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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1998   COMMISSION FILE NO. 0-10144

DAWSON GEOPHYSICAL COMPANY

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

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

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

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

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

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

The aggregate market value of the Common Stock of the Registrant based upon the mean between the closing high and low price of the Common Stock as of November 13, 1998 (as reported by NASDAQ), held by non-affiliates was approximately $53,632,635 (See Item 12). On that date, there were 5,361,000 shares of Dawson Geophysical Company Common stock, $.33 1/3 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Items 1, 5, 6, 7 and 8 of Parts I and II hereof is incorporated by reference to the Registrant's 1998 Annual Report filed or to be filed with the Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K.

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

PART I

ITEM 1. BUSINESS

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

At September 30, 1998, the Company had 377 full-time employees. None of the Company's employees are subject to a collective bargaining agreement. The Company considers its relations with its employees to be good.

Additional information required by this Item 1 is hereby incorporated by reference to the Registrant's 1998 Annual Report (inside front cover, page 2 and page 20) filed or to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities and Exchange Act of 1934 within 120 days after the end of the fiscal year covered by this Form 10-K. (Exhibit 13 hereto.)

ITEM 2. PROPERTIES

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

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

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

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

ITEM 3. LEGAL PROCEEDINGS

The Company is a defendant in two lawsuits pending in the 112th and 83rd District Courts of Pecos County, Texas (respectively, Cause No. 8812, Ernestine Bernal, et al. vs. Javier Antonio Orona, et al.; and Cause No. P5565-83-CV, Carla Jaquez, et al. vs. Javier Antonio Orona, et al.) relating to a July 1995 accident involving a van owned by the Company which was used to transport employees to various job sites and a non-Company owned vehicle. The accident resulted in the deaths of four Company employees who were passengers in such van. The Company is one of several named defendants in such suits. Other named defendants include the estate of the deceased driver of such van, who was an employee of the Company, the driver of such non-Company owned vehicle, who was then an employee of the Company, the owner of such vehicle, and Ford Motor Company, the manufacturer of the Company van involved in such accident. In general, the claims against the Company include allegations of negligence, gross negligence and/or intentional tort as a result of, among other things, the Company's alleged failure to provide safe transportation for its employees and to properly select, train and supervise the deceased driver of such van. The plaintiffs in such suits are seeking actual damages from the defendants of $15.5 million, additional unspecified actual damages, pre-judgment and post-judgment interest and costs of suit as well as exemplary and punitive damages in an amount not to exceed four times the amount of actual damages. The Company believes that it has meritorious defenses to the claims asserted against it in such suits and it intends to continue to vigorously defend itself against such claims. In addition, the Company believes that it has approximately $11 million of liability insurance coverage to provide against an unfavorable outcome. Such suits are currently in the discovery stage and the Company currently has pending before the court a motion for summary judgment in Cause No. 8812 requesting that the Company be dismissed from such suit based upon various legal theories. Such motion has not yet been heard by the court. A trial date of February 22, 1999 has been set for these cases. A motion to consolidate such suits into a single proceeding is currently pending before the courts. Due to the uncertainties inherent in litigation, no assurance can be given as to the ultimate outcome of such suits or the adequacy or availability of the Company's liability insurance to cover the damages, if any, which may be assessed against the Company in such suits. A judgment awarding plaintiffs an amount significantly exceeding the Company's available insurance coverage could have a material adverse effect on the Company's financial condition, results of operations and liquidity.

In addition to the foregoing, 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, the Company's 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.

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

No matter has been submitted during the fourth quarter of the 1998 fiscal year to a vote of security holders, through the solicitation of proxies or otherwise. However, please refer to the Registrant's Proxy Statement dated November 13, 1998, filed or to be filed with the Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K, notifying as to the election of Directors, approval of the proposed Dawson Geophysical Company 2000 Incentive Stock Plan and selection of KPMG Peat Marwick LLP as independent certified public accountants of the Company (requiring an affirmative vote of a majority of shares present or represented by proxy), at the Annual Meeting to be held on January 12, 1999.

PART II

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

The information required by this Item 5 is hereby incorporated by reference to the Registrant's 1998 Annual Report (inside back cover, "Common Stock Information") referred to in Item 1 above.

ITEM 6. SELECTED FINANCIAL DATA

The information required by this Item 6 is hereby incorporated by reference to the Registrant's 1998 Annual Report (page 1 "Financial Highlights") referred to above in Item 1.

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

The information required by this Item 7 is hereby incorporated by reference to the Registrant's 1998 Annual Report (pages 12 to 14) referred to in Item 1.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The report of independent public accountants appearing on page 15 and the financial statements appearing on pages 16 through 24 of Registrant's 1998 Annual Report for the year ended September 30, 1998, referred to above in Item 1, are incorporated herein by reference.

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

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this Item 10 with respect to Directors and Executive Officers is hereby incorporated by reference to the Registrant's Proxy Statement dated November 13, 1998 (page 2), filed or to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A of the Securities and Exchange Act of 1934 within 120 days after the end of the fiscal year covered by this Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

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

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

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

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

None

PART IV

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

(a) 1. Financial Statements

The following financial statements of the Registrant, included in pages 16 through 24 of the Registrant's 1998 Annual Report to Shareholders for the year ended September 30, 1998, and the Independent Auditors' Report on page 15 of such report, are incorporated herein by reference:

DESCRIPTION

Balance Sheets, September 30, 1998 and 1997

Statements of Operations
For the Years Ended
September 30, 1998, 1997 and 1996

Statements of Cash Flows
For the Years Ended
September 30, 1998, 1997 and 1996

Statements of Stockholders' Equity
For the Years Ended
September 30, 1998, 1997 and 1996

Notes to Financial Statements

Independent Auditors' Report

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

(a) 3. Exhibits

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

(3) Restated Articles of Incorporation and Bylaws.

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

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

(10) Material Contracts.

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

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

(13) 1998 Annual Report.

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

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

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

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

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

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

(b) Reports on Form 8-K

The Registrant has not filed any reports on Form 8-K during the last quarter of the year ended September 30, 1998.

(28) Additional Exhibits -- None.

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

EXHIBIT INDEX

NUMBER	EXHIBIT	PAGE
(1)	*	
(2)	*	
(3)	Articles of Incorporation and Bylaws	**
(4)	Instruments defining the rights of security holders, including indentures	**
(5)	*	
(6)	*	
(7)	*	
(8)	*	
(9)	Voting Trust Agreement	Omit
(10)	Material Contracts	**
(11)	Statement re: computation of per share earnings	Omit
(12)	Statement re: computation of ratios	Omit
(13)	1998 Annual Report to Stockholders	E-1
(14)	*	
(15)	*	
(16)	*	
(17)	*	
(18)	Letter re: change in accounting principles	Omit
(19)	Previously unfiled documents	Omit
(20)	*	
(21)	*	
(22)	Subsidiaries of the Registrant	Omit
(23)	Published report regarding matters submitted to vote of security holders	Omit
(24)	Consent of experts	
(25)	Power of Attorney	Omit
(26)	*	
(27)	*	
(28)	Additional Exhibits	Omit
(29)	Information from reports furnished to state insurance regulatory authorities	Omit

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

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

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Midland, and the State of Texas, on the 13th day of November, 1998.

DAWSON GEOPHYSICAL COMPANY

By: /s/ L. Decker Dawson

L. Decker Dawson, President

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

SIGNATURE	TITLE	DATE
/s/ L. Decker Dawson L. Decker Dawson	President, Principal Executive and Director	11-13-98
/s/ Floyd B. Graham Floyd B. Graham	Executive Vice President and Director	11-13-98
/s/ Howell W. Pardue Howell W. Pardue	Executive Vice President and Director	11-13-98
/s/ Calvin J. Clements Calvin J. Clements	Director	11-13-98
/s/ Matthew P. Murphy Matthew P. Murphy	Director	11-13-98
/s/ Tim C. Thompson Tim C. Thompson	Director	11-13-98
/s/ Paula W. Henry Paula W. Henry	Secretary	11-13-98
/s/ Christina W. Hagan Christina W. Hagan	Vice President and Chief Financial Officer	11-13-98

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION
13	Excerpts of the Annual Report
27	Financial Data Schedule
27.1	Restated Financial Data Schedule

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

The following discussion should be read in conjunction with the Company's financial statements. In addition, in reviewing the Company's financial statements it should be noted that the Company's revenues directly relate to oil and gas exploration and production activity, and fluctuations in the Company's results of operations can occur due to weather, land use permitting and other factors. Sustained declines in crude oil prices have negatively impacted the profitability of our clients during the past year. This situation combined with inclement weather have negatively impacted the Company's revenues and earnings during the first quarter of fiscal 1999. The Company anticipates reduced utilization levels until demand for its services increases.

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

The Company's operating revenues increased 27.3% to $61,400,000 in fiscal year 1998. The increase is due to the Company's added production capacity in response to demand for 3-D seismic services. In the fourth quarter of fiscal 1997 the Company placed a new crew into service. In May 1998, a 3,100-channel Input/Output System Two Remote System Recorder became productive, replacing the Halliburton MDS-18X recording system. The Company has increased capacity on each of its existing six crews by adding channels.

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

General and administrative expenses for fiscal 1998 totaled $1,931,000, an increase of $454,000 from fiscal 1997. The increase reflects additional personnel required to support expanding operations. Due to the Company's significant growth in recent years, the office building occupied since 1960 had been outgrown, and the functions performed in that building have been moved to a more accommodating facility. General and administrative expenses totaled 3.1% of operating revenues for the fiscal years of 1998 and 1997.

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

Total operating costs for fiscal 1998 totaled $51,729,000, an increase of 25.9% over fiscal 1997 due to the factors described above. Income from operations in fiscal 1998 increased to $9,671,000, 15.8% of revenues, from $7,136,000, 14.8% of revenues, in fiscal 1997. This increase is the direct result of the Company's operating expenses being relatively fixed as compared to revenue trends. Because of the high proportion of relatively fixed total operating costs (including personnel costs for active crews and depreciation costs), income from operations in fiscal 1998 reflects the benefit of efficient production with steady demand through fiscal 1998.

The Company's effective tax rate for fiscal 1998 is 36.4% as compared to 35.8% for fiscal 1997. These rates reflect the effects of federal and state income taxes over the periods reported.

FISCAL YEAR ENDED SEPTEMBER 30, 1997 VERSUS FISCAL YEAR ENDED SEPTEMBER 30, 1996

The Company's operating revenues increased 43.9% from $33,518,000 for fiscal 1996 to $48,227,000 for fiscal 1997. The increase in revenues is primarily due to increased capacity and improved efficiency resulting from fiscal 1996 capital expenditures. The fiscal 1996 capital expenditures consisted of the addition of a fifth crew in the third quarter combined with additional channel capacity of the existing crews and additional vibrator energy source units. During the fourth quarter of fiscal 1997, the Company placed a sixth crew into service.

Operating expense increased 35.9% in 1997 as compared to 1996 as a result of adding a fifth 3-D seismic crew in fiscal 1996, as well as increased personnel and other expenses associated with equipment additions and technological upgrades made primarily during the third quarter of fiscal 1996.

General and administrative expenses for fiscal 1997 totaled $1,477,000, an increase of $178,000 from fiscal 1996. The increase for fiscal year 1997 was primarily due to timing adjustments of certain expenses. General and administrative expenses totaled 3.1% of operating revenues for fiscal 1997 versus 3.9% for fiscal 1996.

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

Total operating costs for fiscal 1997 totaled $41,091,000, an increase of 33.1% over fiscal 1996 due to the factors described above. Income from operations in fiscal 1997 increased to $7,136,000, 14.8% of revenues, from $2,638,000, 7.9% of revenues, in fiscal 1996. As in fiscal 1998, this increase reflects the Company's operating expenses being relatively fixed as compared to revenue trends.

Interest is paid monthly at prime rates on the principal of the term notes described below in "Liquidity and Capital Resources -- Loan Agreement".

The Company's effective tax rate for 1997 is 35.8% as compared to 32.0% for 1996. These rates reflect the effects of federal and state income taxes over the periods reported.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

Net cash provided by operating activities increased to $11,307,000 in fiscal 1998 as compared to $10,335,000 in fiscal 1997. The net increase is due to the 45% increase in net income in fiscal 1998 from fiscal 1997, the increase in depreciation, and fluctuations in working capital components. The increase in accounts receivable reflects increased activity, and accounts receivable are considered collectible.

Net cash used in investing activities increased to $22,210,000 from $11,079,000 resulting from increased capital expenditures in fiscal 1998 as compared to fiscal 1997. In addition the Company invested certain proceeds from the November 1997 public offering in U.S. Treasury instruments.

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

Capital Expenditures

The Company continually strives to supply market demand with technologically advanced 3-D data acquisition recording systems and leading edge data processing capabilities. In April of 1998 the Company announced the purchase of a 3,100-channel Input/Output System Two Remote System Recorder to replace the Halliburton MDS-18X recording system. The approximate cost of the new system was $5,000,000. Capital expenditures in fiscal 1998 include the new system as well as additions and replacements of cables and geophones, vehicles, other data acquisition peripheral equipment, seismic data processing hardware and software, and leasehold improvements for the move of its corporate office. Depreciation has increased as a new crew has been placed into service each year for the past several years. Capital expenditures for fiscal 1999 are expected to be minimal in response to the anticipated reduced demand for the Company's services.

Loan Agreement

The Company is a party to a loan agreement, as amended (the "Loan Agreement"), with Norwest Bank Texas, N.A. ("Norwest"). The Loan Agreement consists of (1) a revolving line of credit of $6,000,000 which matures April 15, 1999, (2) a term note in the aggregate principal amount of $6,000,000 bearing interest at Norwest's prime rate and which matures on March 15, 2003 and (3) a term note in the aggregate principal amount of $5,000,000 bearing interest at the prime rate as published in The Wall Street Journal and which matures on April 15, 2003. The notes are secured by eligible accounts receivable and equipment purchased from the loan proceeds.

On November 25, 1997, the Company repaid all outstanding principal and interest on the two Term Promissory Notes, which have no reborrowing capacity. The Company has not utilized the revolving line of credit.

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

Capital Resources

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

LITIGATION

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

YEAR 2000

The Company utilizes software and technologies throughout its operations that may be vulnerable to the date change in the year 2000. Identification, assessment, and in some cases, replacement of equipment that may be affected by the year 2000 is underway. Software controlled by the Company, including its propriety seismic processing package, has been tested successfully. Replacements and upgrades have not been accelerated by the year 2000 issue and do not represent costs in addition to normal operating expenditures. The Company has begun communications with its significant suppliers to determine if those parties have appropriate plans to remedy year 2000 issues when their systems interface with the Company's systems or may otherwise impact the operations of the Company. However, there can be no guarantee that the systems of other companies, on which the Company's systems rely, will be timely converted or that a failure to convert by another company or a conversion that is incompatible with the Company's systems would not have a material adverse effect on the Company. To date, the Company has spent approximately $20,000 primarily in the assessment of and testing for year 2000 compliance. Assessment will continue throughout fiscal 1999, with an additional estimated cost of $30,000. Although the Company is not aware of any material operational issues, there can be no assurance that there will not be a delay in, or increased costs associated with, the implementation of the necessary systems and changes to address the year 2000. A potential source of risk includes, but is not limited to, the inability of principal suppliers to be year 2000 compliant, which could result in an interruption of the Company's services. The Company currently does not have a formal contingency plan. If unforeseen problems are encountered that relate to the year 2000, possible solutions will be evaluated and the most efficient will be enacted.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board issued FAS No. 130, "Reporting Comprehensive Income". FAS No. 130 establishes standards for reporting and display of comprehensive income and its components in a full set of general purpose financial statements. FAS No. 130 is effective for interim and annual periods beginning after December 15, 1997. The Company plans to adopt FAS No. 130 for the period ended December 31, 1999.

FORWARD LOOKING STATEMENTS

This report may contain certain forward-looking information regarding the Company, including projections, estimates, forecasts, plans and objectives. Although management believes that all such statements are based upon reasonable assumptions, no assurance can be given that the actual results will not differ materially from those contained in such forward-looking statements.

INDEPENDENT AUDITORS' REPORT

[KPMG LOGO] Peat Marwick LLP

The Board of Directors and Stockholders
Dawson Geophysical Company:

We have audited the accompanying balance sheets of Dawson Geophysical Company as of September 30, 1997 and 1998, and the related statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dawson Geophysical Company as of September 30, 1997 and 1998, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 1998, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP

Midland, Texas
October 30, 1998

BALANCE SHEETS

September 30, 1998 and 1997

	1998	1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,745,000	$ 4,774,000
Short-term investments	6,515,000	3,968,000
Accounts receivable	11,821,000	8,724,000
Income taxes receivable	1,050,000	--
Prepaid expenses	416,000	288,000
Total current assets	25,547,000	17,754,000
Property, plant and equipment	73,584,000	63,267,000
Less accumulated depreciation	(27,672,000)	(27,460,000)
Net property, plant and equipment	45,912,000	35,807,000
	$ 71,459,000	$ 53,561,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ --	$ 1,690,000
Accounts payable	1,766,000	3,956,000
Accrued liabilities:		
Payroll costs and other taxes	635,000	566,000
Other	810,000	494,000
Total current liabilities	3,211,000	6,706,000
Long-term debt, less current maturities	--	7,893,000
Deferred income taxes	2,606,000	1,417,000
Stockholders' equity:		
Preferred stock--par value $1.00 per share; 5,000,000 shares authorized, none outstanding	--	--
Common stock - par value $.33 1/3 per share; 10,000,000 shares authorized, 5,361,000 and 4,199,250 shares issued and outstanding in 1998 and 1997, respectively	1,787,000	1,400,000
Additional paid-in capital	38,256,000	17,174,000
Retained earnings	25,599,000	18,971,000
Total stockholders' equity	65,642,000	37,545,000
Contingencies (see note 11)		
	$ 71,459,000	$ 53,561,000

See accompanying notes to the financial statements.

STATEMENTS OF OPERATIONS

Years Ended September 30, 1998, 1997 and 1996

	1998	1997	1996
Operating revenues	$ 61,400,000	$ 48,227,000	$ 33,518,000
Operating costs:			
Operating expenses	40,326,000	32,293,000	23,763,000
General and administrative	1,931,000	1,477,000	1,299,000
Depreciation	9,472,000	7,321,000	5,818,000
	51,729,000	41,091,000	30,880,000
Income from operations	9,671,000	7,136,000	2,638,000
Other income (expense):			
Interest income	720,000	260,000	253,000
Interest expense	(125,000)	(486,000)	(144,000)
Gain on disposal of assets	134,000	196,000	11,000
Other	25,000	10,000	2,000
Income before income tax	10,425,000	7,116,000	2,760,000
Income tax expense:			
Current	2,607,000	1,738,000	599,000
Deferred	1,190,000	808,000	273,000
	3,797,000	2,546,000	872,000
Net income	$ 6,628,000	$ 4,570,000	$ 1,888,000
Net income per common share	$ 1.27	$ 1.09	$ .45
Net income per common share-assuming dilution	$ 1.27	$ 1.08	$ .45
Weighted average equivalent common shares outstanding	5,205,926	4,182,882	4,153,125
Weighted average equivalent common shares outstanding-assuming dilution	5,232,007	4,212,419	4,187,688

See accompanying notes to the financial statements.

STATEMENTS OF CASH FLOWS

Years Ended September 30, 1998, 1997 and 1996

	1998	1997	1996
Cash flows from operating activities:			
Net income	$ 6,628,000	$ 4,570,000	$ 1,888,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	9,472,000	7,321,000	5,818,000
Gain on disposal of assets	(134,000)	(196,000)	(11,000)
Non-cash interest income	(31,000)	(63,000)	(101,000)
Deferred income taxes	1,190,000	808,000	273,000
Other	262,000	91,000	--
Change in current assets and liabilities:			
Increase in accounts receivable	(3,097,000)	(2,563,000)	(1,153,000)
Decrease (increase) in prepaid expenses	(128,000)	(140,000)	72,000
Decrease (increase) in income taxes receivable	(1,050,000)	193,000	(67,000)
Decrease in accounts payable	(2,190,000)	(42,000)	(222,000)
Increase in accrued liabilities	385,000	267,000	235,000
Increase in income taxes payable	--	89,000	--
Net cash provided by operating activities	11,307,000	10,335,000	6,732,000
Cash flows from investing activities:			
Proceeds from disposal of assets	287,000	340,000	33,000
Capital expenditures	(19,959,000)	(8,528,000)	(15,597,000)
Proceeds from sale of short-term investments	5,993,000	742,000	2,884,000
Proceeds from maturity of short-term investments	9,000,000	750,000	2,100,000
Investment in short-term investments	(17,531,000)	(4,383,000)	(2,096,000)
Net cash used in investing activities	(22,210,000)	(11,079,000)	(12,676,000)
Cash flows from financing activities:			
Principal payments on debt	(9,583,000)	(927,000)	(286,000)
Proceeds from debt	--	4,795,000	6,000,000
Issuance of common stock	21,371,000	--	--
Proceeds from exercise of stock options	86,000	157,000	52,000
Net cash provided by financing activities	11,874,000	4,025,000	5,766,000
Net increase (decrease) in cash and cash equivalents	971,000	3,281,000	(178,000)
Cash and cash equivalents at beginning of year	4,774,000	1,493,000	1,671,000
Cash and cash equivalents at end of year	$ 5,745,000	$ 4,774,000	$ 1,493,000

See accompanying notes to the financial statements.

STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Number of Shares	Common Stock Amount	Additional Paid-in Capital	Net Unrealized Loss on Short-term Investments	Retained Earnings	Total
Balance, October 1, 1995	4,149,050	$ 1,383,000	$16,973,000	$ (13,000)	$12,513,000	$30,856,000
Exercise of stock options	12,500	4,000	48,000	--	--	52,000
Net unrealized gain on short-term investments	--	--	--	8,000	--	8,000
Net income	--	--	--	--	1,888,000	1,888,000
Balance, September 30, 1996	4,161,550	1,387,000	17,021,000	(5,000)	14,401,000	32,804,000
Issuance of common stock	1,200	1,000	8,000	--	--	9,000
Exercise of stock options	36,500	12,000	145,000	--	--	157,000
Net unrealized gain on short-term investments	--	--	--	5,000	--	5,000
Net income	--	--	--	--	4,570,000	4,570,000
Balance, September 30, 1997	4,199,250	1,400,000	17,174,000	--	18,971,000	37,545,000
Issuance of common stock	1,151,100	384,000	20,999,000	--	--	21,383,000
Exercise of stock options	10,650	3,000	83,000	--	--	86,000
Net income	--	--	--	--	6,628,000	6,628,000
Balance, September 30, 1998	5,361,000	$ 1,787,000	$38,256,000	$ --	$25,599,000	$65,642,000

See accompanying notes to the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations

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

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

Cash Equivalents

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

Short-Term Investments

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

Concentrations of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk, as defined by Statement of Financial Accounting Standards No. 105, consist primarily of trade accounts receivable and short-term investments. The Company's sales are to customers whose activities relate to oil and gas exploration and production. However, accounts receivable are well diversified among many customers, and a significant portion of the receivables are from major oil companies, which management believes minimizes potential credit risk. The Company generally extends unsecured credit to these customers; therefore, collection of receivables may be affected by the economy surrounding the oil and gas industry. However, the Company closely monitors extensions of credit and has not experienced significant credit losses in recent years. The Company invests primarily in U.S. Treasury Securities which are a low risk investment.

Property, Plant and Equipment

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

Impairment of Long-Lived Assets

The Company accounts for its long-lived assets in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" (Statement 121) which requires companies to assess their long-lived assets for impairment. Statement 121 requires companies to review for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable. No provision was recorded in the Statement of Operations for the years ended September 30, 1998, 1997 and 1996.

Income Taxes

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

Net Income (Loss) per Common Share

In 1997, the Financial Accounting Standards Board issued Statement No. 128, "Earnings per Share" (Statement 128). Statement 128 replaced the calculation of primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effects of options, warrants and convertible securities. Diluted earnings per share is very similar to the previously reported fully diluted earnings per share. All earnings per share amounts for all periods have been presented, and when appropriate, restated to conform to the Statement 128 requirements.

Use of Estimates in the Preparation of Financial Statements

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

Stock-Based Compensation

Effective October 1, 1996, the Company adopted Statement of Financial Accounting Standards No. 123, "Accounting For Stock-Based Compensation" (Statement 123). Statement 123 allows a company to adopt a fair value based method of accounting for a stock-based employee compensation plan or to continue to use the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion No. 25, "Accounting For Stock Issued To Employees" (APB No. 25). The Company has chosen to continue to account for stock-based compensation under APB No. 25 using the intrinsic value method.

2. SHORT-TERM INVESTMENTS

Investment in securities, consisting entirely of U. S. Treasury Securities, had a cost and market value of approximately $6,515,000 at September 30, 1998 and $3,968,000 at September 30, 1997.

Short-term investments held at September 30, 1998, consisting of U.S. Treasury securities, have contractual maturities from December 1998 through September 1999.

3. PROPERTY, PLANT AND EQUIPMENT

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

	September 30		
	1998	1997	Rates
Land, building and improvements	$ 2,545,000	$ 2,056,000	3 to 12.5 percent
Machinery and equipment	70,249,000	58,811,000	10 to 20 percent
Equipment in process (a)	790,000	2,400,000	--
	$73,584,000	$63,267,000	--

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

4. SHORT-TERM AND LONG-TERM DEBT

In April 1997, the Company entered into a loan agreement, as amended (the "Loan Agreement"), with Norwest Bank Texas, N.A. ("Norwest"). The Loan Agreement consists of (1) a revolving line of credit of $6,000,000 which matures on April 15, 1999, (2) a term note in the aggregate principal amount of $6,000,000 bearing interest at Norwest's prime rate and which matures on March 15, 2003 and (3) a term note in the aggregate principal amount of $5,000,000 bearing interest at the prime rate as published in The Wall Street Journal and which matures on April 15, 2003. The notes are secured by eligible accounts receivable and equipment purchased from loan proceeds.

On November 25, 1997, the Company repaid all outstanding principal and interest on the two Term Promissory Notes which have no reborrowing capacity. The Company has not utilized the revolving line of credit.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. STOCK OPTIONS

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

The transactions under the 1991 Plan are summarized as follows:

	Option Price Per Share	Number of Optioned Shares
Balance as of September 30, 1996	$4.25 to 11.25	100,250
Granted	$24.125	30,000
Exercised	$4.25 to 8.875	(36,500)
Cancelled or expired	$4.25	(4,000)
Balance as of September 30, 1997	$7.25 to $24.125	89,750
Exercised	$7.25 to $8.875	(10,650)
Cancelled or expired	$8.875 to $11.25	(27,100)
Balance as of September 30, 1998	$7.25 to $24.125	52,000

Options for 24,000, 47,500 and 73,000 shares were exercisable as of September 30, 1998, 1997 and 1996, respectively.

Outstanding options at September 30, 1998 expire between January 1999 and September 2002.

Options for 30,000 shares were granted in fiscal year 1997 and none were granted in 1998. The expected life of the options granted is five years. The weighted average fair value of options granted during 1997 is $10.64. The fair value of each option grant is estimated on the date of grant, using the Black-Scholes options-pricing model.

The model assumed expected volatility of 42% and risk-free interest rate of 6.4% for grants in 1997. As the Company has not declared dividends since it became a public entity, no dividend yield was used. Actual value realized, if any, is dependent on the future performance of the Company's common stock and overall stock market conditions. There is no assurance the value realized by an optionee will be at or near the value estimated by the Black-Scholes model.

No compensation expense has been recorded in 1997 for the Company's stock options under the intrinsic value method. Had compensation cost for the 1991 Plan been determined based on the fair value at the grant dates for awards made after September 30, 1995 under the 1991 Plan, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

		Year Ended September 30, 1997
Net income	As reported	$4,570,000
	Pro forma	$4,352,000
Earnings per share	As reported	$ 1.09
	Pro forma	$ 1.04

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

6. EMPLOYEE STOCK PURCHASE PLAN

The Company has an employee stock purchase plan to invest in the Company's common stock for the benefit of eligible employees. Participants are entitled to contribute a percentage, not to exceed 5%, of their bi-weekly salary to the plan. On a bi-weekly basis, the Company matches the participants' contributions and directs the purchase of shares of the Company's common stock. There are no vesting requirements for the participants. The Company contributed $254,582, $217,723 and $198,863 to the plan during 1998, 1997 and 1996, respectively.

7. INCOME TAXES

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

	Year Ended September 30,		
	1998	1997	1996
Current:			
U.S. federal	$2,349,000	$1,585,000	$596,000
State	258,000	153,000	3,000
	2,607,000	1,738,000	599,000
Deferred: U. S. Federal	1,190,000	808,000	273,000
Total	$3,797,000	$2,546,000	$872,000

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

	Year Ended September 30,		
	1998	1997	1996
Expense computed at statutory rates	$3,545,000	$2,420,000	$ 938,000
Effect of:			
State income taxes, net of federal income tax benefit	170,000	101,000	10,000
Other	82,000	25,000	(76,000)
Income tax expense	$3,797,000	$2,546,000	$ 872,000

The net deferred tax liability as of September 30, 1998 is the result of tax depreciation in excess of book depreciation by $8,208,000, offset by an AMT credit carryforward of $184,000.

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

8. STATEMENT OF CASH FLOWS

The Company paid current and estimated tax payments of $3,533,000, $1,553,000 and $619,000 in 1998, 1997 and 1996, respectively. Payments of interest were $125,000, $486,000 and $144,000 in 1998, 1997 and 1996, respectively.

9. MAJOR CUSTOMERS

The Company operates in only one business segment, contract seismic data acquisition and processing services. During each of 1998 and 1996, sales to only one customer, which was not the same customer each year, exceeded 10% of operating revenue. The percentage of sales to these customers in 1998 and 1996 were 16.7% and 11.02%, respectively. During 1997, sales to no customers exceeded 10% of operating revenue.

10. EQUITY OFFERING

During the first quarter of fiscal 1997, the Company completed a public offering of 1,150,000 shares with net proceeds of approximately $21,371,000 used to acquire seismic equipment, retire debt and create working capital funds for general corporate purposes.

11. CONTINGENCIES

The Company is a defendant in two lawsuits pending in the 112th and 83rd District Courts of Pecos County, Texas (respectively, Cause No. 8812, Ernestine Bernal, et al. vs. Javier Antonio Orona, et al.; and Cause No. P5565-83-CV, Carla Jaquez, et al. vs. Javier Antonio Orona, et al.) relating to a July 1995 accident involving a van owned by the Company which was used to transport employees to various job sites and a non-Company owned vehicle. The accident resulted in the deaths of four Company employees who were passengers in such van. The Company is one of several named defendants in such suits. Other named defendants include the estate of the deceased driver of such van, who was an employee of the Company, the driver of such non-Company owned vehicle, who was then an employee of the Company, the owner of such vehicle, and Ford Motor Company, the

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

manufacturer of the Company van involved in such accident. In general, the claims against the Company include allegations of negligence, gross negligence and/or intentional tort as a result of, among other things, the Company's alleged failure to provide safe transportation for its employees and to properly select, train and supervise the deceased driver of such van. The plaintiffs in such suits are seeking actual damages from the defendants of $15.5 million, additional unspecified actual damages, pre-judgment and post-judgment interest and costs of suit as well as exemplary and punitive damages in an amount not to exceed four times the amount of actual damages. The Company believes that it has meritorious defenses to the claims asserted against it in such suits and it intends to continue to vigorously defend itself against such claims. In addition, the Company believes that it has approximately $11 million of liability insurance coverage to provide against an unfavorable outcome. Such suits are currently in the discovery stage and the Company currently has pending before the court a motion for summary judgment in Cause No. 8812 requesting that the Company be dismissed from such suit based upon various legal theories. Such motion has not yet been heard by the court. A trial date of Februray 22, 1999 has been set for these cases. Due to the uncertainties inherent in litigation, no assurance can be given as to the ultimate outcome of such suits or the adequacy or availability of the Company's liability insurance to cover the damages, if any, which may be assessed against the Company in such suits. A judgment awarding plaintiffs an amount significantly exceeding the Company's available insurance coverage could have a material adverse affect on the Company's financial condition, results of operations and liquidity.

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

On February 18, 1998 the Company entered into a five-year, non-cancellable operating lease for office space. Future minimum lease commitments under the lease at September 30, 1998 are as follows:

1999	$142,716
2000	$142,716
2001	$142,716
2002	$142,716
2003	$107,037

Rent expense for this lease totaled $23,931 for the year ended September 30, 1998.

12. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Quarter Ended			
	December 31	March 31	June 31	September 30
1998:				
Operating revenues	$13,787,000	$13,557,000	$18,647,000	$15,409,000
Income from operations	$ 2,101,000	$ 1,022,000	$ 4,515,000	$ 2,033,000
Net income	$ 1,483,000	$ 817,000	$ 3,087,000	$ 1,241,000
Net income per common share	$ .31	$ .15	$ .58	$ .23
Net income per common share -- assuming dilution	$ .31	$ .15	$ .57	$ .23
1997:				
Operating revenues	$10,063,000	$11,721,000	$12,520,000	$13,923,000
Income from operations	$ 1,078,000	$ 1,566,000	$ 2,322,000	$ 2,180,000
Net income	$ 657,000	$ 1,090,000	$ 1,501,000	$ 1,322,000
Net Income per common share --	$ .16	$ .26	$ .36	$ .31

YEAR
SEP-30-1998
OCT-01-1997
SEP-30-1998
5,745,000
6,515,000
11,821,000
0
0
25,547,000
73,584,000
(27,672,000)
71,459,000
3,211,000
0
0
0
1,787,000
0
71,459,000
61,400,000
61,400,000
51,729,000
51,729,000
0
0
(125,000)
10,425,000
(3,797,000)
6,628,000
0
0
0
6,628,000
1.27
1.27

YEAR
SEP-30-1997
OCT-01-1996
SEP-30-1997
4,774,000
3,968,000
8,724,000
0
0
17,754,000
63,267,000
(27,460,000)
53,561,000
6,706,000
0
0
0
1,400,000
0
53,561,000
48,227,000
48,227,000
41,091,000
41,091,000
0
0
(486,000)
7,116,000
(2,546,000)
4,570,000
0
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0
4,570,000
1.09
1.08