# 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 December 31, 2006** |
| o | **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934** |
| | **For the Transition Period From ____________________ to ____________________** |

**Commission File No. 0-10144**

# DAWSON GEOPHYSICAL COMPANY

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

**508 West Wall, Suite 800, Midland, Texas 79701**

**(Principal Executive Office)**

**Telephone Number: 432-684-3000**

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

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

Large accelerated filer o Accelerated filer ☑ Non-accelerated filer o

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

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

| Title of Each Class | Outstanding at February 6, 2007 |
|---|---|
| **Common Stock, $.33 1/3 par value** | **7,583,244 shares** |

**DAWSON GEOPHYSICAL COMPANY**

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## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

### DAWSON GEOPHYSICAL COMPANY
### STATEMENTS OF OPERATIONS
### (UNAUDITED)

| | Three Months Ended December 31, 2006 | 2005 |
|---|---|---|
| Operating revenues | $53,654,000 | $35,493,000 |
| Operating costs: | | |
| Operating expenses | 39,724,000 | 28,138,000 |
| General and administrative | 1,448,000 | 1,127,000 |
| Depreciation | 4,014,000 | 2,976,000 |
| | 45,186,000 | 32,241,000 |
| Income from operations | 8,468,000 | 3,252,000 |
| Other income: | | |
| Interest income | 154,000 | 161,000 |
| Other | 32,000 | 23,000 |
| Income before income tax | 8,654,000 | 3,436,000 |
| Income tax expense: | | |
| Current | (1,927,000) | (535,000) |
| Deferred | (1,292,000) | (601,000) |
| Net income | $ 5,435,000 | $ 2,300,000 |
| Net income per common share | $ 0.72 | $ 0.31 |
| Net income per common share-assuming dilution | $ 0.71 | $ 0.30 |
| Weighted average equivalent common shares outstanding | 7,553,809 | 7,486,389 |
| Weighted average equivalent common shares outstanding-assuming dilution | 7,635,013 | 7,584,165 |

*See accompanying notes to the financial statements.*

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

| | December 31, 2006 (Unaudited) | September 30, 2006 |
|---|---|---|
| **ASSETS** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 8,815,000 | $ 8,064,000 |
| Short-term investments | 6,460,000 | 6,437,000 |
| Accounts receivable, net of allowance for doubtful accounts of $180,000 in December 2006 and $148,000 in September 2006 | 45,264,000 | 46,074,000 |
| Prepaid expenses and other assets | 133,000 | 690,000 |
| Current deferred tax asset | 682,000 | 1,619,000 |
| Total current assets | 61,354,000 | 62,884,000 |
| **Property, plant and equipment** | 163,953,000 | 160,740,000 |
| Less accumulated depreciation | (78,168,000) | (74,206,000) |
| Net property, plant and equipment | 85,785,000 | 86,534,000 |
| | $ 147,139,000 | $ 149,418,000 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Current liabilities:** | | |
| Accounts payable | $ 7,290,000 | $ 16,280,000 |
| Accrued liabilities: | | |
| Payroll costs and other taxes | 869,000 | 1,958,000 |
| Other | 4,895,000 | 4,195,000 |
| Deferred revenue | 1,642,000 | 863,000 |
| Total current liabilities | 14,696,000 | 23,296,000 |
| **Deferred tax liability** | 7,276,000 | 6,914,000 |
| **Stockholders' equity:** | | |
| Preferred stock-par value $1.00 per share; 5,000,000 shares authorized, none outstanding | — | — |
| Common stock-par value $.33 1/3 per share; 50,000,000 shares authorized, 7,567,244 and 7,549,244 shares issued and outstanding in each period | 2,523,000 | 2,517,000 |
| Additional paid-in capital | 82,877,000 | 82,370,000 |
| Other comprehensive income, net of tax | (22,000) | (33,000) |
| Retained earnings | 39,789,000 | 34,354,000 |
| Total stockholders' equity | 125,167,000 | 119,208,000 |
| | $ 147,139,000 | $ 149,418,000 |

*See accompanying notes to the financial statements.*

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

| | Three Months Ended December 31, 2006 | 2005 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 5,435,000 | $ 2,300,000 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 4,014,000 | 2,976,000 |
| Non-cash compensation | 287,000 | 186,000 |
| Deferred income tax expense | 1,292,000 | 601,000 |
| Excess tax benefit from share based payment arrangement | (115,000) | (37,000) |
| Other | 120,000 | 7,000 |
| Change in current assets and liabilities: | | |
| Decrease (increase) in accounts receivable | 810,000 | (4,604,000) |
| Decrease in prepaid expenses | 557,000 | 907,000 |
| (Decrease) increase in accounts payable | (9,596,000) | 4,256,000 |
| Decrease in accrued liabilities | (389,000) | (1,065,000) |
| Increase in deferred revenue | 779,000 | 2,254,000 |
| Net cash provided by operating activities | 3,194,000 | 7,781,000 |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Capital expenditures, net of $606,000 noncash capital expenditures in December 2006 | (2,670,000) | (13,535,000) |
| Proceeds from disposal of assets | — | 4,000 |
| Proceeds from sale of short-term investments | — | 4,022,000 |
| Net cash used in investing activities | (2,670,000) | (9,509,000) |
| **CASH FLOW FROM FINANCING ACTIVITIES:** | | |
| Excess tax benefit from share based payment arrangement | 115,000 | 37,000 |
| Proceeds from exercise of stock options | 112,000 | 43,000 |
| Net cash provided by financing activities | 227,000 | 80,000 |
| Net increase (decrease) in cash and cash equivalents | 751,000 | (1,648,000) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD** | 8,064,000 | 2,803,000 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | $ 8,815,000 | $ 1,155,000 |
| **SUPPLEMENTAL CASH FLOW INFORMATION:** | | |
| Cash paid during the period for income taxes | $ 139,000 | $ 40,000 |
| **NON CASH INVESTING ACTIVITIES:** | | |
| Unrealized gain (loss) on investments | $ 18,000 | $ (11,000) |

*See accompanying notes to the financial statements.*

**DAWSON GEOPHYSICAL COMPANY**
**NOTES TO FINANCIAL STATEMENTS**

## 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 presentation of the financial condition and results of operations for the periods presented. The results of operations for the three months ended December 31, 2006, 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. These financial statements should be read with the financial statements and notes included in the Company's 2006 Form 10-K.

### Critical Accounting Policies

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

*Revenue Recognition.* Contracts for services are provided under cancelable service contracts. These contracts are either "turnkey" or "term" agreements. The Company recognizes revenues when services are performed under both types of agreements. Services are defined as the commencement of data acquisition or processing operations. 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, clients are billed in advance of the services performed. In those cases, the Company recognizes the liability as deferred revenue.

*Allowance for Doubtful Accounts.* Management prepares its allowance for doubtful accounts receivable based on its past experience of historical write-offs, its current customer base and review of past due accounts. The inherent volatility of the energy industry's business cycle can cause swift and unpredictable changes in the financial stability of the Company's customers.

*Impairment of Long-lived Assets.* Long-lived assets are reviewed for impairment when triggering events occur suggesting deterioration in the assets' recoverability or fair value. Recognition of an impairment charge is required if future expected net cash flows are insufficient to recover the carrying value of the asset. Management's forecast of future cash flow used to perform impairment analysis includes estimates of future revenues and future gross margins based on the Company's historical results and analysis of future oil and gas prices which is fundamental in assessing demand for the Company's services. If the Company is unable to achieve these cash flows an impairment charge would be recorded.

*Depreciable Lives of Property, Plant and Equipment.* Property, plant and equipment are capitalized at historical cost and depreciated over the useful life of the asset. Management's estimation of useful lives is based on circumstances that exist in the seismic industry and information available at the time of the purchase of the asset. The technology of the equipment used to gather data in the seismic industry has historically evolved such that obsolescence does not occur quickly. As circumstances change and new information becomes available, these estimates could change. Depreciation is computed using the straight-line method.

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

*Stock Based Compensation.* On December 16, 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”). SFAS 123(R) requires companies to measure all employee stock-based compensation awards using a fair value method and recognize compensation cost in its financial statements. The Company adopted SFAS 123(R) beginning October 1, 2005 for stock-based compensation awards granted after that date and for unvested awards outstanding at that date using the modified prospective application method. The Company recognizes the fair value of stock-based compensation awards as operating or general and administrative expense as appropriate in the Statements of Operations on a straight-line basis over the vesting period.

The Company adopted the 2000 Incentive Stock Plan during fiscal 1999 (the “2000 Plan”), which provides options to purchase 500,000 shares of authorized but unissued common stock of the Company. The option price is the market value of the Company’s common stock at date of grant. Options are exercisable 25% annually from the date of the grant and the options expire five years from the date of grant. The 2000 Plan provides that 50,000 of the 500,000 shares of authorized but unissued common stock may be awarded to officers, directors and employees of the Company for the purpose of additional compensation.

In fiscal 2004, the Company adopted the 2004 Incentive Stock Plan (the “2004 Plan”) which provides 375,000 shares of authorized but unissued common stock of the Company. The 2004 Plan operates like the 2000 Plan except that of the 375,000 shares, up to 125,000 shares may be awarded to officers, directors, and employees of the Company and up to 125,000 shares may be awarded with restrictions for the purpose of additional compensation.

Although shares are available under the 2000 and 2004 Plans, the Company does not intend to issue from these Plans in the future.

In fiscal 2007, the Company adopted the Dawson Geophysical Company 2006 Stock and Performance Incentive Plan (“the Plan”). The Plan provides 750,000 shares of authorized but unissued common stock of the Company which may be awarded to officers, directors, employees, and consultants of the Company in various forms including options, grants, restricted stock grants and others. The Plan was approved by shareholders at the Company’s Annual Shareholders Meeting on January 23, 2007 and no awards have been issued under the Plan as of December 31, 2006.

Incentive Stock Options:

A summary of the activity of the Company’s stock option plans as of December 31, 2006 and changes during the period ended is presented below:

| | Weighted Average Price | Number of Optioned Shares | Weighted Average Remaining Contractual Term in Years | Aggregate Intrinsic Value ($000) |
|---|---|---|---|---|
| Balance as of September 30, 2006 | $ 9.12 | 171,250 | 2.22 | $ 3,535 |
| Forfeited | 17.91 | (1,750) | | |
| Exercised | 7.45 | (15,000) | | |
| Balance as of December 31, 2006 | $ 9.18 | 154,500 | 2.06 | $ 4,260 |
| Exercisable as of December 31, 2006 | $ 7.94 | 125,750 | 2.06 | $ 3,623 |

| | Number of Nonvested Share Awards | Weighted Average Grant Date Fair Value |
|---|---|---|
| Nonvested Shares Outstanding September 30, 2006 | 72,000 | $ 11.35 |
| Granted | — | — |
| Vested | (41,500) | 8.81 |
| Forfeited | (1,750) | 17.91 |
| Nonvested Shares Outstanding December 31, 2006 | 28,750 | $ 14.61 |

Outstanding options at December 31, 2006 expire between April 2007 and November 2009 and have exercise prices ranging from $5.21 to $17.91. There were no stock options granted during fiscal 2006 or the first quarter of fiscal 2007.

The Company estimates the fair value of each stock option on the date of grant using the Black-Scholes valuation model. The expected volatility is based on historical volatility over the expected vesting term of 48 months. As the Company has not historically declared dividends the dividend yield used in the calculation is zero. Actual value realized, if any, is dependent on the future performance of the Company's common stock and overall stock market conditions. There is no assurance the value realized by an optionee will be at or near the value estimated by the Black-Scholes model.

The total intrinsic value of options exercised during the three months ended December 31, 2006 and December 31, 2005 was $431,000 and $157,000, respectively.

Stock options outstanding under the Company's 2000 and 2004 plans are incentive stock options. No tax deduction is recorded when options are awarded. If an exercise and sale of vested options results in a disqualifying disposition, a tax deduction for the Company occurs. For the three months ended December 31, 2006 and 2005, excess tax benefits from disqualifying dispositions of options of $115,000 and $37,000 accordingly were reflected in both cash flows from operating activities and cash flows from financing activities in the Statements of Cash Flows.

The Company recorded compensation expense associated with stock options for the three months ended December 31, 2006 and 2005 of $46,000 and $91,000, respectively, which is included in wages in the Statement of Operations. The total cost of non-vested stock option awards which the Company had not yet recognized was approximately $220,000 and $465,000 at December 31, 2006 and 2005, respectively. Such amounts are expected to be recognized over a weighted average period of 1.45 and 2.06 years, respectively.

Restricted Stock:

The Company granted 59,000 restricted shares during the first quarter of fiscal 2007 under the 2004 Plan. The fair value of the restricted stock granted equals the market price on the grant date and vests after three years.

| | Number of Restricted Share Awards | Weighted Average Grant Date Fair Value |
|---|---|---|
| Unvested Restricted Shares Outstanding September 30, 2006 | — | — |
| Granted | 59,000 | $ 27.05 |
| Forfeited | — | — |
| Unvested Restricted Shares Outstanding December 31, 2006 | 59,000 | $ 27.05 |

The Company granted 3,000 restricted shares with immediate vesting to outside directors in both the first quarter fiscal 2007 and 2006 as compensation. The grant date fair value equaled $39.77 and $31.64 in each quarter, respectively. The Company recognized compensation expense of $204,000 and $95,000 as well as the related tax benefit in both the first quarter fiscal 2007 and 2006.

The Company's tax benefit with regards to unvested restricted stock awards is consistent with the tax election of the recipient of the award. No elections under IRC Section 83(b) were made for the restricted stock awards made during the quarter. As a result, the compensation expense recorded for restricted stock resulted in a deferred tax asset for the Company equal to the tax effect of the amount of compensation expense recorded.

Compensation expense associated with restricted stock of $121,000 for the period ended December 31, 2006 is included in wages in the Statement of Operations. Total cost of non-vested restricted stock awards which the Company had not yet recognized at December 31, 2006 was approximately $1,331,000. This amount is expected to be recognized over 2.75 years.

**Recently Issued Accounting Pronouncements**

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes". FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is evaluating the financial statement impact of FIN 48 on the Company.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 clarifies that fair value is the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants. Further, the standard establishes a framework for measuring fair value in generally accepted accounting principles and expands certain disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of SFAS 157 to have a material impact on its financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 is effective for fiscal years beginning after November 15, 2006. The Company is evaluating SAB 108 and does not expect the adoption of SAB 108 to have a material impact on its financial statements.

**3. NET INCOME PER COMMON SHARE**

The Company accounts for earnings per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). Basic net 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 net 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 net income per common share:

| | Three Months Ended December 31 | |
|---|---|---|
| | 2006 | 2005 |
| NUMERATOR: | | |
| Net income and numerator for basic and diluted net income per common share-income available to common shareholders | $5,435,000 | $2,300,000 |
| DENOMINATOR: | | |
| Denominator for basic net income per common share-weighted average common shares | 7,553,809 | 7,486,389 |
| Effect of dilutive securities-employee stock options and restricted stock grants | 81,204 | 97,776 |
| Denominator for diluted net income per common share-adjusted weighted average common shares and assumed conversions | 7,635,013 | 7,584,165 |
| Net income per common share | $ .72 | $ .31 |
| Net income per common share-assuming dilution | $ .71 | $ .30 |

**4. DEBT**

On January 18, 2007, the Company entered into a revolving line of credit loan agreement with Western National Bank. This agreement permits the Company to borrow, repay and reborrow, from time to time until January 18, 2008, up to $20.0 million. The Company's obligations under this agreement are secured by a security interest in the Company's accounts receivable and related collateral. Interest on the outstanding amount under the line of credit loan agreement is payable monthly at a rate equal to the Prime Rate until maturity, January 18, 2008, when the entire amount of the principal and accrued, unpaid interest shall be due and payable. The loan agreement contains customary covenants for credit facilities of this type, including limitations on distributions and dividends, disposition of assets and mergers and acquisitions. There are certain financial covenants under the loan agreement, including maintaining a minimum tangible net worth (as defined in the loan agreement) of $40.0 million and maintaining specified ratios with respect to cash flow coverage, current assets and liabilities, and debt to tangible net worth. The Company is in compliance with all covenants as of February 6, 2007.

The present agreement is a renewal of a revolving line of credit agreement with Western National Bank which matured January 18, 2007. The present agreement reflects an increase of the borrowing capacity of up to $20,000,000 from $10,000,000 per the preceding agreement. No funds were borrowed under the credit loan agreement during fiscal 2006 or up to its renewal and extension in fiscal 2007.

**5. CONTINGENCY**

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

The following table summarizes payments due in specific periods related to our contractual obligations as of December 31, 2006:

| | Payments Due by Period (000's) | | | | |
|---|---|---|---|---|---|
| | Total | Within 1 Year | 1-3 Years | 3-5 Years | After 5 Years |
| Operating lease obligations | $1,268 | $411 | $500 | $357 | — |

Some of the Company's operating leases contain predetermined fixed increases of the minimum rental rate during the initial lease term. For these leases, the Company recognizes the related expense on a straight line basis and records the difference between the amount charged to expense and the rent paid as deferred rent. Rental expense under the Company's operating leases with terms exceeding one year was $77,000 and $38,000 for the periods ended December 31, 2006 and 2005, respectively.

## 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

All statements other than statements of historical fact included in this Form 10-Q, 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, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this 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 dependence upon energy industry spending, the volatility of oil and gas prices, weather interruptions, managing growth, inability to obtain land access rights of way, and the availability of capital resources. A discussion of these factors, including risks and uncertainties, is set forth under “Risk Factors” in our Form 10-K 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 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 gas companies. Demand for our services depends upon the level of spending by these oil and gas companies for exploration, production, development and field management activities, which partly depend 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 continue to be the single most important factor affecting our business and results of operations.

Accordingly, our return to profitability in fiscal 2004 after several years of losses is directly related to an increase in the level of exploration for domestic oil and natural gas reserves by the petroleum industry since 2003. The increased level of exploration is a function of higher prices for oil and natural gas. As a result of the increase in domestic exploration spending, we have experienced an increased demand for our seismic data acquisition and processing services. While the markets for oil and natural gas have historically been 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’ desire for higher resolution subsurface images. In addition, we continue to experience high demand for our services despite recent fluctuations in oil and natural gas prices.

We continue to focus on increasing the revenues from and profitability of our existing crews by upgrading our recording capacity, expanding the channel count on existing crews and adding to our energy source fleet. 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, including factors such as crew downtime related to inclement weather, delays in acquiring land access permits, or equipment failure. Consequently, our successful efforts to negotiate more favorable weather protection provisions in our supplemental service agreements, to mitigate access permit delays and to improve overall crew productivity may contribute to growth in our revenues. Although our clients may cancel their supplemental service agreements with us on short notice, we believe we currently have a sufficient order book to sustain operations at full capacity well into calendar year 2007.

**Highlights of the Quarter Ended December 31, 2006**

Our financial performance from operations for the first quarter of fiscal 2007 significantly improved when compared to our financial performance for the first quarter of fiscal 2006 as a result of continuing high demand for our services due to increased exploration and development activity by domestic oil and gas companies and increases in oil and gas prices. The following are the highlights of our first quarter performance:

- We deployed our thirteenth data acquisition crew on a provisional basis to work from time to time as opportunities arose and operated it throughout the first fiscal quarter and to date in the second quarter.
- We made plans to deploy an additional seismic data crew equipped with 8,500 channels of Aram equipment in April.
- We placed an order for a recording system with 8,500 channels of Aram equipment to replace an existing recording system.
- We placed an order for 18 I/O vibrator energy source units to meet ongoing demand.
- We opened our new support office in Michigan and added to our technical and operational staff in our offices in Denver, Oklahoma City and Midland.

**Results of Operations**

*Operating Revenues*. Our operating revenues for the first three months of fiscal 2007 increased 51.2% to $53,654,000 from $35,493,000 for the first three months of fiscal 2006. Revenue growth in the quarter ended December 31, 2006 was primarily due to the expanded capabilities of existing crews, price improvements in the markets for our services and more favorable contract terms with clients, as well as the fielding of two additional seismic data acquisition crews in June and October of 2006, our twelfth and thirteenth crews. The thirteenth crew was placed into service as a provisional crew; however, it worked throughout the first quarter of fiscal 2007 and is continuing to operate in the second quarter. Weather conditions and crew downtime associated with delays in securing land access permits in the quarter ended December 31, 2006 had minor effects on operating results. Although we have some level of protection for weather-related downtime in our customer contracts, weather conditions during January 2007 negatively impacted our operations. The effect of these adverse conditions in January on our second quarter results cannot be determined at this time.

*Operating Costs*. Operating expenses for the three months ended December 31, 2006 increased 41.2% to $39,724,000 versus $28,138,000 for the same period of fiscal 2006. Increases in operating expenses are primarily due to ongoing expenses of the two crews added in June and October of 2006.

General and administrative expenses were 2.7% of revenues in the first quarter of fiscal 2007, as compared to 3.2% of revenues in the same period of fiscal 2006. While the ratio of general and administrative expenses to revenue declined in fiscal 2007 due to the increase in revenues, the actual dollar amount increased. The increase of $321,000 from the first quarter of fiscal 2006 to the first quarter of fiscal 2007 reflects ongoing expenses necessary to support expanded field operations.

We recognized $4,014,000 of depreciation expense in the first quarter of fiscal 2007 as compared to $2,976,000 in the comparable quarter of fiscal 2006 as a result of the significant capital expenditures we made during 2006. Our depreciation expense is expected to increase during fiscal 2007 reflecting our significant capital expenditures in fiscal 2006 and our expected capital expenditures for the remainder of fiscal 2007.

Our total operating costs for the first three months of fiscal 2007 were $45,186,000, an increase of 40.2% from the first three months of fiscal 2006 primarily due to the factors described above.

*Taxes*. The effective rate for the income tax provision for the three months ended December 31, 2006 and 2005 was 37.2% and 33.1%, respectively. The increase in the effective tax rate in fiscal 2007 as compared to fiscal 2006 was due to the Company having utilized most of its net operating losses in fiscal 2006 and increased taxes as a result of operating in new tax jurisdictions.

**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 short term borrowings from commercial banks has been sufficient to fund our working capital requirements, and to some extent, our capital expenditures.

*Cash Flows.* Net cash provided by operating activities was $3,194,000 for the first three months of fiscal 2007 and $7,781,000 for the first three months of fiscal 2006. Net cash flow provided by operating activities for the first quarter fiscal 2007 primarily reflects an increase in total revenues as discussed in the “Results of Operations” and an increase in the payment of accounts payable in excess of accounts receivable collections.

Net cash used in investing activities was $2,670,000 in the quarter ended December 31, 2006 and $9,509,000 in the quarter ended December 31, 2005. The net cash used in investing activities in fiscal 2007 represents capital expenditures. Capital expenditures in fiscal 2007 were made with cash generated from operations.

Net cash provided by financing activities for the first three months ended December 31, 2006 was $227,000 and reflects proceeds from the exercise of stock options and the excess tax benefits from disqualifying dispositions in the period.

*Capital Expenditures.* Capital expenditures during the first three months of fiscal 2007 were $3,276,000, which we used to acquire additional recording channels, to expand the capabilities of our existing crews and for maintenance capital requirements.

Our Board of Directors has approved a fiscal 2007 capital budget of $35,100,000 after earlier approving an initial budget of $20,000,000. The fiscal 2007 capital budget will be used to purchase two 8,500 channel Aram ARIES recording systems. One will be deployed on an additional crew and one will replace an I/O MRX recording system on an existing crew. We will use the balance of the capital budget to purchase 18 I/O vibrator energy source units to increase our fleet to 113 energy source units and to make technical improvements in all phases of the Company’s operations and to meet maintenance capital requirements. These additions will allow us to maintain our competitive position as we respond to client desire for higher resolution subsurface images.

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 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 through public equity offerings. As a result of our capital needs resulting from the continued expansion of our business, we obtained a $10.0 million revolving line of credit agreement in December 2004 and completed a public offering of our common stock in March 2005.

Our revolving line of credit loan agreement is with Western National Bank. In January, we renewed the agreement for an additional year and increased the size of the facility from $10.0 million to $20.0 million. The agreement permits us to borrow, repay and reborrow, from time to time until January 18, 2008, up to $20.0 million. Our obligations under this agreement are secured by a security interest in our accounts receivable and related collateral. Interest on the outstanding amount under the line of credit loan agreement is payable monthly at a rate equal to the Prime Rate. The loan agreement contains customary covenants for credit facilities of this type, including limitations on distributions and dividends, disposition of assets and mergers and acquisitions. We are also obligated to meet certain financial covenants under the loan agreement, including maintaining a minimum tangible net worth (as defined in the loan agreement) of $40.0 million and maintaining specified ratios with respect to cash flow coverage, current assets and liabilities, and debt to tangible net worth. We are in compliance with all covenants, and as of February 7, 2007, we have not borrowed any funds under this credit loan agreement.

On August 5, 2005, we filed a shelf registration statement with the Securities and Exchange Commission covering the offer and sale from time to time of up to $75.0 million in debt securities, preferred and common stock, and warrants. The registration statement allows us to sell securities, after the registration statement has been declared effective by the SEC, 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. We do not expect to make an offering at this time. However, the filing will enable us to act quickly as opportunities arise.

The following table summarizes payments due in specific periods related to our contractual obligations as of December 31, 2006:

| | Payments Due by Period (000’s) | | | | |
|---|---|---|---|---|---|
| | Total | Within 1 Year | 1-3 Years | 3-5 Years | After 5 Years |
| Operating lease obligations | $1,268 | $411 | $500 | $357 | $— |

We believe that our capital resources, including our short-term investments and cash flow from operations are adequate to meet our current operational needs. We believe we will be able to finance our remaining fiscal 2007 capital requirements through our short-term investments, cash flow from operations, through borrowings under our revolving line of credit and from the shelf registration of common stock discussed above. 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.

**Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements.

**Critical Accounting Policies**

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

*Revenue Recognition.* Our services are provided under cancelable service contracts. These contracts are either “turnkey” or “term” agreements. The Company recognizes revenues when services are performed under both types of agreements. Services are defined as the commencement of data acquisition or processing operations. 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, we recognize revenue and bill our client for services performed up to the date of cancellation. We also receive reimbursements for certain out-of-pocket expenses under the terms of our service contracts. We record amounts billed to clients in revenue at the gross amount including out-of-pocket expenses that are reimbursed by the client.

In some instances, we bill clients in advance of the services performed. In those cases, we recognize the liability as deferred revenue.

*Allowance for Doubtful Accounts.* We prepare our allowance for doubtful accounts receivable based on our past experience of historical write-offs, our current customer base and our review of past due accounts. The inherent volatility of the energy industry’s business cycle can cause swift and unpredictable changes in the financial stability of our customers.

*Impairment of Long-lived Assets.* We review long-lived assets for impairment when triggering events occur suggesting deterioration in the assets recoverability or fair value. Recognition of an impairment charge is required if future expected net cash flows are insufficient to recover the carrying value of the asset. Our forecast of future cash flows used to perform impairment analysis includes estimates of future revenues and future gross margins based on our historical results and analysis of future oil and gas prices which is fundamental in assessing demand for our services. If we are unable to achieve these cash flows, an impairment charge would be recorded.

*Depreciable Lives of Property, Plant and Equipment.* Our property, plant and equipment are capitalized at historical cost and depreciated over the useful life of the asset. Our 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 asset. The technology of the equipment used to gather data in the seismic industry has historically evolved such that obsolescence does not occur quickly. As circumstances change and new information becomes available, these estimates could change. We depreciate capitalized items using the straight-line method.

*Tax Accounting.* We account for our income taxes in accordance with SFAS No. 109, “Accounting for Income Taxes,” which requires the recognition of amounts of taxes payable or refundable for the current year and an asset and liability approach in recognizing the amount of deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. We determine deferred taxes by identifying the types and amounts of existing temporary differences, measuring the total deferred tax asset or liability using the applicable tax rate and reducing the deferred tax asset by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Our methodology for recording income taxes requires judgment regarding assumptions and the use of estimates, including determining our annual effective tax rate and the valuation of deferred tax assets, which can create variances between actual results and estimates. The process involves making forecasts of current and future years’ taxable income and unforeseen events may significantly affect these estimates and could have a material impact on our provision or benefit for income taxes.

*Stock Based Compensation.* On December 16, 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 (revised 2004), “Share-Based Payment” (“SFAS 123(R)”). SFAS 123(R) requires companies to measure all employee stock-based compensation awards using a fair value method and recognize compensation cost in its financial statements. We adopted SFAS 123(R) beginning October 1, 2005 for stock-based compensation awards granted after that date and for unvested awards outstanding at that date using the modified prospective application method. SFAS 123(R) requires us to recognize compensation expense for all share-based payment arrangements based on the fair value of the share-based payment on the date of the grant. We record compensation expense as operating or general and administrative expense as appropriate in the Statements of

Operations on a straight-line basis over the vesting period. We determine the fair value of stock options granted to employees using the Black-Scholes option pricing model based on the following assumptions:

- Expected volatility of our stock price is based on historical volatility over the expected term of the option.
- Expected term of the option is based on historical employee stock option exercise behavior, the vesting term of the respective option and the contractual term.
- Risk-free interest rate for periods with the expected term of the option.
- Dividend yield.

Our stock price volatility and term assumptions are based on management's best estimates at the time of grant, both of which impact the fair value of the option calculated under the Black-Scholes methodology and, ultimately, the expense that will be recognized over the vesting term of the option.

FAS 123(R) also requires that we recognize compensation expense for only the portion of the share-based payment arrangements that are expected to vest. Therefore, we apply estimated forfeiture rates that are based on historical employee pre-vesting termination behavior. We periodically adjust the estimated forfeiture rates so that only the compensation expense related to share-based payment arrangements that vest are included in wages. If the actual number of forfeitures differs from those estimated by management, additional adjustments to compensation expense may be required in future periods.

**Recently Issued Accounting Pronouncements**

In July 2006, the FASB issued FASB Interpretation No. 48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109". FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We are evaluating the impact of FIN 48 on our financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"). SFAS 157 clarifies that fair value is the amount that would be exchanged to sell an asset or transfer a liability in an orderly transaction between market participants. Further, the standard establishes a framework for measuring fair value in generally accepted accounting principles and expands certain disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS 157 to have a material impact on our financial statements.

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 is effective for fiscal years beginning after November 15, 2006. We do not expect the adoption of SAB 108 to have a material impact on our financial statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The primary sources of market risk include fluctuations in commodity prices which affect demand for and pricing of our services and interest rate fluctuations. At December 31, 2006, we had no indebtedness. Our short-term investments were fixed-rate and we do not necessarily intend to hold them to maturity, and therefore, the short-term investments expose us to the risk of earnings or cash flow loss due to changes in market interest rates. As of December 31, 2006, the carrying value of our investments approximates fair value. 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

*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 under the Securities Exchange Act of 1934 as of the end of the period covered by this quarterly 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 December 31, 2006, 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.

*Changes in Internal Control Over Financial Reporting.* There have not been any changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act) during the quarter ended December 31, 2006 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 year ended September 30, 2006, 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 2006 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: February 9, 2007 | By: /s/ Stephen C. Jumper<br>Stephen C. Jumper<br>President and Chief Executive Officer |
| DATE: February 9, 2007 | By: /s/ Christina W. Hagan<br>Christina W. Hagan<br>Executive Vice President, Secretary<br>and Chief Financial Officer |

Table of Contents

## INDEX TO EXHIBITS

| Number | Exhibit |
|---|---|
| 3.1* | Second Restated Articles of Incorporation of the Company, as amended. |
| 3.2 | Bylaws of the Company, as amended (filed on December 11, 2003 as Exhibit 3 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003 and incorporated herein by reference). |
| 4.1 | Rights Agreement by and between the Company and Mellon Investor Services, LLC (f/k/a Chasemellon Shareholder Services, L.L.C.), as Rights Agent, dated July 13, 1999 (filed on December 11, 2003 as Exhibit 4 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2003 and incorporated herein by reference). |
| 10.1 | Dawson Geophysical Company 2006 Stock and Performance Incentive Plan, dated November 28, 2006 (filed on January 29, 2007 as Exhibit 10.1 to the Company's Current Report on Form 8-K and incorporated herein by reference). |
| 10.2* | Revolving Line of Credit Loan Agreement, dated January 18, 2007, 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. |

* Filed herewith.

EXHIBIT 3.1

**SECOND RESTATED**
**ARTICLES OF INCORPORATION**
**OF**
**DAWSON GEOPHYSICAL COMPANY**

## ARTICLE ONE

The name of the corporation is DAWSON GEOPHYSICAL COMPANY.

## ARTICLE TWO

The period of duration is perpetual.

## ARTICLE THREE

The purposes for which this corporation is organized are:

To engage in any lawful activity or business and to promote and conduct any legitimate object of purpose or purposes permitted under the laws of the State of Texas, and to enable the corporation to accomplish such purposes, the corporation shall have and possess and exercise all of the rights, powers and privileges granted to or conferred upon corporations by the Texas Business Corporation Act or by any other law of the State of Texas or by these Articles of Incorporation, together with all other rights, powers and privileges incident thereto that shall or may be necessary or convenient to the conduct of such activities and business and the achievement of such purposes.

## ARTICLE FOUR

The total number of shares of stock which the corporation shall have authority to issue is fifty-five million (55,000,000) divided into two classes:

(a) One class designated as common stock shall consist of Fifty Million (50,000,000) shares having a par value of Thirty-Three and One/third Cents ($0.33-1/3) per share; and the other class designated as preferred shares shall consist of Five Million (5,000,000) shares having a par value of One Dollar ($1.00) per share.

(b) The preferences, qualifications, limitations, restrictions in the special or relative right in respect to the shares are as follows:

(1) Shares of Preferred Stock may be issued from time to time in one or more series to have distinctive serial designations, as shall hereafter be determined in the resolution or resolutions providing for the issue of such Preferred Stock from time to time adopted by the Board of Directors pursuant to authority as so to do which is hereby vested in the Board of Directors.

(2) Each series of Preferred Stock:

(a) may have such number of shares;

(b) may not have voting powers without the prior approval of the holders of a majority of the Common Stock except when dividends are in arrears for twelve (12) months;

(c) may be subject to redemption at such time or times and at such prices;

(d) may be entitled to receive dividends (which may be cumulative or noncumulative) at such rate or rates, on such conditions, from such date or dates, and at such times, and payable in preference to, or in relation to, the dividends payable on any other class or classes or series of stock;

(e) may have such rights upon the dissolution of, or upon any distribution of the assets of, the Corporation;

(f) may be made convertible at not less than book value into, or exchangeable for, shares of any other class or classes (except a class having prior or superior rights and preferences as to dividends or distribution of assets upon liquidation) or of any other series of the same or any other class or classes of stock of the corporation at such price or prices or at such rates of exchange, and with such adjustments without the approval of the holders of a majority of the Common Stock;

(g) may be entitled to the benefit of a sinking fund or purchase fund to be applied to the purchase or redemption of shares of such series in such amount or amounts;

(h) may be entitled to the benefit of conditions and restrictions upon the creation of indebtedness of the Corporation or any subsidiary, upon the issue of any additional stock (including additional shares of such series or of any other series) and upon the payment of dividends or the making of other distributions on, and the purchase, redemption or other acquisition by the Corporation or any subsidiary of any outstanding stock of the Corporation; and

(i) may have such other relative, participating optional or other special rights, and qualifications, limitations or restrictions thereof;

all as shall be stated in said resolution or resolutions providing for the issue of such Preferred Stock. Except where otherwise set forth in the resolution or resolutions adopted by the Board of Directors providing for the issue of any series of Preferred Stock, the number of shares comprising such series may be increased or decreased (but not below the number of shares then outstanding) from time to time by like action of the Board of Directors.

(3) Shares of any series of Preferred Stock which have been redeemed (whether through the operation of a sinking fund or otherwise) or purchased by the Corporation, or which, if convertible or exchangeable, have been converted into or exchanged for shares of stock of any other class or classes shall have the status of authorized and unissued shares of Preferred Stock and may be reissued as a part of the series of which they were originally a part or may be reclassified and reissued as part of a new series of Preferred Stock to be created by resolution or resolutions adopted by the Board of Directors providing for the issue of any series of Preferred Stock and to any filing required by law.

(4) Except as otherwise provided by law or by the resolution or resolutions of the Board of Directors providing for the issue of any series of the Preferred Stock, the Common Stock shall have the exclusive right to vote for the election of Directors and for all other purposes, each holder of the Common Stock being entitled to one vote for each share held.

Subject to all of the rights of the Preferred Stock or any series thereof, the holders of the Common Stock shall be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available therefor, dividends payable in case, stock or otherwise.

Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, and after the holders of the Preferred Stock of each series shall have been paid in full the amounts to which they respectively shall be entitled or a sum sufficient for such payment in full shall have been set aside, the remaining net assets of the Corporation shall be distributed pro rata to the holders of the Common Stock in accordance with their respective rights and interests, to the exclusion of the holders of the Preferred Stock.

(c) Each of the 80,580 shares of the corporation previously issued having a par value of Ten Dollars ($10.00) per share, shall be equal to and is hereby changed into thirty (30) full paid and nonassessable common shares of the corporation having a par value of Thirty-Three and One/third Cents ($0.33-1/3) per share authorized to be issued under the Articles of Incorporation as hereby amended. Certificates for common shares having a par value of Thirty-Three and One/third Cents ($0.33-1/3) per share shall be issued in place and upon surrender of certificates of shares having a par value of $10.00 per share previously issued, on the aforesaid basis; provided, however, that upon these Restated Articles of Incorporation becoming effective, the holders of said shares previously issued shall thereupon cease to be holders of said shares and shall be and become holders of the herein authorized common shares upon the basis hereinabove provided, whether or not certificates representing said hereinabove authorized common shares are then issued and delivered.

No stockholder of this corporation shall by reason of his holding shares of any class have any pre-emptive or preferential right to purchase or subscribe to any shares of any class of this corporation, now or hereafter to be authorized, or any notes, debentures, bond or other securities convertible into or carrying options or warrants to purchase shares of any class, now or hereafter to be authorized, whether or not the issuance of any such shares, or such notes, debentures, bonds or other securities, would adversely affect the dividend or voting rights of such stockholder, other than such rights, if any, as the Board of Directors, in its discretion from time to time may grant, and at such price as the Board of Directors in its discretion may fix; and the Board of Directors may issue shares of any class of this corporation, or any notes, debentures, bonds or other securities convertible into or carrying options or warrants to purchase shares of any class, without offering any such shares of any class, either in whole or in part, to the existing stockholders of any class.

A cumulative voting by the stockholders of the corporation at any election for directors is expressly prohibited. The shareholders entitled to vote for directors in such election shall be entitled to cast one vote per directorship for each share held, and no more.

## ARTICLE FIVE

The corporation will not commence business until it has received for issuance of its shares consideration of the value of One Thousand Dollars ($1,000.00), consisting of money, labor done, or property actually received, which sum is not less than One Thousand ($1,000.00).

## ARTICLE SIX

The post office address of its registered agent is 508 W. Wall, Suite 800, Midland, Texas, and the name of its registered agent at such address is Stephen C. Jumper. The post office address of each of its directors is 508 W. Wall, Suite 800, Midland, Texas, and the name of the persons serving as directors of the corporation at the time of the filing of these Second Restated Articles of Incorporation and who shall serve until their successors shall be chosen and shall qualify are: L. Decker Dawson, Stephen C. Jumper, Paul H. Brown, Gary M. Hoover, Ph.D., and Tim C. Thompson.

EXHIBIT 10.2

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

January 18, 2007

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

**RE:** Revolving Line of Credit Loan from Western National Bank to Dawson Geophysical Company

Gentlemen:

Pursuant to the terms of a letter loan agreement, dated as of January 18, 2006, (the "**Existing Loan Agreement**"), Western National Bank, a national banking association (alternatively, "**Western**" 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 Ten Million and No/Dollars ($10,000,000.00) (the **Existing Loan**"). The Existing Loan is evidenced by a Revolving Line of Credit Note, of even date herewith, executed by the Borrower on behalf of Western, in the original principal amount of Ten Million and No/100 Dollars ($10,000,000.00) (the "**Existing Note**"). The Existing Note is secured by that certain Security Agreement, dated as of January 18, 2006, covering those accounts receivable described therein (the "**Existing Security Agreement**"). From time to time, the Security Agreement, and any financing statements filed to perfect the security interest created thereunder, may be collectively referred to herein as the "**Existing Security Instruments**".

Borrower has now requested that Western renew and extend the Existing Loan, as well as provide additional funds under a new revolving line of credit loan in the original principal amount of Twenty Million and No/100 Dollars ($20,000,000.00) (the "**Loan**"). The Loan will be evidenced by a Revolving Line of Credit Note, of even date herewith, in the original principal amount of Twenty Million and No/100 Dollars ($20,000,000.00), which will renew and extend the Existing Note (the "**Note**"). The Borrower's performance under the Note will be secured by its execution of a new Security Agreement, of even date herewith, the security interest of which will be perfected by the filing of amendments to the financing statement, both covering the accounts receivable described therein (collectively, the "**Security Instruments**"). This Agreement, as defined below, the Note, the Security Instruments, and any other documents executed simultaneously herewith are collectively referred to as the "**Loan Documents**".

Western has agreed to renew the Existing Loan into the Loan, as well as provide additional funds under the Loan. In consideration of Western's renewal of the Existing Loan into the Loan and agreement to advance of additional funds, Borrower has agreed to execute this Loan Agreement, the Note, and the Security Agreement required by the Bank, 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 **January 18, 2007**, and any extensions, renewals, or modifications hereof.

**Borrower**

Dawson Geophysical Company

**Bank**

Western National Bank

**Commitment**

The lesser of the following amounts: (a) the face amount of the Note; or (b) the Borrowing Base then in effect.

**Rate**

Interest under the Note shall accrue at an annual rate equal to the Prime Rate. 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. **"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 Loan shall be secured by the Security Instruments.

**Structure**

Under the Note, funds will be available on a revolving basis through **January 18, 2008**, the maturity date of the 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 (said lesser amount being referred to herein as the "**Revolver Commitment**"). As used in this Agreement, the term "**Borrowing Base**" shall mean an amount equal to seventy-five percent (75%) of the Borrower's Eligible Accounts.

For the purposes of this Agreement, the term "**Eligible Account**" shall mean an account receivable of any 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 did not arise from a single customer whose accounts receivable to Borrower constitute more than twenty-five percent (25%) of Borrower's accounts receivable;

**k.** Said account receivable is not owed by a customer whose principal place of business is located in a foreign country; and

**l.** 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).

The Borrower may request in writing an increase in the Borrowing Base, such request to be accompanied by a description and evaluation of any additional collateral to be provided by the Bank. The Bank may evaluate such for an increase in its sole and absolute discretion, and in conjunction with such evaluation, may conduct a full credit analysis of the Borrower and the existing or additional collateral.

If the aggregate amounts outstanding under the Note exceeds the Revolver Commitment at any time, the Bank will provide written notice of that event to Borrower. On or before the tenth ($10^{th}$) day following receipt of such notification by Borrower, 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 Note in an amount at least equal to the amount necessary to cause the outstanding principal balance of the Note to be less than or equal to the Revolver Commitment; 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 Note to be less than or equal to the Revolver Commitment.

**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 Loan. The sole party responsible for repayment of the Loan shall be the Borrower, and the sole security for the Loan shall be the Collateral covered by the Security Instruments.

**Purpose**

Funds from the Loan shall be to renew and extend the Existing Loan and to provide working capital to offset the increase in accounts receivable due to the significant growth in Borrower's business. No proceeds from the Loan 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 Note is **January 18, 2008.**

**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 Note, 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 Note, 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 hereinafter defined. 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 ("**Hazardous Materials**") on its properties. For the purposes of this Agreement, Hazardous Materials shall include, but shall not be limited to, 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 proposed terms of the borrowing arrangements. 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 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 first fiscal year ending on September 30, 2007, such statements to be audited by an independent certified accountant and to be prepared according to generally accepted accounting principals, consistently applied ("**GAAP**")

**2.** Within ninety (90) days of the end of each fiscal quarter, with the next quarter ending on December 31, 2006, 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 internally prepared financial statements reflecting Borrower's financial performance during the previous month, such statements to be prepared according GAAP.

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

**5.** 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.

**6.** 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".

**7.** Borrower shall maintain an average Cash Flow Coverage Ratio of not less than 1.50 to 1.0, calculated monthly, beginning on **January 31, 2007**, from the date of the Loan to maturity. For purposes of this Agreement, "**Cash Flow Coverage Ratio**" means, with respect to any period of calculation thereof, the ratio of the sum of: (i) the net income (or loss) from continuing operations of Borrower during such period calculated after any and all distributions to shareholders, plus (ii) interest, depreciation, depletion, and amortization expenses of Borrower during such period, less (iii) gains from the sale of any assets; plus (iv) losses from the sale of any assets; less (v) extraordinary adjustments to net income divided by (vi) scheduled capital lease obligations and principal and interest payments, all determined in accordance with GAAP.

**8.** Borrow shall maintain a Current Ratio of not less than 1.50 to 1.0, measured monthly, beginning on **January 31, 2007**, from the date of the Loan to maturity. For purposes of this Agreement, "**Current Ratio**" means, with respect to any period of calculation thereof, the ratio of the sum of: (i) current assets, plus (ii) availability under the Revolver Loan, divided by (iii) current liabilities. Current assets shall include a minimum balance of cash, plus marketable securities, of not less than $3,500,000.00.

**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 shall maintain a minimum Tangible Net Worth of $40,000,000.00, to be measured monthly. "**Tangible Net Worth**" means the excess, if any, of the total assets of any person over all items of indebtedness, obligations, or liability which would be classified as liabilities of that person, 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.

**11.** For any time period for which reporting is required, Borrower will maintain a Debt to Tangible Net Worth ratio of at least 1.50 to 1.00 to be measured monthly. 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**" shall have the same meaning set forth in paragraph (11) above.

**12.** 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.

**13.** 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.

**14.** 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.

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

**B. <u>Negative Covenants</u>.**

**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. <u>EVENTS OF DEFAULT</u>**

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

**A.** Borrower fails to pay when due any principal, interest, or other amount payable under this Agreement, the Note, 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: (a) 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 (b) 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 (c) files any answer admitting the jurisdiction of the court and the material allegations of any such involuntary petition; or (d) 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. <u>REMEDIES</u>**

If any Event of Default occurs, any term hereof or of the Note to the contrary notwithstanding, the Note 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 Note, 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 NOTE, 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. <u>WAIVER</u>**

No delay, failure, or discontinuation by the Bank, or any holder of the Note, in exercising any right, power, or remedy under this Agreement, the Note 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 Note), or of any provisions or conditions of, or any breach or default under this Agreement, the Note 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. <u>NOTICES</u>**

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: James R. Kreuz
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, ASSIGNMENTS**

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 Note 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 Note, 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 Note, 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 NOTE, 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 NOTE 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 NOTE 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/ James R. Kreuz
James R. Kreuz
President

**AGREED TO AND ACCEPTED AS OF THE 18th DAY OF JANUARY 2007.**

**BORROWER:**

**DAWSON GEOPHYSICAL COMPANY**

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

By: /s/ L. Decker Dawson
L. Decker Dawson
Chairman of the Board

**Exhibit 31.1**

## 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 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: February 9, 2007

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

**Exhibit 31.2**

**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 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: February 9, 2007

/s/ Christina W. Hagan

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

**Exhibit 32.1**

**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 December 31, 2006, 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: February 9, 2007

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

**Exhibit 32.2**

**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 December 31, 2006, 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: February 9, 2007

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