30, 2011 are not necessarily indicative of the results to be expected for the fiscal year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in this Form 10-Q report pursuant to certain rules and regulations of the Securities and Exchange Commission (the "SEC"). These financial statements should be read with the financial statements and notes included in the Company's Form 10-K for the fiscal year ended September 30, 2010.

**Significant Accounting Policies**

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

*Fair Value of Financial Instruments.* The carrying amounts for cash and cash equivalents, short-term investments, trade and other receivables, other current assets, accounts payable and other current liabilities approximate their fair values based on their short-term nature. The fair value of investments is based on quoted market prices.

*Concentrations of Credit Risk.* Financial instruments that potentially expose the Company to concentrations of credit risk at any given time may consist of cash and cash equivalents, money market funds and overnight investment accounts, short-term investments, trade and other receivables and other current assets. At June 30, 2011 and September 30, 2010, the Company had deposits with domestic banks in excess of federally insured limits. Management believes the credit risk associated with these deposits is minimal. Money market funds seek to preserve the value of the investment, but it is possible to lose money investing in these funds. The Company invests funds overnight under a repurchase agreement with its bank, which is collateralized by securities of the United States Federal agencies. The Company generally invests in short-term U.S. Treasury Securities. The Company believes its investments are of high credit quality. The Company's sales are to clients whose activities relate to oil and natural gas exploration and production. The Company generally extends unsecured credit to these clients; therefore, collection of receivables may be affected by the economy surrounding the oil and natural gas industry or other economic conditions. The Company closely monitors extensions of credit and may negotiate payment terms that mitigate risk.

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

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

In some instances, customers are billed in advance of the performance of services. In those cases, the Company recognizes the liability as deferred revenue. As services are performed, those amounts are reversed and recognized as revenue.

## Table of Contents

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

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

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

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

*Tax Accounting.* The Company accounts for income taxes by recognizing amounts of taxes payable or refundable for the current year and an asset and liability approach in recognizing the amount of deferred tax assets and liabilities for the future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Management determines deferred taxes by identifying the types and amounts of existing temporary differences, measuring the total deferred tax asset or liability using the applicable tax rate in effect for the year in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates of deferred tax assets and liabilities is recognized in income in the year of an enacted rate change. The deferred tax asset is reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax asset will not be realized. Management's methodology for recording income taxes requires judgment regarding assumptions and the use of estimates, including determining the effective tax rate and the valuation of deferred tax assets, which can create variances between actual results and estimates and could have a material impact on the Company's provision or benefit for income taxes.

*Stock-Based Compensation.* The Company accounts for stock-based compensation awards, which includes stock options and restricted stock, using the fair value method and recognizes compensation cost, net of forfeitures, in its financial statements. The Company records compensation expense as either operating or general and administrative expense, as appropriate, in the Statements of Operations on a straight-line basis over the vesting period of the related stock options or restricted stock awards.

*Subsequent Events.* The Company evaluates subsequent events through the date the financial statements are issued in conformity with generally accepted accounting principles. The Company considers its financial statements issued when they are widely distributed to users, such as filing with the SEC.

### **Recently Issued Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards," to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 will be effective for the Company in its second quarter of fiscal 2012 and will be applied prospectively. The Company is currently evaluating the impact of ASU 2011-04 and believes the adoption will not have a material effect on its financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," to require an entity to present the total of comprehensive income, the components of net income, and the components of other



## [Table of Contents](#)

comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. This update does not change what items are reported in other comprehensive income or the requirement to report reclassification of items from other comprehensive income to net income. ASU 2011-05 will be effective for the Company in its first quarter of fiscal 2013, though earlier adoption is permitted. The update will be applied retrospectively upon adoption. The Company believes the adoption will not have a material effect on its financial statements.

### 3. SHORT-TERM INVESTMENTS

The Company had no short-term investments at June 30, 2011. The components of the Company's short-term investments at September 30, 2010 were as follows:

	As of September 30, 2010 (in 000's)			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
U.S. Treasury bills	\$ 14,991	\$ 2	\$ —	\$ 14,993
FDIC guaranteed bonds	5,015	4	—	5,019
Total	<u>\$ 20,006</u>	<u>\$ 6(a)</u>	<u>\$ —</u>	<u>\$ 20,012</u>

(a) Accumulated other comprehensive income on the Balance Sheet reflects unrealized gains and losses net of the tax effect of approximately \$2,000.

### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

At June 30, 2011 and September 30, 2010, the Company's financial instruments included cash and cash equivalents, short-term investments, trade and other receivables, other current assets, accounts payable and other current liabilities. Due to the short-term maturities of cash and cash equivalents, trade and other receivables, other current assets, accounts payable and other current liabilities, the carrying amounts approximate fair value at the respective balance sheet dates.

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

The Company had no short-term investments at June 30, 2011. The fair value measurements of these short-term investments at September 30, 2010 were determined using the following inputs:

	As of September 30, 2010 (in 000's)			
	Total	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments:				
U.S. Treasury bills	\$ 14,993	\$ 14,993	\$ —	\$ —
FDIC guaranteed bonds	5,019	5,019	—	—
Total	<u>\$ 20,012</u>	<u>\$ 20,012</u>	<u>\$ —</u>	<u>\$ —</u>

Investments in U.S. Treasury bills and FDIC guaranteed bonds classified as available-for-sale were measured using unadjusted quoted market prices (Level 1) at the reporting date.

### 5. DEBT

The Company's revolving line of credit loan agreement is with Western National Bank. The agreement was renewed June 2, 2011 under the same terms as the previous agreement. The agreement permits the Company to borrow, repay and reborrow, from time to time until June 2, 2013, up to \$20.0 million based on the borrowing base calculation as defined in the agreement. The Company's obligations under this agreement are secured by a security interest in its accounts receivable, equipment and related collateral. Interest on the facility accrues at an annual rate equal to either the 30-day London Interbank Offered Rate ("LIBOR") plus two and one-quarter percent or the Prime Rate minus three-quarters percent, as the Company directs monthly, subject to an interest rate floor of 4%. Interest on the outstanding amount under the loan agreement is payable monthly. The loan agreement contains customary covenants for credit facilities of this type, including limitations on disposition of assets, mergers and reorganizations. The Company is also obligated to meet certain financial covenants under the loan agreement, including maintaining specified ratios with respect to cash

## [Table of Contents](#)

flow coverage, current assets and liabilities and debt to tangible net worth. The Company was in compliance with all covenants including specified ratios as of June 30, 2011 and August 9, 2011. The Company has not utilized the line of credit loan agreement during the current fiscal year or the fiscal year ended September 30, 2010.

On June 24, 2011, the Company exercised its purchase option for OYO GSR equipment it had been previously leasing. In connection with the purchase of this equipment, the Company amended its above Revolver with Western National Bank on June 30, 2011 to add a new term loan note ("Term Note") provision, under which the Company obtained \$16,427,000 in financing for the purchase of this equipment. The Term Note is repayable over a period of 36 months at \$485,444 per month plus any applicable interest in excess of 4%. Interest on the Term Note accrues at an annual rate equal to either the 30-day London Interbank Offered Rate ("LIBOR") plus two and one-quarter percent or the Prime Rate minus three-quarters percent, as the Company directs monthly, subject to an interest rate floor of 4%. The Term Note is collateralized by the equipment and matures with all outstanding balances due on June 30, 2014. The fair value of the Term Note approximates its carrying value at June 30, 2011.

Minimum principal payments under the Term Note for the twelve months ended June 30 are as follows:

2012	\$ 5,264,000
2013	5,473,000
2014	5,690,000
Total	\$ 16,427,000
Less current maturities	5,264,000
Note payable, less current maturities	<u>\$ 11,163,000</u>

## 6. COMMITMENTS AND CONTINGENCIES

On October 4, 2010, a fire in Eastern Wyoming burned a remote area where one of the Company's data acquisition crews was operating. The fire destroyed approximately \$35,000 net book value of the Company's equipment, all of which was covered by the Company's liability insurance, net of the deductible. As a result of the loss of equipment in the fire, the Company also lost data worth approximately \$103,000. This data loss was also covered by the Company's liability insurance, net of the deductible. In addition to the loss of equipment and data, a number of landowners in the fire area suffered damage to their grazing lands, livestock, fences and other improvements. The estimated cost to repair fence damages is approximately \$700,000, and the Company believes such amounts will be covered by insurance. The insurance company is coordinating all other exposures as a result of the fire, and the Company believes its coverage will be adequate for this purpose. In December 2010, the Company received insurance proceeds for equipment and data losses sustained by the Company during the fire and for the Company's debris pick-up costs.

During the quarter ended December 31, 2010, the Company settled its claim with a client that had filed for relief under Chapter 11 of the United States Bankruptcy Code in 2009. As part of the settlement, the Company received a cash settlement and ownership in the data gathered on behalf of the client. As of December 31, 2010, there were no outstanding account receivables with this client. The Company capitalized the fair value of the data received and adjusted its allowance for doubtful accounts to reflect the reduction in estimated exposures.

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

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

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

The following table summarizes payments due in specific periods related to the Company's contractual obligations with initial terms exceeding one year as of June 30, 2011.

[Table of Contents](#)

	Payments Due by Period (in 000's)				
	Total	Within 1 Year	1-3 Years	3-5 Years	After 5 Years
Operating lease obligations	\$ 1,534	\$ 543	\$ 617	\$ 374	\$ —

Some of the Company's operating leases contain predetermined fixed increases of the minimum rental rate during the initial lease term. For these leases, the Company recognizes the related expense on a straight-line basis and records deferred rent as the difference between the amount charged to expense and the rent paid. Rental expense under the Company's operating leases with initial terms exceeding one year was \$179,000 and \$154,000 for the three months ended June 30, 2011 and 2010, respectively, and \$538,000 and \$446,000 for the nine months ended June 30, 2011 and 2010, respectively.

As of June 30, 2011 and September 30, 2010, the Company had unused letters of credit totaling \$3,580,000. The Company's letters of credit principally back obligations associated with the Company's self-insured retention on workers' compensation claims.

**7. SUBSEQUENT EVENTS**

The Company has evaluated events subsequent to the balance sheet date (June 30, 2011) through the issue date of this Form 10-Q and concluded that no subsequent events have occurred that require recognition in the Financial Statements or disclosure in the Notes to the Financial Statements.

**8. NET INCOME (LOSS) PER COMMON SHARE**

Basic income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares and common share equivalents outstanding during the period.

The following table sets forth the computation of basic and diluted income (loss) per common share.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
<b>NUMERATOR:</b>				
Net income (loss) and numerator for basic and diluted net income (loss) per common share-income available to common shareholders	\$ 334,000	\$ (1,019,000)	\$ (6,190,000)	\$ (7,941,000)
<b>DENOMINATOR:</b>				
Denominator for basic net income (loss) per common share-weighted average common shares	7,812,519	7,779,256	7,801,396	7,776,740
Effect of dilutive securities-employee stock options and restricted stock grants	112,662	—	—	—
Denominator for diluted net income (loss) per common share-adjusted weighted average common shares and assumed conversions	7,925,181	7,779,256	7,801,396	7,776,740
Basic income (loss) per common share	\$ 0.04	\$ (0.13)	\$ (0.79)	\$ (1.02)
Diluted income (loss) per common share	\$ 0.04	\$ (0.13)	\$ (0.79)	\$ (1.02)

The Company had a net loss in the nine months ended June 30, 2011 and in the three months and the nine months ended June 30, 2010. Therefore, the denominator for diluted loss per common share is the same as the denominator for basic loss per common share for those periods.

The following weighted average numbers of certain securities have been excluded from the calculation of diluted net loss per common share, as their effects would be anti-dilutive.

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2011	2010	2011	2010
Stock options	—	151,720	142,234	151,907
Restricted stock	—	38,500	113,930	39,115

## 9. PENDING ACQUISITION

On March 20, 2011, the Company, 6446 Acquisition Corp., a Texas corporation and a wholly owned subsidiary of the Company (“Merger Sub”), and TGC Industries, Inc., a Texas corporation (“TGC”), entered into an Agreement and Plan of Merger (the “Merger Agreement”), pursuant to which Merger Sub will merge with and into TGC, with TGC continuing after the merger as the surviving entity and a wholly owned subsidiary of the Company.

The Merger Agreement has been approved by both companies’ boards of directors. Under the terms of the Merger Agreement, subject to shareholder and regulatory approval and other customary conditions, at the effective time of the merger, TGC shareholders will receive 0.188 shares of the Company’s common stock for every one share of TGC common stock they hold, provided that the average of the volume weighted average price of the Company’s common stock on the Nasdaq Stock Market during the ten consecutive trading days ending on the second business day prior to the date of the shareholders’ meetings of the Company and TGC to be called for the purpose of approving the transaction is equal to or greater than \$32.54 but less than or equal to \$52.54. In the event that the average of the volume weighted average price of Dawson’s common stock is outside of that range, then the parties, at their respective option, shall be entitled to terminate the transaction following good faith negotiations to determine a modified, mutually acceptable exchange ratio.

The parties have made customary representations and warranties and agreed to customary covenants in the Merger Agreement. In addition, the Company and TGC have each agreed to certain pre-closing covenants in the Merger Agreement, including, among other things, covenants that the Company and TGC will, and TGC will cause its subsidiaries to, during the period between the date of the Merger Agreement and the effective time of the merger, conduct their business only in the ordinary course of business consistent with past practice and that the Company and TGC will not engage in certain types of transactions without the consent of the other during such period.

Pursuant to the Merger Agreement, the Company has agreed to take all necessary actions to cause, as of the effective time of the merger, its Board of Directors to include as Company directors Wayne A. Whitener and Allen T. McInnes, each of whom is currently a TGC director.

At the closing of the transaction, it is anticipated that the Company will issue approximately 3.7 million shares in exchange for the approximately 19.6 million shares of TGC common stock outstanding. Upon completion of the transaction, the Company will have approximately 11.7 million shares outstanding, with current Company shareholders owning approximately 68% of the combined company and current TGC shareholders owning approximately 32%.

In connection with the Merger Agreement, certain of TGC’s executive officers and directors and their affiliates who own, in the aggregate, 28.73% of the currently outstanding shares of TGC common stock have entered into voting agreements with the Company. Pursuant to and subject to the terms of those voting agreements, those directors and executive officers and their respective affiliates have agreed, among other things, to vote their shares of TGC common stock in favor of approval of the Merger Agreement at the TGC special meeting to be held to approve the Merger Agreement.

## ITEM 2. 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 and notes thereto included elsewhere in this Form 10-Q.

### Forward Looking Statements

Statements other than statements of historical fact included in this Form 10-Q that relate to forecasts, estimates or other expectations regarding future events, including without limitation, statements under “Management’s Discussion and Analysis of Financial Condition and Results of Operations” regarding technological advancements and our financial position, business strategy and plans and objectives of our management for future operations, may be deemed to be 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 Form 10-Q, words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” and similar expressions, as they relate to us or our management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of our management as well as assumptions made by and information currently available to management. Actual results could differ materially from those

## [Table of Contents](#)

contemplated by the forward-looking statements as a result of certain factors, including but not limited to the volatility of oil and natural gas prices, disruptions in the global economy, dependence upon energy industry spending, delays, reductions or cancellations of service contracts, high fixed costs of operations, weather interruptions, inability to obtain land access rights of way, industry competition, limited number of customers, credit risk related to our customers, asset impairments, the availability of capital resources, operational disruptions and our proposed acquisition of TGC. A discussion of these factors, including risks and uncertainties, is set forth under "Risk Factors" in our annual report on Form 10-K for the year ended September 30, 2010, in "Risk Factors" in this Form 10-Q and in our other reports filed from time to time with the Securities and Exchange Commission. These forward-looking statements reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategies and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. We assume no obligation to update any such forward-looking statements.

### **Overview**

We are the leading provider of onshore seismic data acquisition services in the lower 48 states of the United States as measured by the number of active data acquisition crews. Substantially all of our revenues are derived from the seismic data acquisition services we provide to our clients, mainly domestic oil and natural gas companies. Demand for our services depends upon the level of spending by these companies for exploration, production, development and field management activities, which depends, in part, on oil and natural gas prices. Significant fluctuations in domestic oil and natural gas exploration activities and commodity prices have affected the demand for our services and our results of operations in years past, and such fluctuations continue to be the single most important factor affecting our business and results of operations.

Beginning in August 2008, the prices of oil and especially natural gas declined significantly from historic highs due to reduced demand from the global economic slowdown. During 2009, many domestic oil and natural gas companies reduced their capital expenditures due to the decrease in market prices and disruptions in the credit markets. These factors led to a severe reduction in demand for our services and in our industry during 2009 as well as downward pressure on the prices we charge our customers for our services. In order to better align our crew capacity with reduced demand, we reduced the number of data acquisition crews we operated from sixteen in January 2009 to nine as of October 2009. Due to the reductions in the number of our active data acquisition crews and lower utilization rates for our remaining operating crews, we experienced a reduction in operating revenues and, to a lesser extent, in operating costs during calendar 2009 and into calendar 2010.

In the second quarter of fiscal 2010, we began to experience an increase in demand for our services, particularly in the oil basins. In response to this demand increase, we redeployed three seismic data acquisition crews in fiscal 2010, bringing our crew count to twelve active crews. With demand continuing to increase during fiscal 2011, we have continued to see an increase in activity and requests for proposals. In response to this increase in demand, we deployed two additional crews in the second quarter of fiscal 2011, bringing our current total to fourteen working crews. While the seismic data acquisition market in the lower 48 United States remains very competitive, we have experienced continued improvements in pricing and contract terms. Although our clients may cancel their service contracts on short notice and projects are subject to delays due to permit and weather concerns, our current order book is at its highest level since 2008 and reflects commitment levels sufficient to maintain operation of our fourteen data acquisition crews through the end of calendar 2011.

While our revenues are mainly affected by the level of client demand for our services, our revenues are also affected by the pricing for our services that we negotiate with our clients and the productivity of our data acquisition crews. Crew productivity can be impacted by factors such as crew downtime related to inclement weather, delays in acquiring land access permits, crew repositioning or equipment failure, whether we enter into turnkey or day rate contracts with our clients, the number and size of crews and the number of recording channels per crew. Consequently, our efforts to negotiate favorable contract terms in our supplemental service agreements, to mitigate access permit delays and to improve overall crew productivity and configuration may contribute to growth in our revenues. During fiscal 2010 and fiscal 2011, most of our client contracts have been turnkey contracts. The percentage of revenues derived from turnkey contracts has grown in the past few years from approximately half of our revenues in fiscal 2008 to approximately seventy percent of our revenues during fiscal 2010 and in the first nine months of fiscal 2011. While turnkey contracts allow us to capitalize on improved crew productivity, we also bear more risks related to weather and crew downtime.

Over time, we have experienced continued increases in recording channel capacity on a per crew or project basis. This increase in channel count demand is driven by client needs and is necessary in order to produce higher resolution images, increase crew efficiencies and undertake larger scale projects. Due to the increase in demand for higher channel counts, we have continued our investment in additional channels. In response to project-based channel requirements, we routinely deploy a variable number of

## Table of Contents

channels on a variable number of crews in an effort to maximize asset utilization and meet client needs. We believe we will realize the benefit of increased channel counts and flexibility of deployment through increased crew efficiencies, higher revenues and margins.

In recent months, we have purchased and leased a significant number of cable-less recording equipment. We have utilized this equipment as stand-alone recording systems and in conjunction with our cable-based systems. As a result of the introduction of cable-less recording systems, we have realized increased crew efficiencies and increased revenue on projects using this equipment. We believe we will experience continued demand for cable-less recording systems in the future. As we have replaced cable-based recording equipment with cable-less equipment on certain crews, the cable-based recording equipment continues to be redeployed on existing crews as needed, including on the additional two crews fielded during the second quarter.

While the markets for oil and natural gas have been very volatile and are likely to continue to be so in the future, and we can make no assurances as to future levels of domestic exploration or commodity prices, we believe opportunities exist for us to enhance our market position by responding to our clients' continuing desire for higher resolution subsurface images. If economic conditions were to worsen, our clients were to reduce their capital expenditures, or if there was a significant sustained drop in oil and natural gas prices, it would result in diminished demand for our seismic services, could cause continued downward pressure on the prices we charge and would affect our results of operations. The services we are currently providing are primarily for clients seeking oil and liquids. In recent years, we have experienced periods in which the services we provided were primarily for clients seeking oil and other periods in which our clients were primarily seeking natural gas.

### **Fiscal 2011 Third Quarter Highlights**

Our third quarter results were positively affected by the addition of the two data acquisition crews in the second fiscal quarter, improved crew efficiencies and utilization. Our third quarter results were negatively affected by increases in operating expenses related to unanticipated equipment repair costs and higher fuel costs, transaction expenses of approximately \$1,400,000, or \$0.19 per share, related to the proposed merger with TGC, as further discussed in "Pending Acquisition" below, and higher depreciation charges due to our continued investment in new equipment.

We continue to experience high third-party charges related to the use of helicopter support services, specialized survey technologies and dynamite energy sources in survey areas with limited access. The Company believes these third-party charges, which are reimbursed by the client, will remain high while the Company operates in difficult terrain, particularly in the Eastern United States. Approximately one-half of our increase in revenues during the third fiscal quarter was due to the increase in these third-party charges.

During the third quarter, we purchased the 14,850 single-channel OYO GSR units we had initially leased by exercising the purchase option under the lease. The conversion of the equipment lease to a purchase resulted in an increase of approximately \$0.02 per share per month of depreciation charges and a decrease of approximately \$0.06 per share of lease expense for each month of the quarter (as compared to March 2011, the month in which the equipment was initially leased). The purchase of the equipment was financed through a new term loan facility in the amount of \$16,427,000. We now own in excess of 161,000 channels, which can be configured variably on a project-by-project basis to best meet the operational and geophysical needs of our clients.

### **Pending Acquisition**

On March 20, 2011, the Company, Merger Sub and TGC entered into the Merger Agreement, pursuant to which Merger Sub will merge with and into TGC, with TGC continuing after the merger as the surviving entity and a wholly owned subsidiary of the Company.

The Merger Agreement has been approved by both companies' boards of directors. Under the terms of the Merger Agreement, subject to shareholder and regulatory approval and other customary conditions, at the effective time of the merger, TGC shareholders will receive 0.188 shares of the Company's common stock for every one share of TGC common stock they hold, provided that the average of the volume weighted average price of the Company's common stock on the Nasdaq Stock Market during the ten consecutive trading days ending on the second business day prior to the date of the shareholders' meetings of the Company and TGC to be called for the purpose of approving the transaction is equal to or greater than \$32.54 but less than or equal to \$52.54. In the event that the average of the volume weighted average price of Dawson's common stock is outside of that range, then the parties, at their respective option, shall be entitled to terminate the transaction following good faith negotiations to determine a modified, mutually acceptable exchange ratio.

## Table of Contents

The parties have made customary representations and warranties and agreed to customary covenants in the Merger Agreement. In addition, the Company and TGC have each agreed to certain pre-closing covenants in the Merger Agreement, including, among other things, covenants that the Company and TGC will, and TGC will cause its subsidiaries to, during the period between the date of the Merger Agreement and the effective time of the merger, conduct their businesses only in the ordinary course of business consistent with past practice and that the Company and TGC will not engage in certain types of transactions without the consent of the other during such period.

Pursuant to the Merger Agreement, the Company has agreed to take all necessary actions to cause, as of the effective time of the merger, its Board of Directors to include as Company directors Messrs. Whitener and McInnes, each of whom is currently a TGC director.

At the closing of the transaction, it is anticipated that the Company will issue approximately 3.7 million shares in exchange for the approximately 19.6 million shares of TGC common stock outstanding. Upon completion of the transaction, the Company will have approximately 11.7 million shares outstanding, with current Company shareholders owning approximately 68% of the combined company and current TGC shareholders owning approximately 32%.

In connection with the Merger Agreement, certain of TGC's executive officers and directors and their affiliates who own, in the aggregate, 28.73% of the currently outstanding shares of TGC common stock have entered into voting agreements with the Company. Pursuant to and subject to the terms of those voting agreements, those directors and executive officers and their respective affiliates have agreed, among other things, to vote their shares of TGC common stock in favor of approval of the Merger Agreement at the TGC special meeting to be held to approve the Merger Agreement.

## **Results of Operations**

*Operating Revenues.* Our operating revenues for the first nine months of fiscal 2011 increased 70% to \$249,023,000 from \$146,093,000 for the first nine months of fiscal 2010. For the three months ended June 30, 2011, operating revenues totaled \$98,033,000 as compared to \$61,178,000 for the same period of fiscal 2010, a 60% increase. The revenue increase for the fiscal 2011 periods is primarily the result of increasing the active crew count to fourteen working crews, including the two formerly provisional crews added during the second fiscal quarter, increasing channel count per crew and significantly higher third-party charges, which constituted one-half of the growth in revenues during these periods. The third-party charges are related to the use of helicopter support services, specialized survey technologies and dynamite energy sources. The increased level of the third-party charges is driven by our continued operations in areas with limited access. We are reimbursed for these charges by our clients.

*Operating Costs.* Operating expenses for the nine months ended June 30, 2011 totaled \$225,324,000 as compared to \$133,245,000 for the same period of fiscal 2010, an increase of 69%. Operating expenses for the three months ended June 30, 2011 increased 58% to \$85,431,000 as compared to \$54,098,000 for the same period of fiscal 2010. The increase for the nine months ended June 30, 2011 compared to the nine months ended June 30, 2010 was primarily due to the addition of field personnel and other expenses associated with operating fourteen data acquisition crews during fiscal 2011, significantly higher third-party expenses, along with an overall increase in operating activity during the period. As discussed above, reimbursed expenses have a similar impact on operating costs.

General and administrative expenses were 3.8% of revenues in the first nine months of fiscal 2011, as compared to 3.6% of revenues in the same period of fiscal 2010. For the quarter ended June 30, 2011, general and administrative expenses were 3.9% of revenues as compared to 2.7% of revenues in the same period of 2010. The dollar amount of general and administrative expenses increased to \$3,804,000 during the third quarter of fiscal 2011 from \$1,635,000 during the third quarter of fiscal 2010 and to \$9,396,000 during the nine months ended June 30, 2011 from \$5,281,000 during the nine months ended June 30, 2010. These dollar increases reflect our increased level of administrative costs, primarily related to employee costs as a result of our increased revenues and operational activity in fiscal 2011, as well as transaction costs for the first nine months of \$2,421,000 associated with the proposed merger with TGC.

Depreciation for the nine months ended June 30, 2011 totaled \$22,767,000 compared to \$20,188,000 for the nine months ended June 30, 2010. We recognized \$7,900,000 of depreciation expense in the third quarter of fiscal 2011 as compared to \$7,016,000 in the comparable quarter of fiscal 2010. The increases in depreciation expense in both the nine month and three month periods were the result of capital expenditures we made during fiscal 2010 and larger capital expenditures we have made to date in fiscal 2011. Our depreciation expense is expected to increase during fiscal 2011 reflecting our higher capital expenditures during fiscal 2010 and to date in fiscal 2011.

## [Table of Contents](#)

Our total operating costs for the first nine months of fiscal 2011 were \$257,487,000, an increase of 62% from the first nine months of fiscal 2010. For the quarter ended June 30, 2011, our operating expenses were \$97,135,000, representing a 55% increase from the comparable quarter of fiscal 2010. These increases in the first nine months and for the third quarter were primarily due to the factors described above.

*Taxes.* Income tax benefit was \$1,638,000 for the nine months ended June 30, 2011 compared to \$4,379,000 for the nine months ended June 30, 2010. Income tax expense was \$587,000 for the three months ended June 30, 2011 compared to income tax benefit of \$406,000 for the three months ended June 30, 2010. The effective tax rates for the income tax provision for the nine months ended June 30, 2011 and 2010 were approximately 20.9% and 35.5%, respectively. Currently, our effective tax rate has been impacted significantly by the non-deductible transaction costs related to our pending acquisition. Our effective tax rates differ from the statutory federal rate of 35.0% for certain items such as state and local taxes, non-deductible expenses, expenses related to share-based compensation that were not expected to result in a tax deduction and changes in reserves for uncertain tax positions.

### **Liquidity and Capital Resources**

*Introduction.* Our principal sources of cash are amounts earned from the seismic data acquisition services we provide to our clients. Our principal uses of cash are the amounts used to provide these services, including expenses related to our operations and acquiring new equipment. Accordingly, our cash position depends (as do our revenues) on the level of demand for our services. Historically, cash generated from our operations, cash reserves and short-term borrowings from commercial banks have been sufficient to fund our working capital requirements, and to some extent, our capital expenditures. The Merger Agreement we have entered into with TGC, in some cases, limits our rights to make capital expenditures or to increase our debt obligations without the consent of TGC. As a practical matter, we do not believe that these limitations will have an impact on the way we do business, finance our expenditures or make capital investments. For more information on our Merger Agreement, see "Pending Acquisition" above.

*Cash Flows.* Net cash used by operating activities was \$469,000 for the first nine months of fiscal 2011. The cash provided by operating activities was \$1,472,000 for the first nine months of fiscal 2010. Despite the increase in operating activities and revenues between periods, and an overall improvement in operating margins between periods, cash flows associated with operating activities have exceeded cash flows from accounts receivables. Amounts in our trade accounts receivable that are over sixty days represent approximately 14% and 20% of our total trade accounts receivable at June 30, 2011 and June 30, 2010, respectively. The remaining outstanding trade accounts receivable (those sixty days or less), after taking into consideration payments received subsequent to June 30, 2011 and additional payments anticipated by management, is more representative of historical levels. Management expects our outstanding trade accounts receivable to be substantially collectible.

Net cash used in investing activities was \$33,926,000 in the nine months ended June 30, 2011 and \$11,057,000 in the nine months ended June 30, 2010. In fiscal 2011 and 2010, we invested excess funds of \$2,500,000 in certificates of deposit and \$9,971,000 in U.S. treasury instruments, respectively. The proceeds from maturity of short-term investments and other excess cash reserves were primarily used for capital expenditures of \$55,307,000 and \$16,585,000 in fiscal 2011 and 2010, respectively.

Net cash flows from financing activities in the nine months ended June 30, 2011 includes the financing of \$16,427,000 to purchase the OYO GSR recording equipment we had been leasing. There were no cash flows from financing activities in the first nine months of fiscal 2010.

*Capital Expenditures.* Capital expenditures for the nine months ended June 30, 2011 were \$56,264,000, which included the purchase of the 14,850 single channel OYO GSR units discussed above, an additional 2,000-station OYO GSR four-channel recording system along with three-component geophones, 10,000 single-channel OYO GSR recording boxes, additional conventional geophones, cables for existing systems, vehicles to improve our fleet and ten INOVA vibrator energy source units.

During the quarter ended June 30 2011, our Board of Directors approved a \$5,000,000 increase to the Company's capital budget and approved the purchase of the previously leased OYO GSR equipment, bringing the total amount of the fiscal 2011 capital budget to \$61,918,000. To date, \$56,264,000 of the capital budget has been spent for the purchases described above. The remaining balance of the capital budget will be used for maintenance capital purposes.

We continually strive to supply our clients with technologically advanced 3-D seismic data acquisition recording systems and data processing capabilities. We maintain equipment in and out of service in anticipation of increased future demand for our services.



## Table of Contents

*Capital Resources.* Historically, we have primarily relied on cash generated from operations, cash reserves and short-term borrowings from commercial banks to fund our working capital requirements and, to some extent, our capital expenditures. We have also funded our capital expenditures and other financing needs from time to time through public equity offerings.

Our revolving line of credit loan agreement is with Western National Bank. The agreement was recently renewed under the same terms as the previous agreement and permits us to borrow, repay and reborrow, from time to time until June 2, 2013, up to \$20.0 million based on the borrowing base calculation as defined in the agreement. Our obligations under this agreement are secured by a security interest in our accounts receivable, equipment and related collateral. Interest on the facility accrues at an annual rate equal to either the 30-day London Interbank Offered Rate ("LIBOR") plus two and one-quarter percent or the Prime Rate minus three-quarters percent, as we direct monthly, subject to an interest rate floor of 4%. Interest on the outstanding amount under the loan agreement is payable monthly. The loan agreement contains customary covenants for credit facilities of this type, including limitations on disposition of assets, mergers and reorganizations. We are also obligated to meet certain financial covenants under the loan agreement, including maintaining specified ratios with respect to cash flow coverage, current assets and liabilities and debt to tangible net worth. We were in compliance with all covenants including specified ratios as of June 30, 2011 and August 9, 2011. We have not utilized the line of credit loan agreement during the current fiscal year or the fiscal year ended September 30, 2010.

On June 24, 2011, we exercised our purchase option for seismic recording equipment we had been leasing. We restated our revolving line of credit with Western National Bank to add a new term loan note provision, which provided \$16,427,000 in financing for the purchase of the OYO GSR equipment. The loan is repayable over a period of 36 months at an annual rate equal to either the 30-day London Interbank Offered Rate ("LIBOR") plus two and one-quarter percent or the Prime Rate minus three-quarters percent, as we direct monthly, subject to an interest rate floor of 4%. The loan is collateralized by the equipment and matures on June 30, 2014.

The following table summarizes payments due in specific periods related to our contractual obligations with initial terms exceeding one year as of June 30, 2011.

<u>Contractual Obligations</u>	<u>Payments Due by Period (in 000's)</u>				
	<u>Total</u>	<u>Within 1 Year</u>	<u>1-2 Years</u>	<u>3-5 Years</u>	<u>After 5 Years</u>
Operating lease obligations	\$ 1,534	\$ 543	\$ 617	\$ 374	\$ —
Debt obligations	16,427	5,264	11,163	—	—
<b>Total</b>	<b>\$ 17,961</b>	<b>\$ 5,807</b>	<b>\$ 11,780</b>	<b>\$ 374</b>	<b>\$ —</b>

On March 31, 2009, we filed a shelf registration statement with the SEC covering the periodic offer and sale of up to \$100.0 million in debt securities, preferred and common stock and warrants. The registration statement allows us to sell securities in one or more separate offerings with the size, price and terms to be determined at the time of sale. The terms of any securities offered would be described in a related prospectus to be filed separately with the SEC at the time of the offering. The filing of the shelf registration statement will enable us to act quickly as opportunities arise.

We believe that our capital resources and cash flow from operations are adequate to meet our current operational needs. We believe we will be able to finance our capital requirements through cash flow from operations, cash on hand, through borrowings under our revolving line of credit and equipment term loans. However, our ability to satisfy our working capital requirements and to fund future capital requirements will depend principally upon our future operating performance, which is subject to the risks inherent in our business, including the demand for our seismic services from clients.

### **Off-Balance Sheet Arrangements**

As of June 30, 2011, we had no off-balance sheet arrangements.

### **Critical Accounting Policies**

Information regarding the Company's critical accounting policies and estimates is included in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2010.

## Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards," to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances disclosure requirements, particularly for Level 3 fair value measurements. ASU 2011-04 will be effective in our second quarter of fiscal 2012 and will be applied prospectively. We are currently evaluating the impact of ASU 2011-04 and believe the adoption will not have a material effect on our financial statements.

In June 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income," to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. This update does not change what items are reported in other comprehensive income or the requirement to report reclassification of items from other comprehensive income to net income. ASU 2011-05 will be effective in our first quarter of fiscal 2013, though earlier adoption is permitted. The update will be applied retrospectively upon adoption. We believe the adoption will not have a material effect on our financial statements.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary sources of market risk include fluctuations in commodity prices, which affect demand for and pricing of our services, as well as interest rate fluctuations. Our revolving line of credit and equipment term loan both carry the same variable interest rate that is tied to market indices and, therefore, our results of operations and our cash flows could be impacted by changes in interest rates. Outstanding balances under our revolving line of credit and equipment term loan bear interest at our monthly direction of the lower of the Prime rate minus three-quarters percent or the 30-day LIBOR plus two and one-quarter percent, subject to an interest rate floor of 4%. At June 30, 2011, we had a balance of \$16,427,000 on our equipment term loan. We had no balances outstanding on our revolving line of credit. We do not currently have any short-term investments. We have not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other derivative financial instruments. We do not currently conduct business internationally, so we are not generally subject to foreign currency exchange rate risk.

## ITEM 4. CONTROLS AND PROCEDURES

*Management's Evaluation of Disclosure Controls and Procedures.* We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive and principal financial officers, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, our President and Chief Executive Officer and our Executive Vice President, Secretary and Chief Financial Officer concluded that, as of June 30, 2011, our disclosure controls and procedures were effective, in all material respects, with regard to the recording, processing, summarizing and reporting, within the time periods specified in the SEC's rules and forms, for information required to be disclosed by us in the reports that we file or submit under the Exchange Act. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our President and Chief Executive Officer and our Executive Vice President, Secretary and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

*Changes in Internal Control Over Financial Reporting.* There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) during the quarter ending June 30, 2011 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

From time to time, we are a party to various legal proceedings arising in the ordinary course of business. Although we cannot predict the outcomes of any such legal proceedings, our management believes that the resolution of pending legal actions will not have a material adverse effect on our financial condition, results of operations or liquidity.

## ITEM 1A. RISK FACTORS

As a result of entering into the Merger Agreement, we are adding additional risk factors as set forth below. Any investment in our common stock involves a high degree of risk. You should carefully consider the risks and uncertainties described below and under “Item 1A Risk Factors” contained in our Annual Report on Form 10-K for the year ended September 30, 2010, which is incorporated herein by reference, as well as in the other documents we file with the SEC regarding the proposed transaction with TGC.

***The merger with TGC is subject to certain closing conditions which may not be satisfied, and as a result, the merger may not be completed.***

The closing of the merger with TGC is subject to certain customary closing conditions, including, among other things:

- the approval of the issuance of shares of our common stock pursuant to the Merger Agreement by our shareholders;
- the approval of the Merger Agreement by TGC shareholders;
- expiration or early termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976;
- the absence of any judgment, injunction, order or decree in effect, or any law, statute, rule or regulation enacted, that prohibits the consummation of the merger;
- the effectiveness of a registration statement on Form S-4 of which this joint proxy statement/prospectus forms a part and the authorization of the listing of the shares of our common stock to be issued in the merger on the Nasdaq Stock Market;
- certain officers of TGC having entered into employment agreements with TGC, as the surviving entity of the merger, as of the effective time of the merger;
- receipt by TGC of certain third-party consents;
- receipt by TGC of the reconfirmation opinion, which is a reconfirmation from TGC’s financial adviser, as of the closing date, that the consideration to be received by TGC shareholders in the merger is fair; and
- other customary conditions, including the absence of a material adverse effect with respect to either TGC’s or the Company’s respective businesses.

There can be no assurance that all these closing conditions will be met, and if they are not all met (or waived to the extent they can be waived), the merger will not be completed.

***Failure to complete the merger with TGC could negatively impact the stock price and our future business and financial results.***

If the merger with TGC is not completed, we will have incurred significant costs, including the diversion of management resources, for which we will have received little or no benefit and would have exposed ourselves to a number of risks, including the following:

- we may experience negative reactions from clients and employees;
- the current market price of our common stock may reflect a market assumption that the merger will occur and a failure to complete the merger could result in a negative perception by the stock market and a resulting decline in the market price of our common stock;
- certain costs relating to the merger, including certain investment banking, financing, legal and accounting fees and expenses, must be paid even if the merger is not completed; and
- there may be substantial disruption to our business and distraction of our management and employees from day-to-day operations because matters related to the merger (including integration planning) may require substantial commitments of time and resources, which could otherwise have been devoted to other opportunities that could have been beneficial to the Company.

## [Table of Contents](#)

In addition, we may be required to pay TGC a termination fee of \$2.35 million and reimburse TGC's expenses up to \$1.5 million if the Merger Agreement is terminated, depending on the specific circumstances of the termination.

*Whether or not the merger is completed, the announcement and pendency of the merger could disrupt our business, which could have an adverse effect on our business, financial results and stock price.*

Whether or not the merger is completed, the announcement and pendency of the merger could disrupt our business. We have diverted significant management resources in an effort to complete the merger and are subject to restrictions contained in the Merger Agreement on the conduct of our business, all of which could result in an adverse effect on our business, financial results and stock price.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The following table sets forth for the periods indicated certain information with respect to our purchases of our common stock:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as a Part of a Publicly Announced Plan (2)	Maximum Number of Shares That May be Purchased Under Plan (2)
April 1-30, 2011	—	—	N/A	N/A
May 1-31, 2011	—	—	N/A	N/A
June 1-30, 2011	8,104	34.17	N/A	N/A

(1) Represents the surrender of shares of our common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees under our shareholder-approved long-term incentive plan.

(2) We did not have at any time during fiscal 2011 and currently do not have a share repurchase program in place.

## ITEM 6. EXHIBITS

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this Form 10-Q and is hereby incorporated by reference.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DAWSON GEOPHYSICAL COMPANY

DATE: August 9, 2011

By: /s/ Stephen C. Jumper  
Stephen C. Jumper  
President and Chief Executive Officer

DATE: August 9, 2011

By: /s/ Christina W. Hagan  
Christina W. Hagan  
Executive Vice President, Secretary and  
Chief Financial Officer

**INDEX TO EXHIBITS**

<u>Number</u>	<u>Exhibit</u>
2.1	Agreement and Plan of Merger, dated as of March 20, 2011, by and between the Company, 6446 Acquisition Corp. and TGC Industries, Inc. (the schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K) (filed on March 21, 2011 as Exhibit 2.1 to the Company's Current Report on Form 8-K (File No. 001-34404) and incorporated herein by reference).
2.2	Form of Voting Agreement by and between the Company and the shareholders of TGC Industries, Inc. signatories thereto (filed on March 21, 2011 as Exhibit 2.2 to the Company's Current Report on Form 8-K (File No. 001-34404) and incorporated herein by reference).
3.1	Second Restated Articles of Incorporation of the Company, as amended (filed on February 9, 2007 as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2006 (File No. 000-10144) and incorporated herein by reference and filed on November 28, 2007 as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-10144) and incorporated herein by reference).
3.2	Second Amended and Restated Bylaws of the Company, as amended (filed on November 23, 2010 as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010 (File No. 001-34404) and incorporated herein by reference).
3.3	Amendment No. 2 to Second Amended and Restated Bylaws, as amended, of the Company (filed on March 21, 2011 as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-34404) and incorporated herein by reference).
3.4	Statement of Resolution Establishing Series of Shares of Series A Junior Participating Preferred Stock of the Company (filed on July 9, 2009 as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-10144) and incorporated herein by reference).
4.1	Rights Agreement effective as of July 23, 2009 between the Company and Mellon Investor Services LLC, as Rights Agent, which includes as Exhibit A the form of Statement of Resolution Establishing Series of Shares of Series A Junior Participating Preferred Stock setting forth the terms of the Preferred Stock, as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights to Purchase Preferred Stock (filed on July 9, 2009 as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 000-10144) and incorporated herein by reference). Pursuant to the Rights Agreement, Rights Certificates will not be mailed until after the Distribution Date (as defined in the Rights Agreement).
10.1	Form of Indemnification Agreement with Directors and Officers of the Company (filed on March 21, 2011 as Exhibit 10.1 to the Company's Current Report on Form 8-K (File No. 001-34404) and incorporated herein by reference).
10.2*	Revolving Line of Credit and Term Loan Agreement, dated as of June 30, 2011, between the Company and Western National Bank.
10.3*	Security Agreement, dated as of June 30, 2011, between the Company and Western National Bank.
31.1*	Certification of Chief Executive Officer of Dawson Geophysical Company pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer of Dawson Geophysical Company pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer of Dawson Geophysical Company pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2*	Certification of Chief Financial Officer of Dawson Geophysical Company pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
*** 101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, formatted in XBRL (Extensible Business Reporting Language): (i) Statements of Operations for the three months and the nine months ended June 30, 2011 and 2010, (ii) Balance Sheets at June 30, 2011 and September 20, 2010, (iii) Statements of Cash Flows for the nine months ended June 30, 2011 and 2010, and (iv) Notes to Financial Statements.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed herewith.

\*\* Furnished herewith.

\*\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes

of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

WESTERN NATIONAL BANK  
508 WEST WALL STREET, SUITE 1100  
MIDLAND, TEXAS  
79701

June 30, 2011

Dawson Geophysical Company 508  
West Wall Street, Suite 800  
Midland, Texas 79701

Attention: Stephen C. Jumper, President

**RE: Western National Bank — Dawson Geophysical Company**

Revolving Line of Credit Loan in the original principal amount of \$20,000,000.00

Term Loan in the original principal amount of \$16,426,680.06

Gentlemen:

Pursuant to the terms of that certain letter loan agreement, dated as of June 2, 2011 (the “**Existing Loan Agreement**”), Western National Bank, a national banking association (alternatively, “**Western**” the “**Lender**”, or the “**Bank**”), has previously committed to provide to Dawson Geophysical Company, a Texas corporation (alternatively, “**Dawson Geophysical**” or the “**Borrower**”), a revolving line of credit loan in the original principal amount of Twenty Million and No/Dollars (\$20,000,000.00) (the “**Revolver Loan**”). The Revolver Loan is evidenced by that certain Revolving Line of Credit Note, also dated as of June 2, 2011, in the original principal amount of Twenty Million and No/100 Dollars (\$20,000,000.00), executed by the Borrower, as Maker, in favor of the Bank, as Payee (the “**Revolver Note**”). The Revolver Note is secured by that certain Security Agreement, also dated as of June 2, 2011, executed by Borrower, covering all accounts, equipment, and other items of collateral described therein (the “**Existing Security Agreement**”). The Bank has perfected the security interest created under the Existing Security Agreement by filing a financing statement (the “**Existing Financing Statement**”). From time to time, the Existing Security Agreement and the Existing Financing Statement may be collectively referred to herein as the “**Existing Security Instruments**”.

In addition to, and not in lieu of, the Borrower’s obligations under the Revolver Loan, Borrower has now requested that Western advance a new Term Loan to the Borrower in the original principal amount of Sixteen Million Four Hundred Twenty-Six Thousand Six Hundred Eighty and Six/100 Dollars (\$16,426,680.06) (the “**Term Loan**”). The Term Loan will be evidenced by that certain Term Note, of even date herewith, in the original principal amount of Sixteen Million Four Hundred Twenty-Six Thousand Six Hundred Eighty and Six/100 Dollars (\$16,426,680.06),

to be executed by the Borrower, as Maker, in favor of Western, as Payee (the "**Term Note**"). The Revolver Loan and the Term Loan are collectively referred to herein as the "**Loans**". The Revolver Note and the Term Note are collectively referred to herein as the "**Notes**".

The Borrower's performance under the Notes will be secured by its execution of that certain Security Agreement, of even date herewith (the "**Security Agreement**"), the security interest of which will be perfected by the filing of an amendments to the Existing Financing Statement, covering all of Borrower's accounts, equipment, and other items of collateral described therein (collectively, the "**Security Instruments**"). This Agreement, the Notes, the Security Instruments, and any other documents executed simultaneously herewith are collectively referred to as the "**Loan Documents**".

In addition to the Revolver Loan, which the Bank acknowledges will continue to be valid and subsisting, and for which the Borrower expressly acknowledges that it will continue to be obligated, Western hereby agrees to advance the Term Loan to the Borrower. In consideration of Western's agreement to advance the Term Loan, and to maintain in place the Revolver Loan, Borrower has agreed to execute this Loan Agreement, the Term Note, the Security Agreement and any other documents, as applicable and required by the Bank. In addition to Borrower's execution of these documents, the Bank's obligation to advance the Term Loan to the Borrower shall be subject to the fulfillment of the following terms and conditions of this letter loan agreement (the "**Agreement**");

## **I. TERMS**

### **Agreement**

This Agreement, dated as of **June 30, 2011**, and any extensions, renewals, or modifications hereof.

### **Borrower**

Dawson Geophysical Company

### **Bank**

Western National Bank

### **Commitment**

The lesser of the following amounts: (a) the combined face amount of the Notes; or (b) the sum of the Borrowing Base then in effect for the Revolver Note, plus the amount of principal then outstanding under the Term Loan.



## **Rate**

From June 1, 2011 through June 30, 2011, interest under the Notes shall accrue at an annual rate equal to the **"Prime Rate"**, as defined below, minus three-quarters of one percent (0.75%) (the **"Prime Rate Index"**). Beginning as of July 1, 2011, interest under the Notes shall accrue at an annual rate equal to either: (a) the 30-day London Interbank Offered Rate (**"LIBOR"**), plus two and one-quarter percentage points (2.25%), or (b) the Prime Rate Index, as the Borrower shall choose monthly by notifying the Bank in writing, via facsimile or e-mail, by the last day of each month, with each change to be effective as of the first day of the following month; provided that such interest rate shall not exceed the **"Highest Lawful Rate"**, as defined in the Notes, or be less than four percent (4.0%). Should Borrower fail to notify Bank of its election of interest rate for any given month, the interest rate shall remain at the interest rate index chosen by Borrower for the month immediately preceding.

For purposes of this Agreement, the **"Prime Rate"** shall be defined as that rate established as the prime rate in the money rate table of *The Wall Street Journal*, a Dow Jones publication, as of each Business Day, as hereinafter defined, (and for holidays or weekends, the Prime Rate shall be the prime rate published in that money rate table of *The Wall Street Journal*, as of the close of business on the most recent Business Day immediately preceding such weekend or holiday). Without notice to the Borrower or any other person, the Prime Rate may change from time to time pursuant to the preceding sentence, with the effective date of each change to be the effective date reflected in the money rate table of *The Wall Street Journal*. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. The Bank may make commercial loans or other loans at rates of interest at, above, or below the Prime Rate.

In addition to the definition of **"Prime Rate"**, as defined above, the term **"LIBOR"** shall mean, with respect to each Interest Period, as defined below, the rate as established as the 30-day LIBOR in the money rate table of *The Wall Street Journal*, a Dow Jones publication, as of each Business Day, as defined below (and for holidays or weekends, LIBOR shall be the 30-day LIBOR published in that money rate table of *The Wall Street Journal*, as of the close of business on the most recent Business Day immediately preceding such weekend or holiday). Without notice to the Borrowers or any other person, LIBOR may change from time to time pursuant to the preceding sentence, with the effective date of each change to be the effective date reflected in the money rate table of *The Wall Street Journal*. Without notice to the Borrower or any other person, LIBOR may change from time to time pursuant to the preceding sentence, with the effective date of each change to be the effective date reflected in the money rate table of *The Wall Street Journal*. Each change in LIBOR to be charged on the Notes will become effective without notice on the commencement of each Interest Period based upon the Index then in effect. **"Interest Period"** means each consecutive one month period (the first of which shall commence on June 1, 2011), effective as of the first day of each Interest Period and ending on the last day of each Interest Period; provided that if any Interest Period is scheduled to end on a date for which there is no numerical equivalent to the date on which the Interest Period commenced, then it shall end instead on the last day of such calendar month.

The term “**Business Day**” shall mean any day other than a Saturday, Sunday or legal holiday for commercial banks under the laws of the State of Texas.

**Security**

The Loans shall be secured by those security interests created under the Security Agreement, as perfected under the Financing Statement.

**Structure**

Under the Term Note, funds will be available until **June 30, 2014**, the maturity date of the Term Loan. Under the Revolver Note, funds will be available on a revolving basis through **June 2, 2013**, the maturity date of the Revolver Loan (the “**Revolving Period**”). During the Revolving Period, the Borrower may borrow, repay, and re-borrow funds as long as the aggregate amount (including outstanding letters of credit) does not exceed the Commitment.

**Borrowing Base**

At any time, and from time to time, the amounts outstanding under the Revolver Note shall not exceed the lesser of: (a) the face amount of the Revolver Note; or (b) the Borrowing Base, as determined from time to time by the Bank, acting in its sole and unlimited discretion. As used in this Agreement, the term “**Borrowing Base**” shall mean an amount equal to eighty percent (80%) of Borrower’s Eligible Accounts.

For the purposes of this Agreement, the term “**Eligible Account**” shall mean an account receivable of the Borrower (net of any credit balance, trade discount, or unbilled amount or retention) that is contractually due, for which each of the following statements is accurate and complete (and the Borrower, by including such account receivable in any computation of the Borrowing Base, shall be deemed to represent and warrant to the Bank the accuracy and completeness of such statements):

- a. Said account receivable is a binding and valid obligation of the obligor thereon, in full force and effect, and enforceable in accordance with its terms;
- b. Said account receivable is genuine, in all respects, as appearing on its face as represented in the books and records of Borrower, and all information set forth therein is true and correct;
- c. Said account receivable is free of all default of any party thereto, counterclaims, offsets, and defenses, and from any rescission, cancellation, or avoidance, and all right thereof, whether by operation of law or otherwise;
- d. The payment of said account receivable is not more than ninety (90) days past due the invoice date thereof;

- e. Said account receivable is free of concessions or understandings with the obligor thereon of any kind not disclosed to and approved by the Bank in writing;
- f. Said account receivable is, and at all times will be, free and clear of all liens except those in favor of the Bank;
- g. Said account receivable is not a receivable arising from intercompany indebtedness existing between or among any of the Borrower;
- h. Said account receivable is derived from sales made or services rendered to the obligor in the ordinary course of the business of the Borrower;
- i. The obligor on said account receivable (i) is located within the United States or the District of Columbia; (ii) is not the subject of any bankruptcy or insolvency proceeding, nor has a trustee or receiver been appointed for all or a substantial part of its property, nor has said obligor made an assignment for the benefit of creditors, admitted its inability to pay its debts as they mature or suspended its business, (iii) is not affiliated, directly or indirectly, with Borrower, as a subsidiary or affiliate, employee or otherwise; and (iv) is not a state or federal government department, commission, board, bureau, or agency;
- j. Said account receivable is not owed by a customer whose principal place of business is located in a foreign country; and
- k. Said account receivable did not arise from sales to an obligor as to whom fifteen percent (15%) or more of the total accounts receivable owing by such obligor to the Borrower are delinquent accounts receivable (that is, an account that is more than ninety (90) days delinquent).

In addition to the criteria stated above for determining whether an account receivable is an **“Eligible Account”**, the Bank and the Borrower agree that no such account receivable shall constitute an Eligible Account if that account receivable arises from any single customer, other than Chesapeake Exploration Limited Partnership and its affiliates and subsidiaries (collectively, **“Chesapeake”**) or Devon Energy Group and its affiliates and subsidiaries (collectively, **“Devon”**), whose accounts receivable constitute more than twenty-five percent (25%) of Borrower’s total accounts receivable. The Bank agrees that an account receivable owed by Chesapeake to the Borrower (collectively, the **“Chesapeake Accounts”**) and, likewise, an account receivable owed by Devon to the Borrower (collectively, the **“Devon Accounts”**) may still qualify as an Eligible Account even if the either set of such Eligible Accounts constitutes more than twenty-five percent (25%) of Borrower’s total accounts receivable.

Based upon the terms of this Agreement, and the information provided and the representations made by the Borrower to the Bank, the Bank hereby redetermines the Borrowing Base, and establishes it in the amount of Twenty Million and No/100 Dollars (\$20,000,000.00). Because the redetermined Borrowing Base is equivalent to the principal amount available under the Revolver Loan, the Bank will only be able to increase the Borrowing Base if the Borrower

agrees to pledge additional Collateral, or other circumstances exist that would justify such an increase.

If the aggregate amounts outstanding under the Revolver Note exceed the Borrowing Base at any time, the Bank will provide written notice of that event to Borrower. On or before the tenth (10<sup>th</sup>) day following Borrower's receipt of such notification, Borrower will either, at the direction of the Bank, acting in its sole and absolute discretion: (a) make a mandatory payment to the Bank of the principal of the Revolver Note in an amount at least equal to the amount necessary to cause the outstanding principal balance of the Revolver Note to be less than or equal to the Borrowing Base; or (b) create liens on other assets of Borrower, satisfactory in nature, quantity, and value to the Bank, acting in its sole discretion, said assets to have a fair market value sufficient to at least equal to the amount necessary to cause the outstanding principal balance of the Revolver Note to be less than or equal to the Borrowing Base.

#### **Non-Recourse**

Although the Borrower is responsible on a corporate basis for the full repayment of principal and interest due on the Obligations and for any other Event of Default for which the Borrower is responsible, the Bank specifically acknowledges and agrees that neither any of the directors, officers, or employees of the Borrower nor any of the Borrower's shareholders shall have any personal liability whatsoever for the repayment of the Loans. The sole party responsible for repayment of the Loans shall be the Borrower, and the sole security for the Loans shall be the Collateral covered by the Security Instruments.

#### **Purpose**

Funds from the Revolver Loan were used to renew and extend indebtedness owed to the Bank by the Borrower and to provide additional funds for working capital. Funds from the Term Loan will be used to purchase equipment. No proceeds from the Loans shall be used for the purpose of purchasing or carrying margin stock in violation of Regulations G, U, or X of the Board of Governors of the Federal Reserve System.

#### **Maturity Date**

As stated, the maturity date of the Revolver Note is **June 2, 2013**, and the maturity date of the Term Note is **June 30, 2014**.

## **II. REPRESENTATIONS AND WARRANTIES**

**A. Good Standing and Identity.** The Borrower is a corporation, duly organized and in good standing under the laws of Texas. The Borrower's legal name is that reflected in the address of this Agreement. Borrower has the power to own its property and to carry on its business in each jurisdiction in which the Borrower operates.

**B. Authority and Compliance.** The Borrower has full power and authority to enter into this Agreement, to make the borrowing hereunder, to execute and deliver the Notes, to

mortgage those interests covered by the Security Instruments, and to incur the obligations provided for herein, all of which will be duly authorized by all proper and necessary corporate action. No consent or approval of any public authority is required as a condition to the validity of this Agreement, the Notes, and the Security Instrument, and Borrower is in compliance with all laws and regulatory requirements to which he is subject.

**C. Litigation.** There are no proceedings pending or, to the knowledge of Borrower, threatened before any court or administrative agency that will or may have a material adverse effect on the financial condition or operations of Borrower, except as disclosed to the Bank in writing prior to the date of this Agreement.

**D. Ownership of Assets.** As of the date of this Agreement, Borrower has good title to the interests covered by the Security Instruments and any other collateral pledged and the other collateral is owned free and clear of liens. Borrower will at all times maintain its tangible property, real and personal, in good order and repair, taking into consideration reasonable wear and tear.

**E. Taxes.** All income taxes and other taxes due and payable through the date of this Agreement have been paid prior to becoming delinquent.

**F. Financial Statements.** The books and records of the Borrower properly reflect the financial condition of the Borrower in all material respects, and there has been no material change in Borrower's financial condition as represented in its most recent financial statements.

**G. Hazardous Wastes and Substances.** To the best knowledge of the Borrower, the Borrower and its properties are in compliance with applicable state and federal environmental laws and regulations and the Borrower is not aware of and has not received any notice of any violation of any applicable state or federal environmental law or regulation and there has not heretofore been filed any complaint, nor commenced any administrative procedure, against the Borrower or any of its predecessors, alleging a violation of any environmental law or regulation. Currently and from time to time, the Borrower, in the course of its regular business, may use or generate on a portion of its properties materials which are "**Hazardous Materials**", as that term is defined below. The Borrower has and will make a good faith attempt to comply with all applicable statutes and regulations in the use, generation and disposal of such materials. To the best of its knowledge, the Borrower has not otherwise installed, used, generated, stored or disposed of any hazardous waste, toxic substance, asbestos or related material on its properties. For the purposes of this Agreement, the term "**Hazardous Materials**" shall be defined to include, without limitation, those substances referred to above, as well those substances defined as "hazardous substances" or "toxic substances" in the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended, 42 U.S.C. §9061, et seq., Hazardous Materials Transportation Act, 49 U.S.C. §1802, et seq., and the Resource Conservation and Recovery Act, 42 U.S.C. §6901, et seq., or as "hazardous substances," "hazardous waste" or "pollutant or contaminant" in any other applicable federal, state or local environmental law or regulation. There do not exist upon any property owned by Borrower any underground storage tanks or facilities, and to the knowledge of Borrower, none of such property has ever been used for the treatment, storage, recycling, or disposal of any Hazardous Materials.

### **III. CONDITIONS PRECEDENT**

The provisions of this Agreement will serve as the terms of the relationship among the Borrower, and the Bank. Prior to any funds being made available, Borrower will execute and deliver to the Bank, in form and substance satisfactory to the Bank, this Agreement, the Term Note, and the Security Instruments.

### **IV. COVENANTS**

Unless the Bank will otherwise consent in writing, and so long as any debt remains outstanding or the commitment still available, the Borrower agrees to comply with the following covenants:

#### **A. Affirmative Covenants.**

1. As soon as available, but in any event not later than ninety (90) days after the end of each fiscal year, Borrower will provide financial statements, in form and substance satisfactory to the Bank, reflecting Borrower's financial performance as of the end of such year and the related statements of income and changes in cash flows for such year, with the next of such fiscal years to be measured being the one ending on September 30, 2011, such statements to be audited by an independent certified accountant and to be prepared according to generally accepted accounting principles, consistently applied ("GAAP").

2. Within ninety (90) days of the end of each fiscal quarter, with the next fiscal quarter ending as of March 31, 2011, the Borrower will submit to the Bank a financial statement reflecting Borrower's financial performance during the previous calendar quarter, such statements to be reviewed by an independent certified accountant and to be prepared according to GAAP.

3. Within thirty (30) days of the end of each calendar month, Borrower shall provide monthly accounts receivable aging reports.

4. Within thirty (30) days of transmitting any tax return to any governmental authority, the Borrower will submit to the Bank a copy of that tax return.

5. Within thirty (30) days following the end of each calendar month, Borrower shall provide a monthly borrowing base report and compliance certificate in the form attached hereto as Exhibit "A".

6. Borrower shall maintain an average "**Cash Flow Coverage Ratio**" (as that term is defined below) of not less than 1.50 to 1.0, calculated quarterly, beginning with the quarter ending as of March 31, 2011, from the date of the Loans to maturity. For purposes of this Agreement, the term "**Cash Flow Coverage Ratio**" means, with respect to any period of calculation thereof, the ratio of the sum of: (a) the net income (or loss)

from continuing operations of Borrower during such period calculated after any and all distributions to shareholders, plus (b) interest, depreciation, depletion, and amortization expenses of Borrower during such period, less (c) gains from the sale of any assets; plus (d) losses from the sale of any assets; less (e) extraordinary adjustments to net income divided by (f) all scheduled capital lease obligations and all principal and interest payments due for the period subject to measurement, all determined in accordance with GAAP.

7. For any time period for which reporting is required, Borrower will maintain a **“Debt to Tangible Net Worth Ratio”** of less than 1.50 to 1.00 to be measured quarterly, beginning with the quarter ending as of **March 31, 2011**. For purposes of this paragraph, **“Debt”** shall mean, all liabilities, obligations, and indebtedness of the Borrower, of any kind or nature, now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed, or otherwise, and **“Tangible Net Worth”** means the excess, if any, of the total assets of Borrower over all items of indebtedness, obligations, or liability which would be classified as liabilities of Borrower, for the time period to be measured, each to be determined in accordance with GAAP; provided, however, that for the purposes of any such computation of Tangible Net Worth, **“assets”** will not include (a) goodwill (whether representing the excess of cost over book value of assets acquired or otherwise), and (b) patents, trademarks, trade names, copyrights, franchises, and deferred charges.

8. Borrower shall maintain a **“Current Ratio”**, as defined below, of not less than 1.50 to 1.0, measured quarterly, beginning with the quarter ending on **March 31, 2011**, from the date of the Loans to maturity. For purposes of this Agreement, **“Current Ratio”** means, with respect to any period of calculation thereof, the ratio of the sum of: (a) current assets, plus (b) availability under the Revolver Loan, divided by (c) current liabilities. Current assets shall include a minimum balance of cash, plus marketable securities, of not less than \$3,500,000.00, provided that this requirement is only applicable if funds are outstanding under the Notes.

9. Borrower shall submit copies of all financial statements, reports, notices, and proxy statements sent or made available generally by the Borrower to its shareholders, of all regular and periodic reports and all private placement memorandums and all registration statements and prospectuses, if any, filed by the Borrower with any securities exchange or with the Security Exchange Commission; and all press releases and other statements made available generally by the Borrower to the public concerning material changes in the business of the Borrower upon their becoming available, but in no event later than 10 days after the same was sent.

10. Borrower will maintain all primary operating accounts with the Bank.

11. The Borrower will maintain its existence in good standing and comply with all laws, regulations and governmental requirements applicable to it or to any of its property, business operations and transactions.

12. The Borrower will promptly pay any reasonable costs incurred by the Bank in connection with the preparation or enforcement of this Agreement, the Notes, the Security Instruments, and any other documentation executed concurrently herewith.

13. The Borrower will remain in substantial compliance with same and will not place or permit to be placed any Hazardous Materials on any of its properties in violation of applicable state and federal environmental laws. In the event that the Borrower should discover any Hazardous Materials on any of its properties that could result in a breach of the foregoing covenant, the Borrower shall notify the Bank within three (3) days after such discovery. The Borrower shall dispose of all material amounts of Hazardous Materials that it generates only at facilities or with carriers that maintain valid governmental permits under the Resource Conservation and Recovery Act, 42 U.S.C. §6901. In the event of any notice or filing of any procedure against the Borrower alleging a violation of any environmental law or regulation, the Borrower shall give notice to the Bank within five (5) days after receiving notice of such notice or filing.

14. The Borrower will provide such other information as the Bank may reasonably request from time to time in its sole discretion.

**B. Negative Covenants.**

1. The Borrower will not make any change in its present accounting method or change its present fiscal year.

2. The Borrower will not make any substantial change in the nature of its business as now conducted.

3. The Borrower will not reorganize or merge with any other entity, without the prior written consent of the Bank.

4. With respect to the Borrower's interest in any of the properties covered by the Security Instrument, the Borrower will not sell, contract to sell, convey, assign, transfer, mortgage, pledge, hypothecate, encumber, or in any way alienate that interest in such properties, without the consent of the Bank.

**V. EVENTS OF DEFAULT**

The occurrence and continuing existence of any one of the following will constitute an "Event of Default" under this Agreement and the Notes:

**A.** Borrower fails to pay when due any principal, interest, or other amount payable under this Agreement, the Notes, or any other promissory notes executed or guaranteed by the Borrower in favor of the Bank;



**B.** Any representation or warranty made by the Borrower hereunder or in any related collateral security or other documents entered into with the Bank proves to be at any time incorrect in any significant respect;

**C.** The Borrower fails to observe or perform any covenant, obligation, agreement, or other provision contained herein or in any other contract or instrument executed in connection herewith;

**D.** Any default or defined Event of Default under any security agreement, deed of trust, promissory note, loan agreement or other contract or instrument executed by the Borrower pursuant to, or as required by, this Agreement;

**E.** Any final judgment or judgments for the payment of money is rendered against Borrower and is not be satisfied or discharged at least thirty (30) days prior to the date on which any of their assets could be lawfully sold to satisfy such judgment or judgments, unless Borrower brings litigation to stay same; or

**F.** Borrower: (i) becomes insolvent, or suffers or consents to, or applies for the appointment of a receiver, trustee, custodian or liquidator for himself or any of his property, or generally fails to pay his debts as they become due, or makes a general assignment for the benefit of creditors; or (ii) files a voluntary petition in bankruptcy, or seeking reorganization, in order to effect a plan or other arrangement with creditors or any other relief under the Bankruptcy Reform Act, Title 11 of the United States Code, as recodified from time to time ("**Bankruptcy Code**"), or as now or hereafter in effect, or any involuntary petition or proceeding pursuant to said Bankruptcy Code or any other applicable state or federal law relating to bankruptcy or reorganization or other relief for debtors is filed or commenced against Borrower; or (iii) files any answer admitting the jurisdiction of the court and the material allegations of any such involuntary petition; or (iv) is adjudicated a bankrupt, under said Bankruptcy Code or any other state or federal law relating to bankruptcy, reorganization, or other relief for debtors.

## **VI. REMEDIES**

If any Event of Default occurs, any term hereof or of the Notes to the contrary notwithstanding, the Notes shall at the Bank's option become immediately due and payable. In addition, the obligation, if any, of the Bank to permit further borrowings hereunder will immediately cease and terminate and the Bank will have all rights, powers, and remedies available under this Agreement, the Notes, or other contracts or instruments executed in connection herewith, or accorded by law, including, without limitation, the right to resort to any or all of the collateral and to exercise any or all of its rights, powers, or remedies at any time and from time to time after the occurrence of an Event of Default.

**ONCE AN EVENT OF DEFAULT HAS OCCURRED, WESTERN MAY PURSUE THE REMEDIES PROVIDED FOR IN THIS AGREEMENT, THE NOTES, AND THE SECURITY INSTRUMENTS WITHOUT PRESENTMENT, DEMAND, PROTEST, NOTICE OF ACCELERATION, NOTICE OF INTENT TO ACCELERATE, NOTICE**

**OF PROTEST OR NOTICE OF DISHONOR, OR ANY OTHER NOTICE OF ANY KIND, ALL OF WHICH ARE EXPRESSLY WAIVED BY BORROWER.**

All rights, powers, and remedies of the Bank in connection with this Agreement, the promissory notes or any other contract or instrument on which the Borrower may at any time be obligated to the Bank (or any holder thereof) are cumulative and not exclusive and will be in addition to any other rights, powers, or remedies provided by law or equity, including without limitation the right to set off any liability owing by the Bank to the Borrower (including sums deposited in any deposit account of Borrower with the Bank) against any liability of the Borrower to the Bank.

**VII. WAIVER**

No delay, failure, or discontinuation by the Bank, or any holder of the Notes, in exercising any right, power, or remedy under this Agreement, the Notes or any other contract or instrument on which the Borrower may at any time be obligated to the Bank (or any holder thereof) will affect or operate as waiver of such right, power or remedy. Any waiver, permit, consent, or approval of any kind by the Bank (or any holder of the Notes), or of any provisions or conditions of, or any breach or default under this Agreement, the Notes or any other contract or instrument on which the Borrower may at any time be obligated, must be in writing and will be effective only to the extent set forth in such writing.

**VIII. NOTICES**

All notices, requests, and demands given to or made upon the respective parties must be in writing and shall be deemed to have been given or made: (1) at the time of personal delivery thereof, (2) or two days after any of the same are deposited in the U.S. Mail, first class and postage prepaid, addressed as follows:

Borrower: Dawson Geophysical Company  
508 West Wall Street, Suite 800  
Midland, Texas 79701

Western: Western National Bank  
Attention: Mr. Wesley D. Bownds  
508 West Wall Street, Suite 1100  
Midland, Texas 79701

or other such address as any party may designate by written notice to all other parties.

**IX. SUCCESSORS AND ASSIGNS**

This Agreement will be binding on and inure to the benefit of the heirs, executors, administrators, legal representatives, successors, and assigns of the parties, provided, however, that this Agreement may not be assigned by the Borrower without the prior written consent of the Bank. The Bank reserves the right to sell, assign, transfer, negotiate, or grant participations in all or any part of, or any interest in, the Bank's rights and benefits under this Agreement, the Notes

or any contracts or instruments relating thereto. In connection therewith, the Bank may disclose all documents and information which the Bank now has or may hereafter acquire relating to the loan or the Notes, the Borrower or his business, or any collateral required hereunder.

#### **X. SEVERABILITY OF PROVISIONS**

If any of the provisions of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity without invalidating the remainder of such provision or any remaining provisions of this Agreement.

#### **XI. VENUE AND JURISDICTION**

Any suit, action or proceeding against the Borrower arising out of or relating to this Agreement or any judgment entered by any court in respect thereof, may be brought or enforced in the courts of the State of Texas, County of Midland, or in the United States District Court for the Western District of Texas, as Western in its sole discretion may elect, and Borrower hereby submits to the nonexclusive jurisdiction of such courts for the purpose of any such suit, action or proceeding. The Borrower hereby irrevocably consents to service of process in any suit, action or proceeding in any of said courts by the mailing thereof by the Bank by registered or certified mail, postage prepaid, to the Borrower, at the address set forth herein.

**THE BORROWER HEREBY IRREVOCABLY WAIVES ANY OBJECTIONS THAT THEY MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT BROUGHT IN ANY OF SAID COURTS AND HEREBY FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM AND ANY RIGHT GRANTED BY STATUTE, RULE OR COURT OR OTHERWISE TO HAVE SUCH SUIT, ACTION, OR PROCEEDING TRIED BY A JURY.**

#### **XII. MISCELLANEOUS**

**A. Texas Law Applicable.** This Agreement, the Notes, the Security Instruments, and any contracts or instruments relating thereto, shall be governed by and construed in accordance with the laws of the State of Texas, except to the extent that the Bank has greater rights or remedies under federal law or the law of any jurisdiction in which the collateral properties are located, in which case such choice of Texas law shall not be deemed to deprive the Bank of such rights and remedies under federal law or the law of any jurisdiction in which the collateral properties are located, in which case such choice of Texas law shall not be deemed to deprive the Bank of such rights and remedies as may be available under such law.

**B. Notice of Final Agreement. THIS AGREEMENT, THE NOTES, ANY CONTRACTS OR INSTRUMENTS RELATING THERETO, REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES, AND IT IS EXPRESSLY UNDERSTOOD THAT ALL PRIOR CONVERSATIONS OR MEMORANDA BETWEEN THE PARTIES REGARDING THE TERMS OF THIS AGREEMENT SHALL BE SUPERSEDED BY THIS AGREEMENT. ANY AMENDMENT, APPROVAL, OR WAIVER BY WESTERN OF THE TERMS OF THIS AGREEMENT, THE NOTES AND ANY CONTRACTS OR INSTRUMENTS RELATING THERETO, MUST BE IN WRITING OR CONFIRMED WRITING, AND SHALL BE EFFECTIVE ONLY TO THE EXTENT SPECIFICALLY SET FORTH IN SUCH WRITING. THIS AGREEMENT, IN CONJUNCTION WITH THE NOTES AND ANY CONTRACTS OR INSTRUMENTS RELATING THERETO, SHALL SERVE TO EVIDENCE THE TERMS OF THE ENTIRE AGREEMENT BETWEEN THE PARTIES.**

*{The remainder of this page is intentionally left blank. Signature page follows.}*

Please acknowledge your acceptance of and agreement to the terms of this Agreement by dating and executing where indicated.

Very truly yours,

**WESTERN NATIONAL BANK**

By: /s/ Wesley D. Bownds

\_\_\_\_\_  
Wesley D. Bownds  
President

**AGREED TO AND ACCEPTED AS OF THE  
30<sup>th</sup> DAY OF JUNE 2011.**

**BORROWER:**

**DAWSON GEOPHYSICAL COMPANY**

By: /s/ Stephen C. Jumper

\_\_\_\_\_  
Stephen C. Jumper  
President

By: /s/ Christina W. Hagan

\_\_\_\_\_  
Christina W. Hagan  
Secretary

## SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the “**Security Agreement**”) is made and entered into this 30<sup>th</sup> day of June 2011, by and between **DAWSON GEOPHYSICAL COMPANY**, a Texas Corporation, whose address is 508 West Wall Street, Suite 800, Midland, Texas 79701 (the “**Debtor**”), and **WESTERN NATIONAL BANK**, a national banking association, whose address is 508 West Wall Street, Suite 1100, Midland, Texas 79701 (the “**Secured Party**”).

## NOTICE IS TAKEN OF THE FOLLOWING:

- A. Reference is made to that certain Loan Agreement, dated as of June 30, 2011, by and between **DAWSON GEOPHYSICAL COMPANY**, as Borrower (the “**Borrower**”), and the Secured Party, as Lender (the “**Loan Agreement**”). Pursuant to the terms of the Loan Agreement, the Secured Party has agreed to advance two loans to Borrower, from time to time, with those loans to be evidenced by: (i) that certain Revolving Line of Credit Note, dated as of June 2, 2011, in the original principal amount of Twenty Million and No/100 Dollars (\$20,000,000.00), executed by the Borrower, as Maker, to the Secured Party, as Payee (the “**Revolver Note**”), and (ii) that certain Term Note, dated as of June 30, 2011, in the original principal amount of Sixteen Million Four Hundred Twenty-Six Thousand Six Hundred Eighty and Six/100 Dollars (\$16,426,680.06), executed by the Borrower, as Maker, to the Secured Party, as Payee (the “**Term Note**”). The Revolver Note and the Term Note are collectively referred to herein as the “**Notes**”. The Loan Agreement, the Notes, and all documents executed by the parties simultaneously therewith, as any of the same may be amended, extended or replaced from time to time are collectively referred to herein as the “**Credit Documents.**” Capitalized terms not otherwise defined herein are used with the same meanings as in the Credit Documents.
- B. To induce Secured Party to extend such credit, and in support of its performance under the Loan Agreement and the Notes, Debtor has agreed to pledge and to grant to Secured Party a security interest in and lien upon certain property of Debtor described more particularly herein.

**NOW, THEREFORE**, for and in consideration of the above Recitals and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, Debtor hereby agrees as follows:

## AGREEMENT

## 1. Grant of Security Interest

Debtor hereby pledges and grants to Secured Party a security interest in the property described in paragraph 2 (collectively and severally, the “**Collateral**”) to secure payment and performance of the obligations described in paragraph 3 (collectively and severally, the “**Obligations**”).

## 2. Collateral

The Collateral shall consist of all of the Debtor's interest in the following:

- (i) All of Debtor's Accounts and Equipment, as those terms are defined under the Uniform Commercial Code, as adopted by the State of Texas, in effect as of the date of this Agreement; (ii) any related or additional property from time to time delivered to or deposited with Secured Party by or for the account of Debtor expressly securing the Obligations; (iii) all proceeds, products, replacements, additions to, substitutions for, accessions of, and property necessary for the operation of any of the foregoing, including, without limitation, insurance payable as a result of loss or damage to the foregoing property and any proceeds thereunder, refunds or unearned premiums of any such insurance policy, and claims against third parties; (iv) all books and records related to any of the foregoing, including without limitation any and all books of account, customer lists and other records relating in any way to the accounts receivable; and (v) any of the aforementioned collateral hereafter acquired by Debtor as well as Collateral which Debtor now owns or in which Debtor otherwise has rights related to any property referred to in this Section 2.

## 3. Obligations

The Obligations secured by this Security Agreement shall consist of any and all debts, obligations, and liabilities of Debtor to Secured Party arising out of or related to the Credit Documents (whether principal, interest, fees, or otherwise, whether now existing or thereafter arising, whether voluntary or involuntary, whether or not jointly owed with others, whether direct or indirect, absolute or contingent, contractual or tortious, liquidated or unliquidated, arising by operation of law, or otherwise, whether or not from time to time decreased or extinguished and later increased, created or incurred, and whether or not extended, modified, rearranged, restructured, refinanced, or replaced, including without limitation, modifications to interest rates or other payment terms of such debts, obligations, or liabilities).

## 4. Representations and Warranties

In addition to any representations and warranties of Debtor set forth in the Credit Documents, which are incorporated herein by this reference, Debtor hereby represents and warrants that:

- a. **Authority.** It has authority, and has completed all proceedings and obtained all approvals and consents necessary, to execute, deliver, and perform this Security Agreement and the transactions contemplated hereby.

- b. No Default or Lien.** Such execution, delivery, and performance will not contravene, or constitute a default under or result in a lien upon any property of Debtor pursuant to any applicable law or regulation or any contract, agreement, judgment, order, decree, or other instrument binding upon or affecting Debtor.
- c. Enforceability.** This Security Agreement constitutes a legal, valid, and binding obligation of Debtor, enforceable in accordance with its terms (except as enforceability may be affected by bankruptcy, insolvency, or other similar laws affecting the enforcement of creditor's rights), and this Security Agreement grants to Secured Party a valid, first-priority perfected and enforceable lien on the Collateral.
- d. No Litigation.** There is no action, suit or proceeding pending or, to the best knowledge of Debtor after reasonable investigation, threatened against Debtor that might adversely affect its property or financial condition in any material respect.
- e. Ownership of Collateral.** Debtor is the sole owner of and has good and marketable title to the Collateral (or, in the case of after-acquired Collateral, at the time the Debtor acquires rights in the Collateral, will be the sole owner thereof) and is the record and beneficial owner of any such Collateral.
- f. Priority.** Except for security interests in favor of Secured Party, no person has (or, in the case of after-acquired Collateral, at the time Debtor acquires rights therein, will have) any right, title, claim, or interest (by way of security interest or other lien or charge) in, against or to the Collateral.
- g. Accuracy of Information.** All information heretofore, herein or hereafter supplied to Secured Party by or on behalf of Debtor with respect to the Collateral is true and correct.
- h. Delivery of Documents.** Debtor has delivered to Secured Party all instruments, documents, chattel paper, and other items of Collateral in which a security interest is or may be perfected by possession, the certificate of title with respect to each motor vehicle, if any, included in the Collateral, and any certificated Pledged Shares together with such additional writings, including, without limitation, assignments and stock powers, with respect thereto as Secured Party shall request.
- i. Exclusion of Certain Collateral.** Unless otherwise agreed by Secured Party, the Collateral does not include any aircraft, watercraft or vessels, railroad cars, railroad equipment, locomotives or other rolling stock intended for a use related to interstate commerce, trade names, trademarks, service marks, mask works, copyrights, patents, fixtures or uncertificated securities.



- j. Enforceability Against Account Debtors.** Each account, contract right, item of chattel paper, instrument or any other right to the payment of money constituting Collateral is genuine and enforceable in accordance with its terms against the party obligated to pay the same (an Account Debtor), which terms have not been modified or waived in any respect or to any extent.
- k. Amount Due From Account Debtors.** Any amount represented by Debtor to Secured Party as owing by any Account Debtor is the correct amount actually and unconditionally owing by such Account Debtor.
- l. No Account Debtor Defense.** No Account Debtor has any defense, set off, claim, or counterclaim against Debtor that can be asserted against Secured Party, whether in any proceeding to enforce Secured Party's rights in the Collateral, or otherwise.

**5. Covenants and Agreements of Debtor**

In addition to all covenants and agreements of Debtor set forth in the Credit Documents, which are incorporated herein by this reference, Debtor hereby agrees:

- a. Preservation of Collateral.** To do all acts that may be necessary to maintain, preserve, and protect the Collateral.
- b. Use of Collateral.** Not to use or permit any Collateral to be used unlawfully or in violation of any provision of this Security Agreement, any other agreement with Secured Party related hereto or any applicable statute, regulation, or ordinance or any policy of insurance covering the Collateral.
- c. Payment of Taxes.** To pay promptly when due all taxes, assessments, charges, encumbrances and liens now or hereafter imposed upon or affecting any Collateral.
- d. Defense of Litigation.** To appear in and defend any action or proceeding that may affect its title to or Secured Party's interest in the Collateral.
- e. Possession of Collateral.** Not to surrender or lose possession of (other than to Secured Party), sell, encumber, lease, rent, or otherwise dispose of or transfer any Collateral or right or interest therein except as hereinafter provided, and to keep the Collateral free of all levies and security interests or other liens or charges except those approved in writing by Secured Party.
- f. Compliance with Law.** To comply with all laws, regulations, and ordinances relating to the possession, operation, maintenance, and control of the Collateral.

- g. Standard of Care by Secured Party.** That such care as Secured Party gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Collateral when in Secured Party's possession.
- h. Maintenance of Records.** To keep separate, accurate, and complete records of the Collateral and to provide Secured Party with such records and such other reports and information relating to the Collateral as Secured Party may request from time to time.
- i. Further Assurances.** To procure, execute, and deliver from time to time any endorsements, notifications, registrations, assignments, financing statements, certificates of title, ship mortgages, aircraft mortgages, copyright mortgages assignments or mortgages of patents, mortgages of mask works, mortgages for filing pursuant to the Interstate Commerce Act, and other writings deemed necessary or appropriate by Secured Party to perfect, maintain, and protect its security interest in the Collateral hereunder and the priority thereof; and to take such other actions as Secured Party may request to protect the value of the collateral and of Secured Party's security interest in the Collateral, including, without limitation, provision of assurances from third parties regarding Secured Party's access to, right to foreclose on or sell, Collateral and right to realize the practical benefits of such foreclosure or sale.
- j. Payment of Secured Party's Costs and Expenses.** To reimburse Secured Party upon demand for any costs and expenses, including, without limitation, attorney fees and disbursements, Secured Party may incur in preparing the Credit Documents and while exercising any right, power, or remedy provided by this Security Agreement or by law, all of which costs and expenses are included in the Obligations.
- k. Notification Regarding Certain Types of Collateral.** To promptly notify Secured Party of inclusion in the Collateral after the date hereof of any aircraft, watercraft or vessels, railroad cars, railroad equipment, locomotives or other rolling stock intended for a use related to interstate commerce, trade names, trademarks, service marks, mask works, copyrights, patents, fixtures, or uncertificated securities.
- l. Notice of Changes.** To give Secured Party thirty (30) days prior written notice of any change in Debtor's residence or chief place of business or legal name or tradename(s) or style(s) set forth in the penultimate paragraph of this Security Agreement.
- m. Location of Records.** To keep the records concerning the collateral at the location(s) set forth in the penultimate paragraph of this Security Agreement and not to remove such records from such location(s) without the prior written consent of the Secured Party.

n. **Purchase Money Agreement.** If Secured Party gives value to enable Debtor to acquire rights in or the use of any Collateral, to use such value for such purpose.

#### 6. **Authorized Action by Secured Party**

Debtor hereby agrees that from time to time, without presentment, notice or demand, and without affecting or impairing in any way the rights of Secured Party with respect to the Collateral, the obligations of the Debtor hereunder or the Obligations, Secured Party may, but shall not be obligated to and shall incur no liability to Debtor or any third party for failure to take any action which Debtor is obligated by this Security Agreement to do and to exercise such rights and powers as Debtor might exercise with respect to the Collateral, and Debtor hereby irrevocably appoints Secured Party as its attorney-in-fact to exercise such rights and powers, including without limitation, to (a) file a financing statement describing the Collateral, without the signature of either the Debtor or the Secured Party; (b) collect by legal proceedings or otherwise and indorse, receive and receipt for all dividends, interest, payments, proceeds, and other sums and property now or hereafter payable on or on account of the Collateral; (c) enter into any extension, reorganization, deposit, merger, consolidation, or other agreement pertaining to, or deposit, surrender, accept, hold, or apply other property in exchange for the Collateral; (d) insure, process, and preserve the Collateral; (e) transfer the Collateral to its own or its nominee's name; (f) make any compromise or settlement, and take any action it deems advisable, with respect to the Collateral; and (g) notify any Account Debtor on any Collateral to make payment directly to Secured Party.

#### 7. **Default**

A default under this Security Agreement shall be deemed to exist upon the occurrence of any of the following (an Event of Default):

- a. **Default in Payment.** Any of the Obligations shall not be paid in accordance with the terms of the Credit Documents.
- b. **Default under Credit Documents.** Debtor shall fail to observe any other term or condition of the Credit Documents or there shall otherwise occur any event which would permit Secured Party to accelerate amounts outstanding thereunder or the Borrower shall fail to make any payment or there shall otherwise occur any event which would permit Secured Party to accelerate amounts outstanding to Borrower which are guaranteed by Debtor pursuant to the Credit Documents.

#### 8. **Remedies**

Upon the occurrence of any such Event of Default, Secured Party may, at its option, and without notice to or demand on Debtor and in addition to all rights and remedies

available to Secured Party under the Credit Documents, at law, in equity, or otherwise, do any one or more of the following:

- a. **General Enforcement.** Foreclose or otherwise enforce Secured Party's security interest in any manner permitted by law, or provided for in this Security Agreement.
- b. **Sale, etc.** Sell, lease, or otherwise dispose of any Collateral at one or more public or private sales at Secured Party's place of business or any other place or places, including, without limitation, any broker's board or securities exchange, whether or not such Collateral is present at the place of sale, for cash or credit or future delivery, on such terms and in such manner as Secured Party may determine.
- c. **Costs of Remedies.** Recover from Debtor all costs and expenses, including, without limitation, reasonable attorney fees, incurred or paid by Secured Party in exercising any right, power, or remedy provided by this Security Agreement.
- d. **Manner of Sale of Collateral.** Debtor shall be given ten (10) business days prior notice of the time and place of any public sale or of the time after which any private sale or other intended disposition of Collateral is to be made, which notice Debtor hereby agrees shall be deemed reasonable notice thereof.
- e. **Delivery to and Rights of Purchaser.** Upon any sale or other disposition pursuant to this Security Agreement, Secured Party shall have the right to deliver, assign, and transfer to the purchaser thereof the Collateral or portion thereof so sold or disposed of. Each purchaser at any such sale or other disposition (including Secured Party) shall hold the Collateral free from any claim or right of whatever kind, including any equity or right of redemption of Debtor and Debtor specifically waives (to the extent permitted by law) all rights of redemption, stay or appraisal which it has or may have under any rule of law or statute now existing or hereafter adopted.

#### 9. Cumulative Rights

The rights, powers, and remedies of Secured Party under this Security Agreement shall be in addition to all rights, powers, and remedies given to Secured Party by virtue of any statute or rule of law, the Credit Documents or any other agreement, all of which rights, powers, and remedies shall be cumulative and may be exercised successively or concurrently without impairing Secured Party's security interest in the Collateral.

#### 10. Waiver

Any waiver, forbearance or failure or delay by Secured Party in exercising any right, power, or remedy shall not preclude the further exercise thereof, and every right, power, or remedy of Secured Party shall continue in full force and effect until such right, power

or remedy is specifically waived in a writing executed by Secured Party. Debtor waives any right to require Secured Party to proceed against any person or to exhaust any Collateral or to pursue any remedy in Secured Party's power.

**11. Setoff**

Debtor agrees that Secured Party may exercise its rights of setoff with respect to the Obligations in the same manner as if the Obligations were unsecured.

**12. Binding Upon Successors**

All rights of Secured Party under this Security Agreement shall inure to the benefit of its successors and assigns, and all obligations of Debtor shall bind its heirs, executors, administrators, successors, and assigns.

**13. Entire Agreement; Severability**

This Security Agreement contains the entire security agreement between Secured Party and Debtor. If any of the provisions of this Security Agreement shall be held invalid or unenforceable, this Security Agreement shall be construed as if not containing those provisions and the rights and obligations of the parties hereto shall be construed and enforced accordingly.

**14. Choice of Law**

This Security Agreement shall be construed in accordance with and governed by the laws of Texas, without giving effect to choice of law rules, and, where applicable and except as otherwise defined herein, terms used herein shall have the meanings given them in the Uniform Commercial Code of such state.

**15. Amendment**

This Security Agreement may not be amended or modified except by a writing signed by each of the parties hereto.

**16. Residence; Collateral Location Records**

Debtor represents that its residence or chief place of business is set forth below its signature hereto; and that, except as otherwise disclosed to Secured Party in writing prior to the date hereof, the Collateral and Debtor's records concerning the Collateral are located at that address.

**17. Addresses for Notices**

All demands, notices, and other communications to Debtor or Secured Party provided for hereunder shall be in writing or by telephone, promptly confirmed in writing, mailed, delivered, or sent by telefacsimile, addressed or sent to it to the address or telefacsimile number, as the case may be, of Debtor or Secured Party set forth beneath such party's signature below, or to such other address as shall be designated by a party in a written notice to the other party. All such demands, notices, and other communications shall, when mailed or sent by telefacsimile, be effective when deposited in the mails, delivered or so sent, as the case may be, addressed as aforesaid.

**EXECUTED** this 30<sup>th</sup> day of June 2011.

Address:  
508 West Wall Street, Suite 800  
Midland, Texas 79701

508 West Wall Street, Suite 1100  
Midland, Texas 79701

**DEBTOR:**

**DAWSON GEOPHYSICAL COMPANY**

**By: /s/ Stephen C. Jumper**

\_\_\_\_\_  
**Stephen C. Jumper**  
**President**

**By: /s/ Christina W. Hagan**

\_\_\_\_\_  
**Christina W. Hagan**  
**Secretary**

**SECURED PARTY:**

**WESTERN NATIONAL BANK**

**By: /s/ Wesley D. Bownds**

\_\_\_\_\_  
**Wesley D. Bownds**  
**President**

CERTIFICATION

I, Stephen C. Jumper, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dawson Geophysical Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2011

/s/ Stephen C. Jumper  
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Stephen C. Jumper  
President and Chief Executive Officer  
(principal executive officer)

**CERTIFICATION**

I, Christina W. Hagan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Dawson Geophysical Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: August 9, 2011

/s/ Christina W. Hagan

Christina W. Hagan

Executive Vice President, Secretary and

Chief Financial Officer

(principal financial and accounting officer)



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

In connection with the quarterly report of Dawson Geophysical Company (the "Company") on Form 10-Q for the period ended June 30, 2011, as filed with the Securities and Exchange Commission (the "Report"), I, Stephen C. Jumper, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: August 9, 2011

/s/ Stephen C. Jumper  
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Stephen C. Jumper  
President and Chief Executive Officer  
(principal executive officer)

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

In connection with the quarterly report of Dawson Geophysical Company (the "Company") on Form 10-Q for the period ended June 30, 2011, as filed with the Securities and Exchange Commission (the "Report"), I, Christina W. Hagan, Executive Vice President, Secretary and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

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

Dated: August 9, 2011

/s/ Christina W. Hagan

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Christina W. Hagan  
Executive Vice President, Secretary and  
Chief Financial Officer  
(principal financial and accounting officer)