
**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 March 31, 2013

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 (Do not check if a smaller reporting company) 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.

Title of Each Class
Common Stock, \$.33 1/3 par value

Outstanding at May 7, 2013
8,053,407 shares

DAWSON GEOPHYSICAL COMPANY

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DAWSON GEOPHYSICAL COMPANY

CONSOLIDATED BALANCE SHEETS

| | March 31, 2013 (Unaudited) | September 30, 2012 |
|--|----------------------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 17,652,000 | \$ 57,373,000 |
| Short-term investments | 12,750,000 | 4,000,000 |
| Accounts receivable, net of allowance for doubtful accounts of \$250,000 at March 31, 2013 and September 30, 2012 | 67,047,000 | 53,719,000 |
| Prepaid expenses and other assets | 3,769,000 | 762,000 |
| Current deferred tax asset | 2,129,000 | 1,925,000 |
| Total current assets | 103,347,000 | 117,779,000 |
| Property, plant and equipment | 327,575,000 | 326,030,000 |
| Less accumulated depreciation | <u>(141,454,000)</u> | <u>(164,634,000)</u> |
| Net property, plant and equipment | 186,121,000 | 161,396,000 |
| Total assets | <u>\$ 289,468,000</u> | <u>\$ 279,175,000</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 15,974,000 | \$ 18,544,000 |
| Accrued liabilities: | | |
| Payroll costs and other taxes | 2,109,000 | 1,802,000 |
| Other | 6,527,000 | 6,425,000 |
| Deferred revenue | 2,123,000 | 3,467,000 |
| Current maturities of notes payable and obligations under capital leases | 10,026,000 | 9,131,000 |
| Total current liabilities | 36,759,000 | 39,369,000 |
| Long-term liabilities: | | |
| Notes payable and obligations under capital leases less current maturities | 7,892,000 | 11,179,000 |
| Deferred tax liability | 33,424,000 | 27,678,000 |
| Total long-term liabilities | 41,316,000 | 38,857,000 |
| Stockholders' equity: | | |
| Preferred stock-par value \$1.00 per share; 5,000,000 shares authorized, none outstanding | — | — |
| Common stock-par value \$.33 1/3 per share; 50,000,000 shares authorized, 8,053,407 and 8,031,369 shares issued and outstanding at March 31, 2013 and September 30, 2012, respectively | 2,684,000 | 2,677,000 |
| Additional paid-in capital | 94,454,000 | 93,224,000 |
| Retained earnings | 114,255,000 | 105,048,000 |
| Total stockholders' equity | 211,393,000 | 200,949,000 |
| Total liabilities and stockholders' equity | <u>\$ 289,468,000</u> | <u>\$ 279,175,000</u> |

See accompanying notes to the consolidated financial statements (unaudited).

DAWSON GEOPHYSICAL COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

| | <u>Three Months Ended March 31,</u> | | <u>Six Months Ended March 31,</u> | |
|---|-------------------------------------|---------------------|-----------------------------------|---------------------|
| | <u>2013</u> | <u>2012</u> | <u>2013</u> | <u>2012</u> |
| Operating revenues | \$83,350,000 | \$85,546,000 | \$159,979,000 | \$177,928,000 |
| Operating costs: | | | | |
| Operating expenses | 59,666,000 | 65,202,000 | 118,401,000 | 144,016,000 |
| General and administrative | 3,508,000 | 2,920,000 | 7,104,000 | 5,476,000 |
| Depreciation | 9,578,000 | 7,978,000 | 18,682,000 | 15,764,000 |
| | <u>72,752,000</u> | <u>76,100,000</u> | <u>144,187,000</u> | <u>165,256,000</u> |
| Income from operations | 10,598,000 | 9,446,000 | 15,792,000 | 12,672,000 |
| Other income (expense): | | | | |
| Interest income | 19,000 | 8,000 | 35,000 | 11,000 |
| Interest expense | (174,000) | (138,000) | (365,000) | (288,000) |
| Other income | 138,000 | 96,000 | 178,000 | 112,000 |
| | <u>10,581,000</u> | <u>9,412,000</u> | <u>15,640,000</u> | <u>12,507,000</u> |
| Income before income tax | 10,581,000 | 9,412,000 | 15,640,000 | 12,507,000 |
| Income tax expense | (4,302,000) | (3,823,000) | (6,433,000) | (3,687,000) |
| Net income | <u>\$ 6,279,000</u> | <u>\$ 5,589,000</u> | <u>\$ 9,207,000</u> | <u>\$ 8,820,000</u> |
| Basic income attributable to common stock | <u>\$ 0.78</u> | <u>\$ 0.71</u> | <u>\$ 1.15</u> | <u>\$ 1.11</u> |
| Diluted income attributable to common stock | <u>\$ 0.78</u> | <u>\$ 0.70</u> | <u>\$ 1.14</u> | <u>\$ 1.11</u> |
| Weighted average equivalent common shares outstanding | <u>7,861,204</u> | <u>7,841,362</u> | <u>7,855,284</u> | <u>7,836,787</u> |
| Weighted average equivalent common shares outstanding – assuming dilution | <u>7,901,636</u> | <u>7,896,949</u> | <u>7,888,906</u> | <u>7,885,590</u> |

See accompanying notes to the consolidated financial statements (unaudited).

DAWSON GEOPHYSICAL COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

| | <u>Six Months Ended March 31,</u> | |
|--|-----------------------------------|----------------------|
| | <u>2013</u> | <u>2012</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 9,207,000 | \$ 8,820,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 18,682,000 | 15,764,000 |
| Noncash compensation | 995,000 | 712,000 |
| Deferred income tax expense | 5,542,000 | 3,259,000 |
| Provision for bad debts | 62,000 | 315,000 |
| Other | 100,000 | 117,000 |
| Change in current assets and liabilities: | | |
| (Increase) decrease in accounts receivable | (13,390,000) | 1,089,000 |
| Increase in prepaid expenses and other assets | (3,007,000) | (1,716,000) |
| Decrease in accounts payable | (4,843,000) | (1,665,000) |
| Increase (decrease) in accrued liabilities | 409,000 | (2,359,000) |
| Decrease in deferred revenue | (1,344,000) | (3,430,000) |
| Net cash provided by operating activities | <u>12,413,000</u> | <u>20,906,000</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Capital expenditures, net of noncash capital expenditures summarized below in noncash investing and financing activities | (40,147,000) | (19,688,000) |
| Proceeds from maturity of short-term investments | 3,000,000 | — |
| Acquisition of short-term investments | (11,750,000) | — |
| Proceeds from disposal of assets | 211,000 | 219,000 |
| Net cash used by investing activities | <u>(48,686,000)</u> | <u>(19,469,000)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from note payable | 983,000 | — |
| Principal payments on notes payable | (4,343,000) | (2,620,000) |
| Principal payments on capital lease obligations | (329,000) | (18,000) |
| Proceeds from exercise of stock options | 241,000 | 184,000 |
| Net cash used by financing activities | <u>(3,448,000)</u> | <u>(2,454,000)</u> |
| Net decrease in cash and cash equivalents | (39,721,000) | (1,017,000) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | <u>57,373,000</u> | <u>26,077,000</u> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | <u>\$ 17,652,000</u> | <u>\$ 25,060,000</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$ 377,000 | \$ 296,000 |
| Cash paid for income taxes | \$ 882,000 | \$ 1,000 |
| Cash received for income taxes | \$ 33,000 | \$ 137,000 |
| NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Accrued purchases of property and equipment | \$ 2,273,000 | \$ 57,000 |
| Capital lease obligations incurred | \$ 1,296,000 | \$ 1,262,000 |

See accompanying notes to the consolidated financial statements (unaudited).

DAWSON GEOPHYSICAL COMPANY

NOTES TO CONSOLIDATED 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

In the opinion of management of the Company, the accompanying unaudited 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 six months ended March 31, 2013 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, 2012.

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.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Dawson Seismic Services Holdings, Inc. and Dawson Seismic Services ULC. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash Equivalents. For purposes of the financial statements, the Company considers demand deposits, certificates of deposit, overnight investments, money market funds and all highly liquid financial instruments purchased with an initial maturity of three months or less to be cash equivalents.

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.

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

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

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 amounts of the assets exceed the estimated expected undiscounted future cash flows, the Company measures the amount of possible impairment by comparing the carrying amount of the assets to the fair value.

Leases. The Company leases certain equipment and vehicles under lease agreements. The Company evaluates each lease to determine its appropriate classification as an operating or capital lease for financial reporting purposes. Any lease that does not meet the criteria for a capital lease is accounted for as an operating lease. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair market value of the related assets. Assets under capital leases are depreciated using the straight-line method over the initial lease term.

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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 services performed. In those cases, the Company recognizes the liability as deferred revenue. As services are performed, those deferred revenue amounts are recognized as revenue.

When it becomes evident that the estimates of total costs to be incurred on a contract will exceed the total estimates of revenue to be earned, an estimated contract loss is recognized in the period in which the loss is identifiable.

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

Income Taxes. The Company accounts for income taxes by recognizing amounts of taxes payable or refundable for the current year and by using 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 annual effective tax rate and the valuation of deferred tax assets, which can create variances between actual results and estimates and could have a material impact on the Company’s provision or benefit for income taxes.

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income,” that updated guidance related to disclosure of reclassification amounts out of accumulated other comprehensive income. The standard requires that companies present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. ASU 2013-02 was effective for the Company as of January 1, 2013. The adoption of this guidance did not have a material impact on the Company’s financial statements.

3. SHORT-TERM INVESTMENTS

The Company had short-term investments at March 31, 2013 and September 30, 2012 consisting of certificates of deposit with original maturities greater than three months, but less than a year. Certificates of deposit are limited to one per banking institution and no single investment exceeded the FDIC insurance limit at March 31, 2013 or September 30, 2012.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

At March 31, 2013 and September 30, 2012, the Company’s financial instruments included cash and cash equivalents, short-term investments in certificates of deposit, trade and other receivables, other current assets, accounts payable, other current liabilities, the Term Note (as defined below), the Second Term Note (as defined below) and the Third Term Note (as defined below). Due to the short-term maturities of cash and cash equivalents, short-term investments in certificates of deposit, 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’s Term Note and Second Term Note approximate their fair value due to the fact that the interest rates on the Term Note and Second Term Note are reset each month based on the prevailing market interest rate. The Company’s Third Term Note approximates its fair value based on a comparison with the prevailing market interest rate.

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 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 March 31, 2013 and April 30, 2013 (the date on which the last compliance calculation was made) and has the full line of credit available for borrowing. The Company has not utilized the revolving line of credit during the current fiscal year or the fiscal year ended September 30, 2012.

The Company amended its credit loan agreement 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 Geospace Technologies GSR 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 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%, and otherwise has the same terms as the revolving line of credit. The Term Note is collateralized by a security interest in the Company's accounts receivable, equipment and related collateral and matures with all outstanding balances due on June 30, 2014. The fair value of the Term Note approximates its carrying value at March 31, 2013 due to the fact that the interest rate on the Term Note is reset each month based on the prevailing market interest rate.

On May 11, 2012, the Company entered into a Multiple Advance Term Note ("Second Term Note") under its credit loan agreement with Western National Bank. The Second Term Note allows the Company to borrow from time to time up to \$15.0 million to purchase equipment. The outstanding principal under the Second Term Note will be amortized over a period of 36 months. The Second Term Note bears interest at an annual rate equal to either the 30-day 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 3.75%, and otherwise has the same terms as the revolving line of credit. The Second Term Note is collateralized by a security interest in the Company's accounts receivable, equipment and related collateral and matures with all outstanding balances due on May 2, 2015. On July 5, 2012, the Company borrowed \$9,346,000 under the Second Term Note to purchase Geospace Technologies GSR recording equipment. The fair value of the Second Term Note approximates its carrying value at March 31, 2013 due to the fact the interest rate on the Second Term Note is reset each month based on the prevailing market interest rate.

On February 12, 2013, the Company's subsidiary Dawson Seismic Services ULC ("DSS") entered into a promissory note ("Third Term Note") with Wells Fargo Equipment Finance Company. DSS obtained \$983,000 in financing for the purchase of equipment. The Third Term Note is repayable over a period of 36 months at \$28,980 per month and bears interest at an implied annual fixed rate of 3.84%. The Third Term Note is collateralized by a security interest in the DSS equipment and matures with all outstanding balances due on February 5, 2016. The fair value of the Third Term Note approximates its carrying value at March 31, 2013 based on a comparison with the prevailing market interest rate.

In the second quarter of fiscal 2012, the Company began leasing vehicles from Enterprise Fleet Management under capital leases. These capital lease obligations are payable in 36 to 60 monthly installments and mature between December 2014 and November 2017. At March 31, 2013, the Company had leased 83 vehicles under these capital leases.

The Company's notes payable and obligations under capital leases consist of the following:

| | March 31, 2013 | September 30, 2012 |
|---|---------------------|-----------------------|
| Term Note | \$ 7,552,000 | \$ 10,281,000 |
| Second Term Note | 7,233,000 | 8,821,000 |
| Third Term Note | 958,000 | — |
| Revolving line of credit | — | — |
| Obligations under capital leases | 2,175,000 | 1,208,000 |
| | 17,918,000 | 20,310,000 |
| Less current maturities of notes payable and obligations under capital leases | (10,026,000) | (9,131,000) |
| | <u>\$ 7,892,000</u> | <u>\$ 11,179,000</u> |

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The aggregate maturities of the notes payable and obligations under capital leases at March 31, 2013 are as follows:

| | |
|-------------------------|---------------------|
| April 2013 – March 2014 | \$10,026,000 |
| April 2014 – March 2015 | 6,496,000 |
| April 2015 – March 2016 | 1,283,000 |
| April 2016 – March 2017 | 94,000 |
| April 2017 – March 2018 | 19,000 |
| | <u>\$17,918,000</u> |

6. COMMITMENTS AND CONTINGENCIES

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, Pittsburgh and Calgary, Alberta.

The following table summarizes payments due in specific periods related to the Company's contractual obligations with initial terms exceeding one year as of March 31, 2013.

| | Payments Due by Period (in 000's) | | | | |
|--|-----------------------------------|------------------|-----------------|---------------|------------------|
| | Total | Within 1 Year | 1-2 Years | 3-5 Years | After 5 Years |
| Operating lease obligations (office space) | <u>\$ 3,152</u> | <u>\$ 860</u> | <u>\$ 1,704</u> | <u>\$ 588</u> | <u>\$ —</u> |

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 \$222,000 and \$192,000 for the three months ended March 31, 2013 and 2012, respectively, and \$444,000 and \$372,000 for the six months ended March 31, 2013 and 2012, respectively.

As of March 31, 2013, the Company had unused letters of credit totaling \$1,580,000. The Company's letters of credit principally back obligations associated with the Company's self-insured retention on workers' compensation claims.

7. NET INCOME PER SHARE ATTRIBUTABLE TO COMMON STOCK

Net income attributable to common stock is calculated using the two-class method. The two-class method is an earnings allocation method of calculating earnings per share when a company's capital structure includes participating securities that have rights to undistributed earnings. The Company's employees and officers that hold unvested restricted stock would be entitled to dividends if the Company were to pay dividends.

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The Company's basic net income per share attributable to common stock is computed by reducing the Company's net income by the net income allocable to unvested restricted stockholders that have a right to participate in undistributed earnings. The undistributed earnings are allocated based on the relative percentage of the weighted average shares of unvested restricted stock and the total of the weighted average common shares outstanding plus the weighted average unvested restricted stock shares. The basic net income per share attributable to common stock is computed by dividing the net income attributable to common stock by the weighted average shares outstanding. The Company's dilutive net income per share attributable to common stock is computed by adjusting basic net income per share attributable to common stock by diluted income allocable to unvested restricted stock divided by weighted average diluted shares outstanding. A reconciliation of the basic and diluted earnings per share attributable to common stock is as follows:

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|---|------------------------------|-----------------|----------------------------|-----------------|
| | 2013 | 2012 (a) | 2013 | 2012 (a) |
| | (in 000's) | | (in 000's) | |
| Net income | \$ 6,279 | \$ 5,589 | \$ 9,207 | \$ 8,820 |
| Income allocable to unvested restricted stock | (144) | (57) | (211) | (90) |
| Basic income attributable to common stock | <u>\$ 6,135</u> | <u>\$ 5,532</u> | <u>\$ 8,996</u> | <u>\$ 8,730</u> |
| Reallocation of participating earnings | 1 | — | — | — |
| Diluted income attributable to common stock | <u>\$ 6,136</u> | <u>\$ 5,532</u> | <u>\$ 8,996</u> | <u>\$ 8,730</u> |

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|------------------------------|------------------|----------------------------|------------------|
| | 2013 | 2012 (a) | 2013 | 2012 (a) |
| Weighted average common shares outstanding: | | | | |
| Basic: | 7,861,204 | 7,841,362 | 7,855,284 | 7,836,787 |
| Dilutive common stock options | 40,432 | 55,587 | 33,622 | 48,803 |
| Diluted: | <u>7,901,636</u> | <u>7,896,949</u> | <u>7,888,906</u> | <u>7,885,590</u> |
| Basic income attributable to a share of common stock | <u>\$ 0.78</u> | <u>\$ 0.71</u> | <u>\$ 1.15</u> | <u>\$ 1.11</u> |
| Diluted income attributable to a share of common stock | <u>\$ 0.78</u> | <u>\$ 0.70</u> | <u>\$ 1.14</u> | <u>\$ 1.11</u> |

- (a) Prior year earnings per share calculations have been adjusted for the two-class method to reflect restricted shares that were not reflected as participating in prior periods. Basic earnings per share as previously reported for the quarter and six months ended March 31, 2012 was \$0.71 and \$1.13, respectively. Diluted earnings per share as previously reported for the quarter and six months ended March 31, 2012 was \$0.70 and \$1.11, respectively. Basic weighted average shares outstanding as previously reported for the quarter and six months ended March 31, 2012 were 7,841,362 and 7,836,787, respectively. Diluted weighted average shares outstanding as previously reported for the quarter and six months ended March 31, 2012 were 7,953,141 and 7,938,166, respectively. The impact on all prior period financial statements is deemed immaterial.

There were no securities that had an anti-dilutive effect on the calculation of diluted income attributable to common stock at March 31, 2013 or 2012.

8. 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.

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 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, dependence upon energy industry spending, disruptions in the global economy, industry competition, delays, reductions or cancellations of service contracts, high fixed costs of operations, external factors affecting our crews such as weather interruptions and inability to obtain land access rights of way, reduced utilization, whether we enter into turnkey or term contracts, crew productivity, limited number of customers, credit risk related to our customers, the availability of capital resources and operational disruptions. 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, 2012 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 a leading provider of onshore seismic data acquisition services in the lower 48 states of the United States. During 2012, we entered the Canadian market by forming a new Canadian subsidiary. 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.

After a severe contraction in demand for our services beginning at the end of 2008 and continuing into 2010 due to the global economic slowdown, we began to experience an increase in demand for our services, particularly in the oil and liquids-rich basins. Demand for our services continued to strengthen through fiscal 2011 and 2012. In response to this demand increase, we redeployed three seismic data acquisition crews in fiscal 2010 and two seismic data acquisition crews in fiscal 2011, bringing our crew count to fourteen crews. We have maintained a balanced order book in terms of client mix and geographical diversity with the majority of the projects in oil and liquids-rich basins. Although our clients may cancel, delay or alter their service contracts on short notice and we continue to remain subject to land access permit and weather delays, our current order book reflects commitment levels sufficient to maintain operation of fourteen crews into fall of 2013. The majority of our crews are currently working in oil producing basins. However, in recent years we have experienced periods in which the services we provided were primarily to clients seeking natural gas.

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 and utilization level of our data acquisition crews. Factors impacting productivity and utilization levels include crew downtime related to inclement weather, delays in acquiring land access permits, agricultural or hunting activity, holiday schedules, short winter days, crew repositioning or equipment failure, whether we enter into turnkey or term contracts with our clients, the number and size of crews and the number of recording channels per crew. Consequently, our efforts to negotiate more favorable contract terms in our supplemental service agreements, to mitigate access permit delays and to improve overall crew productivity may contribute to growth in our revenues. As demand for our services continues to be robust, we were able to negotiate more favorable contract terms during the second half of fiscal 2012 and during the first six months of fiscal 2013.

Currently, most of our client contracts are 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 in excess of three-quarters of our revenues in fiscal 2013. While turnkey contracts allow us to capitalize on improved crew productivity, we also bear more risks related to weather

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and crew downtime. We expect the percentage of turnkey contracts to remain high as we continue to expand our operations in the mid-continent, western and southwestern regions of the United States in which turnkey contracts are more common. However, during fiscal 2013 we have observed an increase in inquiries and requests for term contracts.

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 investments in additional channels. In response to project-based channel requirements, we routinely deploy a variable number of 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.

Reimbursable third-party charges related to our use of helicopter support services, specialized survey technologies and dynamite energy sources in areas with limited access are another important factor affecting our results. During fiscal 2011, the level of these third-party charges as a percentage of revenue was especially high, approaching 50% of revenue, mainly as a result of our continued operations in areas with limited access in the eastern United States. However, revenues associated with third-party charges declined as a percentage of revenue during fiscal 2012 and the first six months of fiscal 2013 as a result of such third-party charges falling at or below our historical average. We expect that as we continue to expand our operations in the more open terrain of the mid-continent, western and southwestern regions of the United States, the level of these third-party charges will continue to be generally within or below our historical range of 25% to 35% of revenue.

During fiscal 2012 and to-date in fiscal 2013, we purchased or leased a significant number of cable-less recording channels. We have utilized this equipment as primarily stand-alone recording systems but on occasion 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.

We anticipate reducing the number of large channel count crews to thirteen during the third or fourth fiscal quarter of 2013 by taking an I/O RSR radio-based crew out of service. We believe we will be able to improve long-term utilization rates and meet client demands with thirteen large channel count crews. Activity levels for our small channel count Wireless Seismic RT 2000 crew is expected to increase, keeping our overall crew count at fourteen crews. It is our intention to operate six Geospace GSR cable-less equipped crews, six ARAM cable-based equipped crews, one I/O RSR radio-based equipped crew and one 2,500 channel Wireless Seismic RT 2000 crew. We will maintain the ability to redeploy an additional large channel count crew in short order should client demand dictate. During the third and fourth fiscal quarters of 2013, we will be utilizing a FairfieldNodal cable-less system under a lease arrangement in place of an ARAM system on one of our crews working under contract in the Permian Basin.

Our utilization rates are expected to be impacted on several crews in the third fiscal quarter of 2013 due to project readiness and early project completion, but the overall effect on our results is anticipated to be partially offset with the completion of several projects contracted with incentive clauses during the third fiscal quarter. In addition, the reduction of the large channel count crew discussed above could have a short-term effect on utilization rates during the third or fourth fiscal quarter as our crews are reassigned as scheduling allows.

During 2012, we entered into the Canadian market. This market is highly seasonal and operates primarily from late November through March, depending upon weather conditions. While the 2012-2013 winter season was not as robust as anticipated, we completed our first multi-component 3D survey in Canada, secured necessary industry safety audits and believe we performed at a high level of efficiency as a new entrant into the Canadian market. We anticipate operating one or two crews in Canada in the winter season 2013-2014. Our financial results for our Canadian operations had a slight negative effect on our overall second quarter and six month fiscal 2013 results.

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 weaken, our customers reduce their capital expenditures or there is a significant sustained drop in oil and natural gas prices, it would result in diminished demand for our seismic services, could cause downward pressure on the prices we charge and would affect our results of operations.

Second Quarter and First Six Months of Fiscal 2013 Highlights

- EBITDA for the quarter ended March 31, 2013 increased to \$20,314,000 compared to \$17,520,000 for the same period of fiscal 2012, an increase of 16 percent; EBITDA for the six months ended March 31, 2013 was \$34,652,000 compared to \$28,548,000 for the same period of fiscal 2012, an increase of 21 percent;
- Income from operations for the quarter ended March 31, 2013 increased to \$10,598,000 compared to \$9,446,000 for the quarter ended March 31, 2012, an increase of 12 percent; income from operations for the six months ended March 31, 2013 was \$15,792,000 compared to \$12,672,000 for the same period of fiscal 2012, an increase of 25 percent;
- Net income for the quarter ended March 31, 2013 increased to \$6,279,000, or \$0.78 per share attributable to common stock, compared to \$5,589,000, or \$0.71 per share attributable to common stock, for the quarter ended March 31, 2012;
- Net income for the six months ended March 31, 2013 was \$9,207,000, or \$1.15 per share attributable to common stock, versus \$8,820,000, or \$1.11 per share attributable to common stock, for the same period of fiscal 2012, which included the effect of an \$0.18 per share one-time tax benefit recognized in the December 31, 2011 quarter related to a merger agreement terminated in calendar 2011; excluding the impact of the one-time tax benefit in fiscal 2012, net income and earnings per share both increased 24 percent in the fiscal 2013 six month period;
- Ended with approximately \$67 million of working capital at March 31, 2013;
- Balanced portfolio of projects in the Eagle Ford Shale, Bakken Shale, Marcellus Shale, Mississippi Lime of Kansas and Oklahoma, the state of Mississippi and the Permian Basin including the Cline Shale, Avalon Shale, Bone Spring and Wolfcamp areas;
- Replaced an I/O RSR recording system with 12,000 channel Geospace GSR cable-less recording system in the first fiscal quarter of 2013; and
- Secured contracts to perform surface microseismic surveys in West Texas and East Texas and completed one in April.

Results of Operations

Operating Revenues. Our operating revenues decreased 3% during the second quarter of fiscal 2013 to \$83,350,000 from \$85,546,000 in the same quarter of fiscal 2012 and decreased 10% during the first six months of fiscal 2013 to \$159,979,000 from \$177,928,000 in the same period of fiscal 2012. Third-party charges decreased significantly during the second quarter and first six months of fiscal 2013 while fee revenue net of third-party charges increased 14% and 12%, respectively, from the same periods in fiscal 2012. Third-party charges decreased between these periods due to the movement of our operations towards the more open terrain of the western United States where the need for drilling and helicopter services is reduced. Third-party reimbursable charges were also reduced as a result of our shift away from using third-party providers to using in-house services for permit, survey and line clearing. Revenues net of third-party charges during these periods were also positively impacted by increased utilization, production and more favorable contract terms between periods.

Operating Costs. Operating expenses for the second quarter and first six months of fiscal 2013 decreased 8% and 18%, respectively, to \$59,666,000 compared to \$65,202,000 in the second quarter comparative period and to \$118,401,000 compared to \$144,016,000 in the first six months comparative period. The decreases for the second fiscal quarter and first six months of fiscal 2013 compared to the corresponding periods of 2012 were primarily due to the reduction of reimbursed expenses during these periods. Operating expenses excluding third-party charges increased for the second quarter and first six months of fiscal 2013 compared to the corresponding periods of 2012. These increases resulted primarily from completing our first Canadian project during the period and from increased field personnel and fuel costs associated with higher utilization in fiscal 2013. As discussed above, reimbursed expenses have a similar impact on operating costs.

General and administrative expenses were 4.2% and 4.4% of revenues in the second quarter and first six months of fiscal 2013, respectively, compared to 3.4% and 3.1% of revenues in the same periods of fiscal 2012. General and administrative expenses increased to \$3,508,000 during the second quarter of fiscal 2013 from \$2,920,000 during the same period of fiscal 2012 and increased to \$7,104,000 during the first six months of fiscal 2013 from \$5,476,000 during the first six months of fiscal 2012. The increase in expenses during these periods was primarily associated with the costs to support our Canadian operations. In addition, we incurred increased administrative costs primarily related to employee costs to support our increased operating activity.

Depreciation for the second fiscal quarter of 2013 and six months ended March 31, 2013 totaled \$9,578,000 and \$18,682,000, respectively, compared to \$7,978,000 and \$15,764,000 for the second fiscal quarter and first six months of fiscal 2012, respectively. The increase in depreciation expense is the result of capital expenditures we made during fiscal 2012 and to-date in fiscal 2013. Our depreciation expense is expected to continue to increase during fiscal 2013, reflecting our higher capital expenditures during fiscal 2012 and in the six months just ended.

Our total operating costs for the second quarter and first six months of fiscal 2013 were \$72,752,000 and \$144,187,000, respectively, a decrease of 4% and 13% from the same periods in fiscal 2012. These decreases in the second quarter and first six months of fiscal 2013 were primarily due to the factors described above.

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Taxes. Income tax expense was \$6,433,000 for the six months ended March 31, 2013 compared to income tax expense of \$3,687,000 for the six months ended March 31, 2012. Income tax expense was \$4,302,000 for the three months ended March 31, 2013 compared to income tax expense of \$3,823,000 for the three months ended March 31, 2012. The effective tax rates for the six months ended March 31, 2013 and 2012 were approximately 41.1% and 29.5%, respectively. Our effective tax rates differ from the statutory federal rate of 35% for certain items such as foreign operations, state and local taxes, non-deductible expenses, discrete items, expenses related to share-based compensation that were not expected to result in a tax deduction and changes in reserves for uncertain tax positions.

Use of EBITDA (Non-GAAP measure)

We define EBITDA as net income plus interest expense, interest income, income taxes, depreciation and amortization expense. Our management uses EBITDA as a supplemental financial measure to assess:

- the financial performance of our assets without regard to financing methods, capital structures, taxes or historical cost basis;
- our liquidity and operating performance over time in relation to other companies that own similar assets and that we believe calculate EBITDA in a similar manner; and
- the ability of our assets to generate cash sufficient for us to pay potential interest costs.

We also understand that such data are used by investors to assess our performance. However, the term EBITDA is not defined under generally accepted accounting principles ("GAAP"), and EBITDA is not a measure of operating income, operating performance or liquidity presented in accordance with GAAP. When assessing our operating performance or liquidity, investors and others should not consider this data in isolation or as a substitute for net income, cash flow from operating activities or other cash flow data calculated in accordance with GAAP. In addition, our EBITDA may not be comparable to EBITDA or similarly titled measures utilized by other companies since such other companies may not calculate EBITDA in the same manner as us. Further, the results presented by EBITDA cannot be achieved without incurring the costs that the measure excludes: interest, taxes, depreciation and amortization.

The reconciliation of our EBITDA to our net income and net cash provided by operating activities, which are the most directly comparable GAAP financial measures, are provided in the tables below:

Reconciliation of EBITDA to Net Income

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--------------------------------|------------------------------|------------------|----------------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (in 000's) | | (in 000's) | |
| Net income | \$ 6,279 | \$ 5,589 | \$ 9,207 | \$ 8,820 |
| Depreciation | 9,578 | 7,978 | 18,682 | 15,764 |
| Interest expense (income), net | 155 | 130 | 330 | 277 |
| Income tax expense | 4,302 | 3,823 | 6,433 | 3,687 |
| EBITDA | <u>\$ 20,314</u> | <u>\$ 17,520</u> | <u>\$ 34,652</u> | <u>\$ 28,548</u> |

Reconciliation of EBITDA to Net Cash Provided by Operating Activities

| | Three Months Ended March 31, | | Six Months Ended March 31, | |
|--|------------------------------|------------------|----------------------------|------------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (in 000's) | | (in 000's) | |
| Net cash provided by operating activities | \$ 3,399 | \$ 22,404 | \$ 12,413 | \$ 20,906 |
| Changes in working capital and other items | 17,332 | (4,418) | 23,296 | 8,669 |
| Noncash adjustments to income | (417) | (466) | (1,057) | (1,027) |
| EBITDA | <u>\$ 20,314</u> | <u>\$ 17,520</u> | <u>\$ 34,652</u> | <u>\$ 28,548</u> |

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 along with cash reserves and borrowings from commercial banks have been sufficient to fund our working capital requirements and, to some extent, our capital expenditures.

Cash Flows. Net cash provided by operating activities was \$12,413,000 for the six months ended March 31, 2013 and \$20,906,000 in the six months ended March 31, 2012. Net cash provided by operating activities for the first six months of fiscal 2013 was positively impacted by increased margins and revenue since September 30, 2012. Despite the fact that we have had an increase in our outstanding receivables, our collection experience as an average number of days in accounts receivable has remained at approximately sixty during the last twelve months. We believe that our allowance for doubtful accounts of \$250,000 at March 31, 2013 is adequate to cover exposures related to our trade account balances.

Net cash used by investing activities was \$48,686,000 in the six months ended March 31, 2013 and \$19,469,000 in the six months ended March 31, 2012. The net cash used in investing activities in fiscal 2013 primarily represents capital expenditures of \$40,147,000, net of non-cash capital expenditures and non-cash capital lease obligations, made from excess cash reserves. Short-term investments of \$11,750,000 in certificates of deposit were also made from excess cash reserves. In addition, we reinvested the proceeds from the maturity of short-term investments of \$3,000,000 into additional certificates of deposit. In fiscal 2012, excess cash reserves were used to fund capital expenditures of \$19,688,000.

Net cash used by financing activities in the six months ended March 31, 2013 includes \$983,000 in proceeds from our Third Term Note that was used to purchase equipment for our Canadian operations and principal payments for all three term notes of \$4,343,000. In the six months ended March 31, 2012, financing activities included \$2,620,000 in principal payments on our Term Note.

Capital Expenditures. Our Board of Directors has approved a fiscal 2013 capital budget of \$50,000,000. To date, \$43,716,000 of the capital budget has been spent for the purchase of 12,000 GSX single-channel recording units, 900 GSR 4-channel recording units, 5,500 ARAM Aries channels, 2,500 channels of the Wireless Seismic RT 2000 system, additional conventional geophones, vehicles to improve our fleet and ten INOVA vibrator energy source units. The remaining balance of the capital budget will be used for maintenance capital purposes. We believe these expenditures will allow us to maintain our competitive position as we respond to client desire for higher resolution subsurface images. We anticipate that capital expenditures for fiscal 2014 will be at reduced levels from recent fiscal years and will include additional equipment expenditures for our Canadian operation.

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.

Capital Resources. Historically, we have primarily relied on cash generated from operations, cash reserves and borrowings from commercial banks to fund our working capital requirements and, to some extent, our capital expenditures. Recently, we have funded some of our capital expenditures through equipment term loans and capital leases. 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 renewed June 2, 2011 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 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 March 31, 2013 and April 30, 2013 (the date on which the last compliance calculation was made) and have the full line of credit available for borrowing. We have not utilized the revolving line of credit during the current fiscal year or the fiscal year ended September 30, 2012.

We amended our credit loan agreement with Western National Bank on June 30, 2011 to add a Term Note provision, which provided \$16,427,000 in financing for the purchase of Geospace Technologies GSR 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%. The Term Note bears interest at an annual rate equal to either the 30-day 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%, and otherwise has the same terms as our revolving line of credit. The Term Note is collateralized by a security interest in our accounts receivable, equipment and related collateral and matures with all outstanding balances due on June 30, 2014.

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On May 11, 2012, we entered into a Second Term Note under our credit loan agreement with Western National Bank. The Second Term Note allows us to borrow from time to time up to \$15.0 million to purchase equipment. On July 5, 2012, we borrowed \$9,346,000 under the Second Term Note to purchase Geospace Technologies GSR recording equipment. The outstanding principal under the Second Term Note is amortized over 36 months. The Second Term Note bears interest at an annual rate equal to either the 30-day 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 3.75%, and otherwise has the same terms as our revolving line of credit. The Second Term Note is collateralized by a security interest in our accounts receivable, equipment and related collateral and matures with all outstanding balances due on May 2, 2015.

On February 12, 2013, our subsidiary DSS entered into a Third Term Note with Wells Fargo Equipment Finance Company. DSS obtained \$983,000 in financing for the purchase of equipment. The Third Term Note is repayable over a period of 36 months at \$28,980 per month and bears interest at an implied annual fixed rate of 3.84%. The Third Term Note is collateralized by a security interest in the DSS equipment and matures with all outstanding balances due on February 5, 2016.

In the second quarter of fiscal 2012, we began leasing vehicles from Enterprise Fleet Management under capital leases. These capital lease obligations are payable in 36 to 60 monthly installments and mature between December 2014 and November 2017. At March 31, 2013, we had leased 83 vehicles under these capital leases.

The following table summarizes payments due in specific periods related to our contractual obligations with initial terms exceeding one year as of March 31, 2013.

| <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 (office space) | \$ 3,152 | \$ 860 | \$ 1,704 | \$ 588 | \$ — |
| Capital lease obligations | \$ 2,175 | \$ 822 | \$ 1,240 | \$ 113 | \$ — |
| Debt obligations | \$15,743 | \$ 9,204 | \$ 6,539 | \$ — | \$ — |
| Total | <u>\$21,070</u> | <u>\$10,886</u> | <u>\$ 9,483</u> | <u>\$ 701</u> | <u>\$ —</u> |

In April 2012, we filed a shelf registration statement with the SEC covering the periodic offer and sale of up to \$150.0 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 if and when 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, additional equipment term loans and capital leases. However, our ability to satisfy our working capital requirements and 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 March 31, 2013, we had no off-balance sheet arrangements.

Critical Accounting Policies

Information regarding our 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, 2012.

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," that updated guidance related to disclosure of reclassification amounts out of accumulated other comprehensive income. The standard requires that companies present, either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. ASU 2013-02 was effective for us as of January 1, 2013. The adoption of this guidance did not have a material impact on our financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks arising from the use of financial instruments in the ordinary course of business. These risks arise primarily as a result of potential changes to operating concentration and credit risk and changes in interest rates. We have not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other derivative financial instruments. During 2012, we began to conduct business in Canada which may subject our results of operations and cash flow to foreign currency exchange rate risk.

Concentration of Credit Risk. Our principal market risks include fluctuations in commodity prices, which affect demand for and pricing of our services, and the risk related to the concentration of our clients in the oil and natural gas industry. Since all of our clients are involved in the oil and natural gas industry, there may be a positive or negative effect on our exposure to credit risk because our clients may be similarly affected by changes in economic and industry conditions. As an example, changes to existing regulations or the adoption of new regulations may unfavorably impact us, our suppliers or our clients. In the normal course of business, we provide credit terms to our clients. Accordingly, we perform ongoing credit evaluations of our clients and maintain allowances for possible losses. We believe that our allowance for doubtful accounts of \$250,000 at March 31, 2013 is adequate to cover exposures related to our trade account balances.

We generally provide services to certain key clients that account for a significant percentage of our accounts receivable at any given time. Our key clients vary over time. We extend credit to various companies in the oil and natural gas industry, including our key clients, for the acquisition of seismic data, which results in a concentration of credit risk. This concentration of credit risk may be affected by changes in the economic or other conditions of our key clients and may accordingly impact our overall credit risk. If any of these significant clients were to terminate their contracts or fail to contract for our services in the future because they are acquired, alter their exploration or development strategy, or for any other reason, our results of operations could be affected. Due to the nature of our contracts and clients' projects, our largest clients can change from year to year, and the largest clients in any year may not be indicative of the largest clients in any subsequent year.

Interest Rate Risk. We are exposed to the impact of interest rate changes on the outstanding indebtedness under our credit loan agreement, which has variable interest rates. Amounts drawn under the revolving line of credit and equipment term loans bear interest at variable rates based on the lower of the Prime Rate, minus three-quarters percent, or the 30-day LIBOR, plus a margin of two and one-quarter percent, subject to an interest rate floor of 4% for the Term Note and the revolving line of credit and an interest rate floor of 3.75% for the Second Term Note. At March 31, 2013, our interest rate was 4% for the Term Note and the revolving line of credit and 3.75% for the Second Term Note.

We have cash in the bank which, at times, may exceed federally insured limits. Historically, we have not experienced any losses in such accounts; however, volatility in financial markets may impact our credit risk on cash and short-term investments. At March 31, 2013, cash and cash equivalents totaled \$17,652,000.

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, Chairman and Chief Executive Officer and our Executive Vice President, Secretary and Chief Financial Officer concluded that, as of March 31, 2013, 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, Chairman 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 ended March 31, 2013 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

In addition to the other information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2012, which could materially affect our financial condition or results of operations. There have been no material changes in our risk factors from those disclosed in our 2012 Annual Report on Form 10-K.

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 be signed on its behalf by the undersigned thereunto duly authorized.

DAWSON GEOPHYSICAL COMPANY

DATE: May 10, 2013

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

DATE: May 10, 2013

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> |
|---------------|--|
| 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, 2011 as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2012 (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 | Amendment No. 3 to Second Amended and Restated Bylaws, as amended, of the Company (filed on November 30, 2012 as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-34404) and incorporated herein by reference). |
| 3.5 | 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). |
| 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 March 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations for the three months and the six months ended March 31, 2013 and 2012, (ii) Consolidated Balance Sheets at March 31, 2013 and September 30, 2012, (iii) Consolidated Statements of Cash Flows for the six months ended March 31, 2013 and 2012, and (iv) Notes to Consolidated Financial Statements. |

* Filed 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.

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: May 10, 2013

/s/ Stephen C. Jumper

Stephen C. Jumper

President, Chairman 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: May 10, 2013

/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 March 31, 2013, as filed with the Securities and Exchange Commission (the "Report"), I, Stephen C. Jumper, President, Chairman 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: May 10, 2013

/s/ Stephen C. Jumper

Stephen C. Jumper

President, Chairman 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 March 31, 2013, 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: May 10, 2013

/s/ Christina W. Hagan

Christina W. Hagan

Executive Vice President, Secretary and Chief Financial Officer
(principal financial and accounting officer)