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

FORM 10-Q

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

For the Quarterly Period Ended June 30, 2012

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

For the Transition Period From _____ to _____

Commission File No. 001-34404

DAWSON GEOPHYSICAL COMPANY

Texas
(State or other jurisdiction of
incorporation or organization)

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

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

Telephone Number: 432-684-3000

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

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

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

<u>Title of Each Class</u>	<u>Outstanding at July 27, 2012</u>
Common Stock, \$.33 1/3 par value	8,031,369 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DAWSON GEOPHYSICAL COMPANY CONSOLIDATED BALANCE SHEETS

	June 30, 2012 (Unaudited)	September 30, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 48,739,000	\$ 26,077,000
Short-term investments	2,750,000	—
Accounts receivable, net of allowance for doubtful accounts of \$250,000 and \$155,000 at June 30, 2012 and September 30, 2011, respectively	56,017,000	86,716,000
Prepaid expenses and other assets	5,037,000	4,254,000
Current deferred tax asset	2,222,000	1,236,000
Total current assets	114,765,000	118,283,000
Property, plant and equipment	321,095,000	302,647,000
Less accumulated depreciation	(156,379,000)	(156,106,000)
Net property, plant and equipment	164,716,000	146,541,000
Total assets	<u>\$ 279,481,000</u>	<u>\$ 264,824,000</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 26,593,000	\$ 18,732,000
Accrued liabilities:		
Payroll costs and other taxes	2,569,000	1,436,000
Other	6,324,000	9,230,000
Deferred revenue	4,320,000	9,616,000
Current maturities of note payable and obligations under capital leases	5,866,000	5,290,000
Total current liabilities	45,672,000	44,304,000
Long-term liabilities:		
Note payable and obligations under capital leases less current maturities	7,066,000	10,281,000
Deferred tax liability	27,397,000	22,076,000
Total long-term liabilities	34,463,000	32,357,000
Stockholders' equity:		
Preferred stock-par value \$1.00 per share; 5,000,000 shares authorized, none outstanding	—	—
Common stock-par value \$.33 1/3 per share; 50,000,000 shares authorized, 8,031,369 and 7,910,885 shares issued and outstanding at June 30, 2012 and September 30, 2011, respectively	2,677,000	2,637,000
Additional paid-in capital	92,773,000	91,591,000
Retained earnings	103,896,000	93,935,000
Total stockholders' equity	199,346,000	188,163,000
Total liabilities and stockholders' equity	<u>\$ 279,481,000</u>	<u>\$ 264,824,000</u>

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

DAWSON GEOPHYSICAL COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Operating revenues	\$68,348,000	\$98,033,000	\$246,276,000	\$249,023,000
Operating costs:				
Operating expenses	55,652,000	85,431,000	199,668,000	225,324,000
General and administrative	2,570,000	3,804,000	8,046,000	9,396,000
Depreciation	8,328,000	7,900,000	24,092,000	22,767,000
	66,550,000	97,135,000	231,806,000	257,487,000
Income (loss) from operations	1,798,000	898,000	14,470,000	(8,464,000)
Other income (expense):				
Interest income	5,000	2,000	16,000	33,000
Interest expense	(134,000)	—	(422,000)	—
Other income	311,000	21,000	423,000	603,000
Income (loss) before income tax	1,980,000	921,000	14,487,000	(7,828,000)
Income tax (expense) benefit	(839,000)	(587,000)	(4,526,000)	1,638,000
Net income (loss)	\$ 1,141,000	\$ 334,000	\$ 9,961,000	\$ (6,190,000)
Basic income (loss) per common share	\$ 0.15	\$ 0.04	\$ 1.27	\$ (0.79)
Diluted income (loss) per common share	\$ 0.14	\$ 0.04	\$ 1.26	\$ (0.79)
Weighted average equivalent common shares outstanding	7,846,417	7,812,519	7,839,983	7,801,396
Weighted average equivalent common shares outstanding -assuming dilution	7,924,009	7,925,181	7,934,367	7,801,396

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

DAWSON GEOPHYSICAL COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Nine Months Ended June 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 9,961,000	\$ (6,190,000)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation	24,092,000	22,767,000
Noncash compensation	1,037,000	1,422,000
Deferred income tax expense	4,335,000	1,449,000
Provision for bad debts	325,000	213,000
Other	161,000	(631,000)
Change in current assets and liabilities:		
Decrease (increase) in accounts receivable	30,374,000	(27,696,000)
Increase in prepaid expenses and other assets	(916,000)	(4,230,000)
(Decrease) increase in accounts payable	(3,945,000)	7,847,000
Decrease in accrued liabilities	(2,124,000)	(247,000)
(Decrease) increase in deferred revenue	(5,296,000)	4,827,000
Net cash provided (used) by operating activities	58,004,000	(469,000)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures, net of noncash capital expenditures summarized below in noncash investing and financing activities	(28,962,000)	(55,307,000)
Proceeds from maturity of short-term investments	—	22,500,000
Acquisition of short-term investments	(2,750,000)	(2,500,000)
Proceeds from disposal of assets	252,000	623,000
Partial proceeds on fire insurance claim	—	758,000
Net cash used in investing activities	(31,460,000)	(33,926,000)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	—	16,427,000
Principal payments on note payable	(3,948,000)	—
Principal payments on capital lease obligations	(118,000)	—
Proceeds from exercise of stock options	184,000	297,000
Net cash (used) provided by financing activities	(3,882,000)	16,724,000
Net increase (decrease) in cash and cash equivalents	22,662,000	(17,671,000)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	26,077,000	29,675,000
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 48,739,000</u>	<u>\$ 12,004,000</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest expense	\$ 436,000	\$ —
Cash paid for income taxes	\$ 262,000	\$ 508,000
Cash received for income taxes	\$ 137,000	\$ 202,000
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Accrued purchases of property and equipment	\$ 12,156,000	\$ 957,000
Capital lease obligations incurred	\$ 1,427,000	\$ —

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

DAWSON GEOPHYSICAL COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND NATURE OF OPERATIONS

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

2. OPINION OF MANAGEMENT

Although the information furnished is unaudited, in the opinion of management of the Company, the accompanying financial statements reflect all adjustments, consisting only of normal recurring accruals, necessary for a fair statement of the results for the periods presented. The results of operations for the three months and the nine months ended June 30, 2012 are not necessarily indicative of the results to be expected for the fiscal year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted in this Form 10-Q report pursuant to certain rules and regulations of the Securities and Exchange Commission (the "SEC"). These financial statements should be read with the financial statements and notes included in the Company's Form 10-K for the fiscal year ended September 30, 2011.

Significant Accounting Policies

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

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

Fair Value of Financial Instruments. The carrying amounts for cash and cash equivalents, short-term investments, trade and other receivables, other current assets, accounts payable and other current liabilities approximate the fair values based on the short-term nature of the financial instruments. The carrying amount for the Company's Term Note approximates its fair value due to the fact that the interest rate on the Term Note is reset each month based on the prevailing market interest rate.

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

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

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

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

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

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

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

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

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

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

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

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards,” to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances disclosure requirements, particularly for Level 3 fair value measurements. The enhanced disclosures and fair value measurement principles were effective for the Company as of January 1, 2012. The adoption of this guidance did not have a material impact on the Company’s financial statements.

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income,” to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. This update does not change what items are reported in other comprehensive income or the requirement to report reclassification of items from other comprehensive income to net income. However, in December 2011, the FASB issued ASU No. 2011-12, “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,” that deferred the specific requirement within ASU 2011-05 to present on the face of the financial statements items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive net income. Entities should continue to report reclassifications out of accumulated other comprehensive income using guidance in effect before ASU 2011-05 was issued. ASU 2011-05 will be effective for the Company in its first quarter of fiscal 2013, though earlier adoption is permitted. The update will be applied retrospectively upon adoption, and the Company believes the adoption will not have a material effect on its financial statements.

3. SHORT-TERM INVESTMENTS

The components of the Company's short-term investments for June 30, 2012 are as follows:

	As of June 30, 2012 (in 000's)			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Short-term investments:				
Certificates of deposit	\$ 2,750	\$ —	\$ —	\$ —
Total	\$ 2,750	\$ —	\$ —	\$ —

The Company had no short-term investments at September 30, 2011. The Company's existing short-term investments have contractual maturities ranging from August to December 2012. These investments have been classified as available-for-sale.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

At June 30, 2012 and September 30, 2011, the Company's financial instruments included cash and cash equivalents, short-term investments, trade and other receivables, other current assets, accounts payable, other current liabilities and the Term Note. Due to the short-term maturities of cash and cash equivalents, trade and other receivables, other current assets, accounts payable and other current liabilities, the carrying amounts approximate fair value at the respective balance sheet dates.

The Company's Term Note approximates its fair value due to the fact that the interest rate on the Term Note is reset each month based on the prevailing market interest rate.

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

The fair value measurements of these short-term investments were determined using the following inputs:

	As of June 30, 2012 (in 000's)			
	Fair Value Measurements at Reporting Date Using:			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Short-term investments:				
Certificates of deposit	\$2,750	\$ 2,750	\$ —	\$ —
Total	\$2,750	\$ 2,750	\$ —	\$ —

5. DEBT

The Company's revolving line of credit loan agreement is with Western National Bank. The agreement was renewed June 2, 2011 under the same terms as the previous agreement. The agreement permits the Company to borrow, repay and reborrow, from time to time until June 2, 2013, up to \$20.0 million based on the borrowing base calculation as defined in the agreement. The Company's obligations under this agreement are secured by a security interest in its accounts receivable, equipment and related collateral. Interest on the facility accrues at an annual rate equal to either the 30-day London Interbank Offered Rate ("LIBOR"), plus two and one-quarter percent, or the Prime Rate, minus three-quarters percent, as the Company directs monthly, subject to an interest rate floor of 4%. Interest on the outstanding amount under the loan agreement is payable monthly. The loan agreement contains customary covenants for credit facilities of this type, including limitations on disposition of assets, mergers and reorganizations. The Company is also obligated to meet certain financial covenants under the loan agreement, including maintaining specified ratios with respect to cash flow coverage, current assets and liabilities and debt to tangible net worth. The Company was in compliance with all covenants including specified ratios as of June 30, 2012 and August 9, 2012 and has the full line of credit available for borrowing. The Company has not utilized the revolving line of credit during the current fiscal year or the fiscal year ended September 30, 2011.

The Company amended its credit loan agreement with Western National Bank on June 30, 2011 to add a new term loan note ("Term Note") provision, under which the Company obtained \$16,427,000 in financing for the purchase of OYO GSR equipment. The Term Note is repayable over a period of 36 months at \$485,444 per month plus any applicable interest in excess of 4%. Interest on the Term Note accrues at an annual rate equal to either the 30-day LIBOR, plus two and one-quarter percent, or the Prime Rate, minus three-quarters percent, as the Company directs monthly, subject to an interest rate floor of 4%, and otherwise has the same terms as the revolving line of credit. The Term Note is collateralized by a security interest in the Company's accounts receivable, equipment and related collateral and matures with all outstanding balances due on June 30, 2014. The fair value of the Term Note approximates its carrying value at June 30, 2012 due to the fact that the interest rate on the Term Note is reset each month based on the prevailing market interest rate.

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On May 11, 2012, the Company entered into a Multiple Advance Term Note (“Second Term Note”) under its credit loan agreement with Western National Bank. The Second Term Note allows the Company to borrow from time to time up to \$15.0 million to purchase equipment. The outstanding principal under the Second Term Note will be amortized over a period of 36 months. The Second Term Note bears interest at an annual rate equal to either the 30-day LIBOR, plus two and one-quarter percent, or the Prime Rate, minus three-quarters percent, as the Company directs monthly, subject to an interest rate floor of 3.75%, and otherwise has the same terms as the revolving line of credit. The Second Term Note is collateralized by a security interest in the Company’s accounts receivable, equipment and related collateral and matures with all outstanding balances due on May 2, 2015. As of June 30, 2012, no amounts were borrowed under the Second Term Note. On July 5, 2012, the Company borrowed \$9,346,000 under the Second Term Note to purchase OYO GSR recording equipment. See Note 8, “Subsequent Events” to the Financial Statements included herein.

In the second quarter of fiscal 2012, the Company began leasing vehicles from Enterprise Fleet Management under capital leases. These capital lease obligations are payable in 36 to 60 monthly installments and mature between December 2014 and February 2017. At June 30, 2012, the Company had leased 42 vehicles under these capital leases.

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

	June 30, 2012	September 30, 2011
Term Note	\$ 11,623,000	\$ 15,571,000
Second Term Note	—	—
Revolving line of credit	—	—
Obligations under capital leases	1,309,000	—
	12,932,000	15,571,000
Less current maturities of note payable and obligations under capital leases	(5,866,000)	(5,290,000)
	<u>\$ 7,066,000</u>	<u>\$ 10,281,000</u>

The aggregate maturities of the notes payable and obligations under capital leases at June 30, 2012 are as follows:

July 2012 – June 2013	\$ 5,866,000
July 2013 – June 2014	6,106,000
July 2014 – June 2015	838,000
July 2015 – June 2016	73,000
July 2016 – June 2017	49,000
Thereafter	—
	<u>\$ 12,932,000</u>

6. COMMITMENTS AND CONTINGENCIES

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

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

The Company has non-cancelable operating leases for office space in Midland, Houston, Denver, Oklahoma City and Pittsburgh.

The following table summarizes payments due in specific periods related to the Company’s contractual obligations with initial terms exceeding one year as of June 30, 2012.

	Payments Due by Period (in 000’s)				
	Total	Within 1 Year	1-2 Years	3-5 Years	After 5 Years
Operating lease obligations (office space)	<u>\$ 3,374</u>	<u>\$ 824</u>	<u>\$ 1,648</u>	<u>\$ 902</u>	<u>\$ —</u>

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Some of the Company's operating leases contain predetermined fixed increases of the minimum rental rate during the initial lease term. For these leases, the Company recognizes the related expense on a straight-line basis and records deferred rent as the difference between the amount charged to expense and the rent paid. Rental expense under the Company's operating leases with initial terms exceeding one year was \$211,000 and \$179,000 for the three months ended June 30, 2012 and 2011, respectively, and \$582,000 and \$538,000 for the nine months ended June 30, 2012 and 2011, respectively.

As of June 30, 2012 and September 30, 2011, the Company had unused letters of credit totaling \$1,580,000 and \$3,580,000, respectively. The Company's letters of credit principally back obligations associated with the Company's self-insured retention on workers' compensation claims.

7. STOCK-BASED COMPENSATION

The Company granted 103,500 shares of restricted stock to employees in three months ended June 2012. The grant date fair value of the restricted stock awards was \$23.55. The fair value of the restricted stock granted equals the market price on the grant date and vests after three years. There were no restricted stock grants in the six months ended March 2012 or in fiscal 2011.

The Company's tax benefit with regards to restricted stock awards is consistent with the tax election of the recipient of the award. No elections under IRC Section 83(b) have been made for the restricted stock awards in fiscal 2012. 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.

8. SUBSEQUENT EVENTS

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

On July 5, 2012, the Company financed 8,000 additional OYO GSR recording units and other ancillary equipment for \$9,346,000. The Company financed this purchase through a Second Term Note with Western National Bank. See Note 5, "Debt" to the Financial Statements included herein.

9. INCOME (LOSS) PER COMMON SHARE

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

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
NUMERATOR:				
Net income (loss) and numerator for basic and diluted income (loss) per common share-income available to common shareholders	\$1,141,000	\$ 334,000	\$9,961,000	\$(6,190,000)
DENOMINATOR:				
Denominator for basic income (loss) per common share-weighted average common shares	7,846,417	7,812,519	7,839,983	7,801,396
Effect of dilutive securities-employee stock options and restricted stock grants	77,592	112,662	94,384	—
Denominator for diluted income (loss) per common share-adjusted weighted average common shares and assumed conversions	7,924,009	7,925,181	7,934,367	7,801,396
Basic income (loss) per common share	\$ 0.15	\$ 0.04	\$ 1.27	\$ (0.79)
Diluted income (loss) per common share	\$ 0.14	\$ 0.04	\$ 1.26	\$ (0.79)

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The Company had a net loss in the nine months ended June 30, 2011. Therefore, the denominator for diluted loss per common share is the same as the denominator for basic loss per common share for that period.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2012	2011	2012	2011
Stock options	—	—	—	142,234
Restricted stock	67,178	—	68,097	113,930
Total	<u>67,178</u>	<u>—</u>	<u>68,097</u>	<u>256,164</u>

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the Company's financial statements and notes thereto included elsewhere in this Form 10-Q.

Forward Looking Statements

Statements other than statements of historical fact included in this Form 10-Q that relate to forecasts, estimates or other expectations regarding future events, including without limitation, statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" regarding technological advancements and our financial position, business strategy and plans and objectives of our management for future operations, may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. When used in this Form 10-Q, words such as "anticipate," "believe," "estimate," "expect," "intend," and similar expressions, as they relate to us or our management, identify forward-looking statements. Such forward-looking statements are based on the beliefs of our management as well as assumptions made by and information currently available to management. Actual results could differ materially from those contemplated by the forward-looking statements as a result of certain factors, including but not limited to the volatility of oil and natural gas prices, dependence upon energy industry spending, disruptions in the global economy, industry competition, delays, reductions or cancellations of service contracts, high fixed costs of operations, external factors affecting our crews such as weather interruptions and inability to obtain land access rights of way, whether we enter into turnkey or term contracts, crew productivity, limited number of customers, credit risk related to our customers, the availability of capital resources and operational disruptions. A discussion of these factors, including risks and uncertainties, is set forth under "Risk Factors" in our Annual Report on Form 10-K for the year ended September 30, 2011 and in our other reports filed from time to time with the Securities and Exchange Commission. These forward-looking statements reflect our current views with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategies and liquidity. All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by this paragraph. We assume no obligation to update any such forward-looking statements.

Overview

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

After a severe contraction in demand for our services beginning at the end of 2008 and continuing into 2010 due to the global economic slowdown, we began to experience an increase in demand for our services, particularly in the oil basins. Demand for our services continued to strengthen through fiscal 2011. In response to this demand increase, we redeployed three seismic data acquisition crews in fiscal 2010 and two seismic data acquisition crews in fiscal 2011, bringing our current crew count to fourteen crews. Our order book is currently at its highest level since late fiscal 2008 in terms of the number of projects, size of projects and client mix, and the majority of the projects are in oil and liquids-rich basins. Although our clients may cancel, delay or alter their service contracts on short notice and we continue to remain subject to land access permit and weather delays, our current order book reflects commitment levels sufficient to maintain operation at full capacity well into fiscal 2013. In the third quarter of fiscal 2012, our utilization rates were impacted as we experienced project preparation, land access permit issues and client delays on several projects. In addition, we experienced further significant impact to utilization rates as a result of weather delays, agricultural activity on several projects and unanticipated crew moves as we worked to reschedule projects. A return to higher utilization rates in the fourth quarter of fiscal 2012 and continuing into 2013 is anticipated.

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, crew repositioning or equipment failure, whether we enter into turnkey or term contracts with our clients, the number and size of crews and the number of recording channels per crew. Consequently, our efforts to negotiate favorable contract terms in our supplemental service agreements, to mitigate access permit delays and to improve overall crew productivity may contribute to growth in our revenues. As demand for our services continues to be robust, we were able to negotiate more favorable contract terms during the second half of fiscal 2011, and this has continued in fiscal 2012.

Currently, most of our client contracts are turnkey contracts. The percentage of revenues derived from turnkey contracts has grown in the past few years from approximately half of our revenues in fiscal 2008 to in excess of three-quarters of our revenues in

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fiscal 2011 and in the first nine months of fiscal 2012. While turnkey contracts allow us to capitalize on improved crew productivity, we also bear more risks related to weather and crew downtime. We expect the percentage of turnkey contracts to remain high as we continue to expand our operations in the mid-continent, western and southwestern regions of the United States in which turnkey contracts are more common.

Over time, we have experienced continued increases in recording channel capacity on a per crew or project basis. This increase in channel count demand is driven by client needs and is necessary in order to produce higher resolution images, increase crew efficiencies and undertake larger scale projects. Due to the increase in demand for higher channel counts, we have continued our investments in additional channels in fiscal 2011 and during the first nine months of fiscal 2012. In response to project-based channel requirements, we routinely deploy a variable number of channels on a variable number of crews in an effort to maximize asset utilization and meet client needs. We continue to realize the benefit of increased channel counts and flexibility of deployment through increased crew efficiencies, higher revenues per crew and margins.

Reimbursable third-party charges related to our use of helicopter support services, specialized survey technologies and dynamite energy sources in areas with limited access are another important factor affecting our quarterly results. During fiscal 2011, the level of these third-party charges as a percentage of revenue was especially high, mainly as a result of our continued operations in areas with limited access in the eastern United States. However, revenues associated with third-party charges declined as a percentage of revenue during the three and nine months ended June 30, 2012 as a result of such third-party charges returning to levels more consistent with our historical average. We expect that as we continue to expand our operations in the more open terrain of the mid-continent, western and southwestern regions of the United States, the level of these third-party charges will continue to be generally consistent with our historical average.

During fiscal 2011, we purchased 25,850 OYO GSR single-channel units, 2,000 OYO GSR four-channel units with three component geophones and ten INOVA AHV IV 364 vibrator energy source units. These additions allowed us to deploy the two additional crews added in fiscal 2011 with state-of-the-art cable-less recording equipment. During the first quarter of fiscal 2012, we began operations on a large project in West Texas utilizing the FairfieldNodal ZLand cable-less recording system. We completed the FairfieldNodal ZLand project during the third quarter of fiscal 2012. The ZLand-equipped crew was redeployed in the late third quarter of fiscal 2012 equipped with an ARAM cable-based recording system. As a result of the introduction of the cable-less recording systems, we have realized increased crew efficiencies and increased revenue on projects using this equipment. We believe we will experience continued demand for cable-less recording systems in the future. During fiscal 2012, we purchased an additional 10,500 OYO GSR single-channel units, 3,000 stations of OYO GSR three-channel units with three component geophones and nineteen INOVA AHV IV 364 vibrator energy source units. As we have replaced cable-based recording equipment with cable-less equipment on certain crews, the cable-based recording equipment continues to be redeployed on existing crews as needed, including on the additional two crews fielded during the second quarter of fiscal 2011. Of the fourteen crews operated during the third quarter of fiscal 2012, five were ARAM cable-based recording systems, four were I/O RSR recording systems, four were OYO GSR recording systems and one was a FairfieldNodal ZLand recording system, each with variable channel counts. We now operate six ARAM cable-based recording system crews, three I/O RSR recording system crews, and five OYO GSR recording system crews.

While the markets for oil and natural gas have been very volatile and are likely to continue to be so in the future, and we can make no assurances as to future levels of domestic exploration or commodity prices, we believe opportunities exist for us to enhance our market position by responding to our clients' continuing desire for higher resolution subsurface images. If economic conditions were to weaken, our customers reduce their capital expenditures or there is a significant sustained drop in oil and natural gas prices, it would result in diminished demand for our seismic services, could cause downward pressure on the prices we charge and would affect our results of operations.

Fiscal 2012 Third Quarter Highlights

- Generated an 18 percent increase in EBITDA to \$10,437,000 compared to \$8,821,000 for the quarter-ended June 30, 2011;
- Generated a 241 percent increase in net income to \$1,141,000, or \$0.15 earnings per share for the three-month period ended June 30, 2012, compared to net income of \$334,000, or \$0.04 earnings per share for the corresponding 2011 period;
- Generated revenues during the nine-month period ended June 30, 2012 of \$246,276,000 compared to \$249,023,000 for the comparable nine-month period of fiscal 2011;
- Generated a 161 percent increase in EBITDA for the nine-month period ended June 30, 2012 to \$38,985,000 compared to \$14,939,000 for the nine-month period of fiscal 2011;
- Generated net income of \$9,961,000, or \$1.27 earnings per share, for the nine-month period ended June 30, 2012 compared to a net loss of \$6,190,000, or \$0.79 loss per share, for the comparable nine-month period of fiscal 2011;
- Strengthened order book capable of sustaining fourteen crews well into fiscal 2013 with current projects in the Permian Basin, Eagle Ford Shale, Mississippi Lime of Oklahoma and Kansas, Niobrara, Bakken and Marcellus Shale areas; and
- Continued preparations to operate in Canada during the 2012-2013 winter season.

Results of Operations

Operating Revenues. Our operating revenues for the first nine months of fiscal 2012 remained relatively flat with a slight decrease to \$246,276,000 from \$249,023,000 for the first nine months of fiscal 2011, reflecting our comparatively higher revenues in the first and second fiscal quarter and lower revenues in the third quarter. Our operating revenues for the three months ended June 30, 2012 decreased 30% to \$68,348,000 from \$98,033,000 for the comparable 2011 period. The revenue decrease in the quarter ended June 30, 2012 was primarily the result of lower utilization rates during the second half of the quarter, higher than normal downtime due to weather and agricultural operations in several areas of the country and a significant reduction in third-party reimbursable charges as a percentage of revenue. Revenues associated with third-party charges declined as a percentage of revenue during the three and nine months ended June 30, 2012 as a result of such third-party charges returning to levels more consistent with our historical average. These third-party charges are related to the use of helicopter support services, specialized survey technologies and dynamite energy sources in areas with limited access. We are reimbursed for these expenses by our clients.

Operating Costs. Operating expenses for the nine months ended June 30, 2012 decreased 11% to \$199,668,000 compared to \$225,324,000 for the same period of fiscal 2011. Operating expenses for the three months ended June 30, 2012 decreased 35% to \$55,652,000 as compared to \$85,431,000 for the same period of fiscal 2011. The decline in operating costs during the nine months ended June 30, 2012 was primarily attributable to the decline in third-party expenses during the second and third quarters of fiscal 2012, as well as reductions in field personnel and other crew expenses as a result of higher than normal downtime during the third fiscal quarter. As discussed above, reimbursed expenses have a similar impact on operating costs as they do on operating revenues.

General and administrative expenses were 3.3% of revenues in the first nine months of fiscal 2012 compared to 3.8% of revenues in the same period of fiscal 2011. For the quarter ended June 30, 2012, general and administrative expenses were 3.8% of revenues as compared to 3.9% of revenues in the same period of 2011. The ratio of general and administrative expenses to revenue decreased in the first nine months of fiscal 2012 and slightly decreased in the third quarter of fiscal 2012 compared to the comparable periods of fiscal 2011 mainly due to the absence in 2012 of transaction costs related to a merger agreement that was terminated in October 2011. The dollar amount of general and administrative expenses in the first nine months of fiscal 2012 and the quarter ended June 30, 2012 decreased compared to the comparable periods of fiscal 2011 despite the fact that both periods included increased administrative costs to support expanded field operations.

Depreciation for the nine months ended June 30, 2012 totaled \$24,092,000 compared to \$22,767,000 for the nine months ended June 30, 2011. We recognized \$8,328,000 of depreciation expense in the third quarter of fiscal 2012 as compared to \$7,900,000 in the comparable quarter of fiscal 2011. The increase in depreciation expense is the result of capital expenditures we made during fiscal 2011 and to date in fiscal 2012. Our depreciation expense is expected to increase during fiscal 2012 reflecting our higher capital expenditures during fiscal 2011 and to date in fiscal 2012.

Our total operating costs for the first nine months of fiscal 2012 were \$231,806,000, a decrease of 10% from the first nine months of fiscal 2011. For the quarter-ended June 30, 2012, our operating expenses were \$66,550,000, representing a 31% decrease from the comparable quarter of fiscal 2011. These decreases in the first nine months and for the third quarter of fiscal 2012 were primarily due to the factors described above.

Taxes. Income tax expense was \$4,526,000 for the nine months ended June 30, 2012 compared to income tax benefit of \$1,638,000 for the nine months ended June 30, 2011. Income tax expense was \$839,000 for the three months ended June 30, 2012 compared to income tax expense of \$587,000 for the three months ended June 30, 2011. The effective tax rates for the nine months ended June 30, 2012 and 2011 were approximately 31.2% and 20.9%, respectively. Our effective tax rates differ from the statutory federal rate of 35% for certain items such as state and local taxes, non-deductible expenses, discrete items, expenses related to share-based compensation that were not expected to result in a tax deduction and changes in reserves for uncertain tax positions.

Use of EBITDA (Non-GAAP measure)

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

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

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

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

Reconciliation of EBITDA to Net Income (Loss)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Net income (loss)	\$ 1,141	\$ 334	\$ 9,961	\$ (6,190)
Depreciation	8,328	7,900	24,092	22,767
Interest expense (income), net	129	—	406	—
Income tax expense (benefit)	839	587	4,526	(1,638)
EBITDA	<u>\$10,437</u>	<u>\$8,821</u>	<u>\$38,985</u>	<u>\$14,939</u>

Reconciliation of EBITDA to Net Cash Provided (Used) by Operating Activities

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	(in thousands)		(in thousands)	
Net cash provided (used) by operating activities	\$ 37,098	\$ (3,558)	\$ 58,004	\$ (469)
Changes in working capital and other items	(26,326)	12,760	(17,657)	17,043
Noncash adjustments to income	(335)	(381)	(1,362)	(1,635)
EBITDA	<u>\$ 10,437</u>	<u>\$ 8,821</u>	<u>\$ 38,985</u>	<u>\$14,939</u>

Liquidity and Capital Resources

Introduction. Our principal sources of cash are amounts earned from the seismic data acquisition services we provide to our clients. Our principal uses of cash are the amounts used to provide these services, including expenses related to our operations and acquiring new equipment. Accordingly, our cash position depends (as do our revenues) on the level of demand for our services. Historically, cash generated from our operations along with cash reserves and borrowings from commercial banks have been sufficient to fund our working capital requirements, and to some extent, our capital expenditures.

Cash Flows. Net cash provided by operating activities was \$58,004,000 for the first nine months of fiscal 2012 compared to cash used by operating activities of \$469,000 for the first nine months of fiscal 2011. The increase was largely due to an overall improvement in operating margins between periods. Amounts in our trade accounts receivable that are over sixty days represented approximately 35% of our total trade accounts receivable at June 30, 2012. While this level of trade accounts receivable over sixty days is higher than our historical average, after taking into consideration payments received subsequent to June 30, 2012 and additional payments anticipated by management, the amount of outstanding trade accounts receivable over sixty days is more representative of historical levels. Management expects our outstanding trade receivables to be substantially collectible.

Net cash used in investing activities was \$31,460,000 for the nine months ended June 30, 2012 and \$33,926,000 for the nine months ended June 30, 2011. The net cash used in investing activities in fiscal 2012 primarily represents capital expenditures of \$28,962,000, net of noncash capital expenditures and noncash capital lease obligations, made from excess cash reserves and cash generated from operations. In fiscal 2011, excess cash reserves and maturities of short-term investments were used to fund capital expenditures of \$55,307,000. In fiscal 2012 and 2011, we invested excess funds of \$2,750,000 and \$2,500,000, respectively, in certificates of deposits.

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Net cash used in financing activities for the nine months ended June 30, 2012 includes principal payments on our Term Note and capital lease obligations of \$4,066,000. In fiscal 2011, we entered into the Term Note in order to purchase OYO GSR recording equipment.

Capital Expenditures. Our Board of Directors has approved a fiscal 2012 budget of \$50,000,000. During the nine months ended June 30, 2012, we used \$42,545,000 of the capital budget to purchase 10,500 single-channel GSR, 3,000 stations of OYO GSR three-channel units and 3,000 ARAM recording channels, both conventional and 3-C geophones, vehicles to improve our fleet and nineteen INOVA vibrator energy source units. The remaining balance of the capital budget will be used to acquire additional conventional geophones and for maintenance capital purposes. We believe these expenditures will allow us to maintain our competitive position as we respond to client desire for higher resolution subsurface images.

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

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

Our revolving line of credit loan agreement is with Western National Bank. The agreement was renewed June 2, 2011 under the same terms as the previous agreement and permits us to borrow, repay and reborrow, from time to time until June 2, 2013, up to \$20.0 million based on the borrowing base calculation as defined in the agreement. Our obligations under this agreement are secured by a security interest in our accounts receivable, equipment and related collateral. Interest on the facility accrues at an annual rate equal to either the 30-day LIBOR, plus two and one-quarter percent, or the Prime Rate, minus three-quarters percent, as we direct monthly, subject to an interest rate floor of 4%. Interest on the outstanding amount under the loan agreement is payable monthly. The loan agreement contains customary covenants for credit facilities of this type, including limitations on disposition of assets, mergers and reorganizations. We are also obligated to meet certain financial covenants under the loan agreement, including maintaining specified ratios with respect to cash flow coverage, current assets and liabilities and debt to tangible net worth. We were in compliance with all covenants including specified ratios as of June 30, 2012 and August 9, 2012 and have the full line of credit available for borrowing. We have not utilized the revolving line of credit during the current fiscal year or the fiscal year ended September 30, 2011.

We amended our credit loan agreement with Western National Bank on June 30, 2011 to add a Term Note provision, which provided \$16,427,000 in financing for the purchase of OYO GSR equipment. The Term Note is repayable over a period of 36 months at \$485,444 per month plus any applicable interest in excess of 4%. The Term Note bears interest at an annual rate equal to either the 30-day LIBOR, plus two and one-quarter percent, or the Prime Rate, minus three-quarters percent, as we direct monthly, subject to an interest rate floor of 4%, and otherwise has the same terms as our revolving line of credit. The Term Note is collateralized by a security interest in our accounts receivable, equipment and related collateral and matures with all outstanding balances due on June 30, 2014.

On May 11, 2012, we entered into a Second Term Note under our credit loan agreement with Western National Bank. The Second Term Note allows us to borrow from time to time up to \$15.0 million to purchase equipment. The outstanding principal under the Second Term Note will be amortized over 36 months. The Second Term Note bears interest at an annual rate equal to either the 30-day LIBOR, plus two and one-quarter percent, or the Prime Rate, minus three-quarters percent, as we direct monthly, subject to an interest rate floor of 3.75%, and otherwise has the same terms as our revolving line of credit. The Second Term Note is collateralized by a security interest in our accounts receivable, equipment and related collateral and matures with all outstanding balances due on May 2, 2015. As of June 30, 2012, no amounts were borrowed under the Second Term Note. On July 5, 2012, we borrowed \$9,346,000 under the Second Term Note to purchase OYO GSR recording equipment.

In the second quarter of fiscal 2012, we began leasing vehicles from Enterprise Fleet Management under capital leases. These capital lease obligations are payable in 36 to 60 monthly installments and mature between December 2014 and February 2017. At June 30, 2012, we had leased 42 vehicles under these capital leases.

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The following table summarizes payments due in specific periods related to our contractual obligations with initial terms exceeding one year as of June 30, 2012.

<u>Contractual Obligations</u>	<u>Payments Due by Period (in 000's)</u>				
	<u>Total</u>	<u>Within 1 Year</u>	<u>1-2 Years</u>	<u>3-5 Years</u>	<u>After 5 Years</u>
Operating lease obligations (office space)	\$ 3,374	\$ 824	\$ 1,648	\$ 902	\$ —
Capital lease obligations	1,309	411	776	122	—
Debt obligations	11,623	5,455	6,168	—	—
Total	<u>\$16,306</u>	<u>\$6,690</u>	<u>\$8,592</u>	<u>\$1,024</u>	<u>\$ —</u>

On April 4, 2012, we filed a shelf registration statement with the SEC covering the periodic offer and sale of up to \$150.0 million in debt securities, preferred and common stock and warrants. The registration statement allows us to sell securities in one or more separate offerings with the size, price and terms to be determined at the time of sale. The terms of any securities offered would be described in a related prospectus supplement to be filed separately with the SEC at the time of the offering. The filing of the shelf registration statement will enable us to act quickly if and when opportunities arise.

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

Off-Balance Sheet Arrangements

As of June 30, 2012, we had no off-balance sheet arrangements.

Critical Accounting Policies

Information regarding our critical accounting policies and estimates is included in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in the Annual Report on Form 10-K for the fiscal year ended September 30, 2011.

Recently Issued Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, “Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards,” to provide a consistent definition of fair value and ensure that the fair value measurement and disclosure requirements are similar between U.S. GAAP and International Financial Reporting Standards. ASU 2011-04 changes certain fair value measurement principles and enhances disclosure requirements, particularly for Level 3 fair value measurements. The enhanced disclosures and fair value measurement principles were effective for us as of January 1, 2012. The adoption of this guidance did not have a material impact on our financial statements.

In June 2011, the FASB issued ASU No. 2011-05, “Comprehensive Income (Topic 220): Presentation of Comprehensive Income,” to require an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of equity. This update does not change what items are reported in other comprehensive income or the requirement to report reclassification of items from other comprehensive income to net income. However, in December 2011, the FASB issued ASU No. 2011-12, “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05,” that deferred the specific requirement within ASU 2011-05 to present on the face of the financial statements items that are reclassified from accumulated other comprehensive income to net income separately with their respective components of net income and other comprehensive net income. Entities should continue to report reclassifications out of accumulated other comprehensive income using guidance in effect before ASU 2011-05 was issued. ASU 2011-05 will be effective in our first quarter of fiscal 2013, though earlier adoption is permitted. The update will be applied retrospectively upon adoption, and we believe the adoption will not have a material effect on our financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to certain market risks arising from the use of financial instruments in the ordinary course of business. These risks arise primarily as a result of potential changes to operating concentration and credit risk and changes in interest rates. We have not entered into any hedge arrangements, commodity swap agreements, commodity futures, options or other derivative financial instruments.

Concentration and Credit Risk. Our principal market risks include fluctuations in commodity prices, which affect demand for and pricing of our services, and the risk related to the concentration of our clients in the oil and natural gas industry. Since all of our clients are involved in the oil and natural gas industry, there may be a positive or negative effect on our exposure to credit risk because our clients may be similarly affected by changes in economic and industry conditions. As an example, changes to existing regulations or the adoption of new regulations may unfavorably impact us, our suppliers or our clients. In the normal course of business, we provide credit terms to our clients. Accordingly, we perform ongoing credit evaluations of our clients and maintain allowances for possible losses. We believe that our allowance for doubtful accounts of \$250,000 at June 30, 2012 is adequate to cover exposures related to our trade account balances.

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

Interest Rate Risk. We are exposed to the impact of interest rate changes on the outstanding indebtedness under our credit loan agreement, which has variable interest rates. Amounts drawn under the revolving line of credit and equipment term loans bear interest at variable rates based on the lower of the Prime Rate, minus three-quarters percent, or the 30-day LIBOR, plus a margin of two and one-quarter percent, subject to an interest rate floor of 4% for the Term Note and the revolving line of credit and an interest floor of 3.75% for the Second Term Note. At June 30, 2012, we had a balance of \$11,623,000 on our equipment Term Note, and no amounts were outstanding under the revolving line of credit or the Second Term Note.

We have cash in the bank which, at times, may exceed federally insured limits. Historically, we have not experienced any losses in such accounts; however, volatility in financial markets may impact our credit risk on cash. At June 30, 2012, cash and cash equivalents totaled \$48,739,000.

ITEM 4. CONTROLS AND PROCEDURES

Management's Evaluation of Disclosure Controls and Procedures. We carried out an evaluation, under the supervision and with the participation of our management, including our principal executive and principal financial officers, of the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, our President and Chief Executive Officer and our Executive Vice President, Secretary and Chief Financial Officer concluded that, as of June 30, 2012, our disclosure controls and procedures were effective, in all material respects, with regard to the recording, processing, summarizing and reporting, within the time periods specified in the SEC's rules and forms, for information required to be disclosed by us in the reports that we file or submit under the Exchange Act. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our President and Chief Executive Officer and our Executive Vice President, Secretary and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting. There have not been any changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934) during the quarter ended June 30, 2012 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Form 10-Q, you should carefully consider the risk factors discussed in Part I, “Item 1A. Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended September 30, 2011, 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 2011 Annual Report on Form 10-K.

ITEM 5. OTHER INFORMATION

On May 11, 2012, we entered into a Multiple Advance Term Note (the “Second Term Note”) with Western National Bank to finance up to \$15.0 million of additional equipment purchases. Concurrently with the execution of the Second Term Note, we entered into a Security Agreement securing our obligations under the Second Term Note and resecuring our obligations under our revolving line of credit and Term Note (the “Second Term Note Security Agreement”). For a discussion of the terms of the Second Term Note, please refer to Note 5, “Debt,” of the Notes to Unaudited Consolidated Financial Statements, which is incorporated by reference herein. On July 5, 2012, we borrowed \$9,346,000 under the Second Term Note to purchase recording equipment.

The foregoing description is a summary of the Second Term Note and Second Term Note Security Agreement and is qualified in its entirety by reference to the Second Term Note and Second Term Note Security Agreement, copies of which are included as Exhibit 10.1 and 10.2, respectively, to this Quarterly Report on Form 10-Q.

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: August 9, 2012

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

DATE: August 9, 2012

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

INDEX TO EXHIBITS

<u>Number</u>	<u>Exhibit</u>
3.1	Second Restated Articles of Incorporation of the Company, as amended (filed on February 9, 2007 as Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended December 31, 2006 (File No. 000-10144) and incorporated herein by reference and filed on November 28, 2007 as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-10144) and incorporated herein by reference).
3.2	Second Amended and Restated Bylaws of the Company, as amended (filed on November 23, 2010 as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2010 (File No. 001-34404) and incorporated herein by reference).
3.3	Amendment No. 2 to Second Amended and Restated Bylaws, as amended, of the Company (filed on March 21, 2011 as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 001-34404) and incorporated herein by reference).
3.4	Statement of Resolution Establishing Series of Shares of Series A Junior Participating Preferred Stock of the Company (filed on July 9, 2009 as Exhibit 3.1 to the Company's Current Report on Form 8-K (File No. 000-10144) and incorporated herein by reference).
4.1	Rights Agreement effective as of July 23, 2009 between the Company and Mellon Investor Services LLC , as Rights Agent, which includes as Exhibit A the form of Statement of Resolution Establishing Series of Shares of Series A Junior Participating Preferred Stock setting forth the terms of the Preferred Stock, as Exhibit B the form of Rights Certificate and as Exhibit C the Summary of Rights to Purchase Preferred Stock (filed on July 9, 2009 as Exhibit 4.1 to the Company's Current Report on Form 8-K (File No. 000-10144) and incorporated herein by reference). Pursuant to the Rights Agreement, Rights Certificates will not be mailed until after the Distribution Date (as defined in the Rights Agreement).
10.1*	Multiple Advance Term Note Agreement, dated as of May 11, 2012, between the Company and Western National Bank.
10.2*	Security Agreement, dated as of May 11, 2012, between the Company and Western National Bank.
31.1*	Certification of Chief Executive Officer of Dawson Geophysical Company pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2*	Certification of Chief Financial Officer of Dawson Geophysical Company pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32.1*	Certification of Chief Executive Officer of Dawson Geophysical Company pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
32.2*	Certification of Chief Financial Officer of Dawson Geophysical Company pursuant to Rule 13a-14(b) promulgated under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code.
**101	The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012, formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Statements of Operations for the three months and the nine months ended June 30, 2012 and 2011, (ii) Consolidated Balance Sheets at June 30, 2012 and September 30, 2011, (iii) Consolidated Statements of Cash Flows for the nine months ended June 30, 2012 and 2011, and (iv) Notes to Consolidated Financial Statements.

* Filed herewith.

** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

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

May 11, 2012

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

Attention: Stephen C. Jumper, President

RE: Extension of a new Multiple Advance Term Loan and Confirmation of Existing Revolving Line of Credit Loan and Existing First Term Loan.

Gentlemen:

Pursuant to the terms of prior loan agreements, the most recent of which is dated as of June 30, 2011 (the “**Existing Loan Agreement**”), **DAWSON GEOPHYSICAL COMPANY**, a Texas corporation (alternatively, “**Dawson Geophysical**” or the “**Borrower**”), is indebted to Western National Bank, a national banking association (alternatively, “**Western**”, the “**Lender**”, or the “**Bank**”), for a revolving line of credit loan in the original principal amount of Twenty Million and No/Dollars (\$20,000,000.00) (the “**Revolver Loan**”), and a term loan in the original principal amount of Sixteen Million Four Hundred Twenty-Six Thousand Six Hundred Eighty and Six/100 Dollars (\$16,426,680.06) (the “**First Term Loan**”). The Revolver Loan and the Existing Term Loan are collectively referred to herein as the “**Existing Loans**”.

The Revolver Loan is evidenced by that certain Revolving Line of Credit Note, also dated as of June 2, 2011, in the original principal amount of Twenty Million and No/100 Dollars (\$20,000,000.00), executed by the Borrower, as Maker, in favor of the Bank, as Payee (the “**Revolver Note**”). The Term Loan is evidenced by that certain Term Note, dated as of June 30, 2011, in the original principal amount of Sixteen Million Four Hundred Twenty-Six Thousand Six Hundred Eighty and Six/100 Dollars (\$16,426,680.06), executed by the Borrower, as Maker, in favor of Western, as Payee (the “**First Term Note**”). The Revolver Note and the Existing Term Note are collectively referred to herein as the “**Existing Notes**”.

The Borrower secured its performance under the Existing Loan Agreement and the Existing Notes by executing that certain Security Agreement, also dated as of June 30, 2011, under which it granted to the Bank a security interest in all of its accounts, equipment, and other items of collateral described therein (the “**Existing Security Agreement**”). The Borrower authorized the

Bank to perfect the security interest created under the Existing Security Agreement by filing a financing statement (the “**Existing Financing Statement**”). The Existing Financing Statement, the Existing Security Agreement, and any other instruments executed or filed to secure collateral in support of Borrower’s performance are collectively referred to as the “**Existing Security Instruments**.”

In addition to its continuing obligations under the Revolver Loan and the First Term Loan, which Borrower acknowledges continue to be outstanding and owing to the Bank, the Borrower has now requested that the Bank advance a new Multiple Advance Term Loan in the original principal amount of Fifteen Million and No/100 Dollars (\$15,000,000.00) (the “**Second Term Loan**”). The Revolver Loan, First Term Loan, and the Second Term Loan are collectively referred to herein as the “**Loans**”.

The Second Term Loan will be evidenced by a Multiple Advance Term Note, dated of even date herewith, in the original principal amount of Fifteen Million and No/100 Dollars (\$15,000,000.00), to be executed by the Borrower, as Maker, in favor of the Bank, as Payee (the “**Term Note**”). The Revolver Note, First Term Note and the Second Term Note are collectively referred to herein as the “**Notes**”.

The Borrower will collateralize its performance under the Notes by executing a Security Agreement, of even date herewith, covering all of its Accounts, Equipment, and other items of collateral described therein (the “**Security Agreement**”). The Borrower specifically authorizes the Bank to perfect the security interest granted under the Security Agreement by filing one or more financing statements, or amendments to the Existing Financing Statement (in either case, collectively, the “**Financing Statement**”). The Security Agreement and the Financing Statement are collectively referred to herein as the “**Security Instruments**.” This letter loan agreement (the “**Agreement**”), the Notes, the Security Instruments, and any other documents executed simultaneously herewith are collectively referred to as the “**Loan Documents**”.

In addition to the Revolver Loan and the First Term Loan, which the Bank and the Borrower acknowledge continue to be valid and subsisting, and for which the Borrower expressly acknowledges that it will continue to be obligated, Western hereby agrees to advance the Second Term Loan to the Borrower. In consideration of the Bank’s agreement to advance the Term Loan, and to maintain in place the Revolver Loan and the Second Term Loan, Borrower has agreed to execute this Loan Agreement, the Second Term Note, the Security Agreement, and any other documents, as applicable and required by the Bank. In addition to Borrower’s execution of the Loan Documents, the Bank’s obligation to advance the Second Term Loan to the Borrower shall be further 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 **May 11, 2012**, and any extensions, renewals, or modifications hereof.

Borrower

Dawson Geophysical Company

Bank

Western National Bank

Commitment

The Jessor of the following amounts: (a) the combined face amounts of the Notes; or (b) the sum of the outstanding principal balance due at any time under the First Term Loan and the Second Term Loan., and the “**Borrowing Base**” (as that term is defined below) then in effect for the Revolver Loan.

Rate

From May 1 2012 through May 31, 2012, interest under the Second Term Note shall accrue at an annual rate equal to the “**Prime Rate**”, as defined below, minus three- quarters of one percent (0.75%) (the “**Prime Rate Index**”). Beginning as of June 1, 2012, interest under the Note shall accrue at an annual rate equal to either: (a) the 30-day London Interbank Offered Rate (“**LIBOR**”), plus two and one-quarter percentage points (2.25%), or (b) the Prime Rate Index, as the Borrower shall choose monthly by notifying the Bank in writing, via facsimile or e-mail, by the last day of each month, with each change to be effective as of the first day of the following month; provided that such interest rate shall not exceed the “**Highest Lawful Rate**”, as defined in the Notes, or be less than three and three quarters percent (3.75%). Should Borrower fail to notify Bank of its election of interest rate for any given month, the interest rate shall remain at the interest rate index chosen by Borrower for the month immediately preceding.

For purposes of this Agreement, the “**Prime Rate**” shall be defined as that rate established as the prime rate in the money rate table of *The Wall Street Journal*, a Dow Jones publication, as of each “**Business Day**”, as defined below (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 only and does not necessarily represent the lowest or best rate actually charged to any customer. The Bank may make commercial loans or other loans at rates of interest at, above, or below the Prime Rate.

In addition to the definition of “**Prime Rate**”, as defined above, the term “**LIBOR**” shall mean, with respect to each Interest Period, as defined below, the rate as established as the 30-day LIBOR in the money rate table of *The Wall Street Journal*, a Dow Jones

publication, as of each Business Day, as defined below (and for holidays or weekends, LIBOR shall be the 30-day LIBOR published in that money rate table of *The Wall Street Journal*, as of the close of business on the most recent Business Day immediately preceding such weekend or holiday). Without notice to the Borrower or any other person, LIBOR may change from time to time pursuant to the preceding sentence, with the effective date of each change to be the effective date reflected in the money rate table of *The Wall Street Journal*. Each change in LIBOR to be charged on the Notes will become effective without notice on the commencement of each Interest Period based upon the Index then in effect. “**Interest Period**” means each consecutive one month period (the next of which shall commence on June 1, 2012), effective as of the first day of each Interest Period and ending on the last day of each Interest Period; provided that if any Interest Period is scheduled to end on a date for which there is no numerical equivalent to the date on which the Interest Period commenced, then it shall end instead on the last day of such calendar month.

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

Security

The Loans shall be secured by the Security Instruments.

Structure

Under the Second Term Note, funds will be available until **May 2, 2015**, the maturity date of the Second Term Loan. Under the First Term Note, funds will be available until **June 30, 2014**, the maturity date of the First Term Loan. Under the Revolver Note, funds will be available on a revolving basis through **June 2, 2013**, the maturity date of the Revolver Loan (the “**Revolving Period**”). During the Revolving Period, the Borrower may borrow, repay, and re-borrow funds as long as the aggregate amount (including outstanding letters of credit) does not exceed the Commitment.

Borrowing Base

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

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

- a. Said account receivable is a binding and valid obligation of the obligor thereon, in full force and effect, and enforceable in accordance with its terms;

- b.** Said account receivable is genuine, in all respects, as appearing on its face as represented in the books and records of Borrower, and all information set forth therein is true and correct;
- c.** Said account receivable is free of all default of any party thereto, counterclaims, offsets, and defenses, and from any rescission, cancellation, or avoidance, and all right thereof, whether by operation of law or otherwise;
- d.** The payment of said account receivable is not more than ninety (90) days past due the invoice date thereof;
- e.** Said account receivable is free of concessions or understandings with the obligor thereon of any kind not disclosed to and approved by the Bank in writing;
- f.** Said account receivable is, and at all times will be, free and clear of all liens except those in favor of the Bank;
- g.** Said account receivable is not a receivable arising from intercompany indebtedness existing between or among any of the Borrower;
- h.** Said account receivable is derived from sales made or services rendered to the obligor in the ordinary course of the business of the Borrower;
- i.** The obligor on said account receivable (i) is located within the United States or the District of Columbia; (ii) is not the subject of any bankruptcy or insolvency proceeding, nor has a trustee or receiver been appointed for all or a substantial part of its property, nor has said obligor made an assignment for the benefit of creditors, admitted its inability to pay its debts as they mature or suspended its business, (iii) is not affiliated, directly or indirectly, with Borrower, as a subsidiary or affiliate, employee or otherwise; and (iv) is not a state or federal government department, commission, board, bureau, or agency;
- j.** Said account receivable is not owed by a customer whose principal place of business is located in a foreign country; and
- k.** Said account receivable did not arise from sales to an obligor as to whom fifteen percent (15%) or more of the total accounts receivable owing by such obligor to the Borrower are delinquent Accounts receivable (that is, an account that is more than ninety (90) days delinquent).

In addition to the criteria stated above for determining whether an account receivable is an “**Eligible Account**”, the Bank and the Borrower agree that no such account receivable shall constitute an Eligible Account if that Account arises from any single customer,

other than Chesapeake Exploration Limited Partnership and its affiliates and subsidiaries (collectively, “**Chesapeake**”) or Devon Energy Group and its affiliates and subsidiaries (collectively, “**Devon**”), whose Accounts constitute more than twenty-five percent (25%) of Borrower’s total Accounts. The Bank agrees that an Account owed by Chesapeake to the Borrower (collectively, the “**Chesapeake Accounts**”) and, likewise, an Account owed by Devon to the Borrower (collectively, the “**Devon Accounts**”) may still qualify as an Eligible Account even if the either set of such Eligible Accounts constitutes more than twenty-five percent (25%) of Borrower’s total Accounts.

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

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

Non-Recourse

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

Cross-Collateralization

Notwithstanding any of the provisions contained herein or in any of the other Loan Documents to the contrary, all of the Collateral to be pledged pursuant to the terms of this Agreement will be deemed to cross-collateralize the performance of the Borrower under any and all loans now or hereafter advanced directly by the Bank to the Borrower.

Purpose

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

Maturity Dates

As stated, the maturity date of the Revolver Note is **June 2, 2013**, the maturity date of the First Term Note is **June 30, 2014**, and the maturity date of the Second Term Note is **May 2, 2015**.

Environmental Laws

The term “**Environmental Laws**” shall mean all applicable local, state, and federal laws, including common law, that relate to: (a) the prevention, abatement, or elimination of pollution, or the protection of the environment or natural resources; (b) the generation, handling, treatment, storage, disposal, release, or transportation of “**Hazardous Materials**” (as defined below), waste materials or hazardous or toxic substances; or (c) the regulation of, or exposure to, hazardous, toxic, or other substances alleged to be harmful, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. § 9601, *et seq.*; the Resource Conservation and Recovery Act, 42 U.S.C. § 6901, *et seq.*; the Federal Water Pollution Control Act (Clean Water Act), 33 U.S.C. § 1251, *et seq.*; the Clean Air Act, 42 U.S.C. § 7401, *et seq.*; the Hazardous Materials Transportation Act, 49 U.S.C. § 1501, *et seq.*; the Toxic Substances Control Act, 15 U.S.C. § 2601, *et seq.*; the Oil Pollution Act, 33 U.S.C. § 2701, *et seq.*; the Emergency Planning and Community Right-to-Know Act, 42 U.S.C. § 11001, *et seq.*; the Safe Drinking Water Act, 42 U.S.C. §§ 300f through 300j; the Endangered Species Act, 16 U.S.C. § 1531, *et seq.*; and all similar laws of any Governmental Authority having jurisdiction over the property in question. This term expressly includes the regulations of the Texas Railroad Commission relating to plugging and abandonment, equipment purging and removal, and bonding requirements respecting inactive wells, 16. T.A.C. § 3.15, as well as regulations and interpretations of the U.S. Environmental Protection Agency and the Texas Commission on Environmental Quality relating to air emissions, pollution control, and permitting that have been, or may be, adopted.

Hazardous Materials

The term “**Hazardous Materials**” shall mean, without limitation, those substances or materials defined as “hazardous substances”, “hazardous waste”, “toxic substances”, or “pollutant or contaminant” in any of the Environmental Laws, as well as such other substances as are subsequently determined legislatively, judicially, or administratively, to be harmful or deleterious to the physical environment or the public health.

II. REPRESENTATIONS AND WARRANTIES

- A. **Good Standing and Identity.** The Borrower is an individual, whose legal residence is located in Midland, Texas, and whose legal name is that reflected in the address of this Agreement. The Borrower has the power and authority to own his property and to carry on his business in each jurisdiction in which he operates.
- B. **Authority and Compliance.** The Borrower has full power and authority to enter into this Agreement, to borrow the funds evidenced by the Notes, to execute and deliver the Term Note, and to incur the obligations provided for herein. No consent or approval of any public authority is required as a condition to the validity of this Agreement, the Notes, and the Security Instruments, 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 those 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 his tangible property, real and personal, in good order and repair, taking into consideration reasonable wear and tear.
- E. **Taxes.** Borrower has paid all income taxes and other taxes due and payable prior to them 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 his most recent financial statements.
- G. **Hazardous Materials.** To its best knowledge, the Borrower and the properties that it owns or intends to acquire comply in all respects with all Environmental Laws, and the Borrower is not aware of and has not received any notice of any violation of any Environmental Laws. To the best knowledge of the Borrower, no governmental or administrative agency or other third party has heretofore filed any complaint, or commenced any administrative procedure, against it, or any of its predecessors in title, alleging a violation of any Environmental Laws. 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 that may be classified as Hazardous Materials. The Borrower has and will make a good faith

attempt to comply with all Environmental Laws. To the best of its knowledge, the Borrower has not otherwise installed, used, generated, stored or disposed of any Hazardous Materials on their properties. No underground storage tanks or facilities have been installed upon any property owned by the Borrower, and to the knowledge of the Borrower, none of such properties has ever been used for the treatment, storage, recycling, or disposal of any Hazardous Materials.

III. CONDITIONS PRECEDENT

The provisions of this Agreement will serve as the terms of the relationship among the Borrower and the Bank. Prior to any funds being made available, Borrower will execute and deliver to the Bank, in form and substance satisfactory to the Bank, this Agreement, the Term Note, and the Security Instruments. In addition, the Borrower expressly authorizes the Bank to file the Financing Statement in order to perfect the security interests granted under the Security Agreement.

IV. COVENANTS

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

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, with the next year to be measured ending as of September 30, 2012, 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, such statements to be audited by an independent certified accountant and to be prepared according to generally accepted accounting principles, consistently applied ("**GAAP**").
2. Within ninety (90) days of the end of each fiscal quarter, with the next fiscal quarter to be measured ending as of June 30, 2012, the Borrower will submit to the Bank a financial statement reflecting Borrower's financial performance during the previous fiscal quarter, with such statements to be company-prepared.
3. Within thirty (30) days of the end of each calendar month, with the next month to be measured being the one ending on April 30, 2012, Borrower shall provide monthly Accounts aging reports.
4. Within thirty (30) days of transmitting any tax return to any governmental authority, the Borrower will submit to the Bank a copy of that tax return.

5. Within thirty (30) days following the end of each calendar month, with the next calendar month to be measured being the one ending on April 30, 2012, Borrower shall provide a monthly borrowing base report and compliance certificate in the form attached hereto as Exhibit "A" and Exhibit "B".
6. Borrower shall maintain an average "**Debt Service Coverage Ratio**" (as that term is defined below) of not less than 1.50 to 1.0, calculated quarterly, with the next quarter to be measured ending as of June 30, 2012, from the date of the Loans to maturity. For purposes of this Agreement, the term "**Debt Service Coverage Ratio**" means, with respect to any period of calculation thereof, the ratio of the sum of "**Cash Flow**", as that term is defined below, to all currently due payments of principal and interest on any long-term "**Debt**", as that term is defined below. "**Cash Flow**" is defined as the sum of: (a) the net income (or loss) from continuing operations of Borrower during such period calculated on an after-taxes basis; plus (b) interest, depreciation, depletion, and amortization expenses of Borrower during such period, less (c) gains from the sale of any assets; plus (d) losses from the sale of any assets; less (e) extraordinary adjustments to net income. "**Debt**" is defined as) all scheduled capital lease obligations and all principal and interest payments due for the period subject to measurement, all determined in accordance with GAAP.
7. For any quarter subject to measurement hereunder, Borrower will maintain a "**Debt to Tangible Net Worth Ratio**" of no greater than 1.50 to 1.00 to be measured quarterly, with the next measurement to occur as of the end of the quarter ending as of **June 30, 2012**. For purposes of this paragraph, "**Debt**" shall mean, all liabilities, obligations, and indebtedness of the Borrower, of any kind or nature, now or hereafter owing, arising, due or payable, howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed, or otherwise, and "**Tangible Net Worth**" means the excess, if any, of the total assets of Borrower over all items of indebtedness, obligations, or liability which would be classified as liabilities of Borrower, for the time period to be measured, each to be determined in accordance with GAAP; provided, however, that for the purposes of any such computation of Tangible Net Worth, "assets" will not include (a) goodwill (whether representing the excess of cost over book value of assets acquired or otherwise), and (b) patents, trademarks, trade names, copyrights, franchises, and deferred charges.
8. Borrower shall maintain a "**Current Ratio**", as defined below, of not less than 1.50 to 1.0, measured quarterly, with the next measurement to occur as of the quarter ending on **June 30, 2012** from the date of the Loans to maturity. For purposes of this Agreement, "**Current Ratio**" means, with

respect to any period of calculation thereof, the ratio of “**Current Assets**” to “**Current Liabilities**”, as those terms are defined below. “**Current Assets**” means the sum of: (a) current assets, as defined under GAAP, to include, specifically, a minimum of Three Million Five Hundred Thousand and No/100 Dollars (\$3,500,000.00) in cash and readily marketable securities. “**Current Liabilities**” shall have the same meaning as the definition found for that term under GAAP. The requirement that Current Assets include cash and readily marketable securities of a value of Three Million Five Hundred Thousand and No/100 Dollars shall apply only if any Loan currently carries an outstanding principal balance.

9. Within ten (10) days of their publication, Borrower shall provide Bank with copies of: (a) all financial statements, reports, notices, and proxy statements sent or made available generally by the Borrower to its shareholders; (b) all regular and periodic reports and all private placement memorandums; (c) all registration statements and prospectuses, if any, filed by the Borrower with any securities exchange or with the Security Exchange Commission; and (d) all press releases and other statements made available generally by the Borrower to the public concerning material changes in the business of the Borrower.
10. Borrower shall maintain all primary operating accounts with the Bank.
11. Borrower shall maintain its existence in good standing and comply with all laws, regulations and governmental requirements applicable to it or to any of its property, business operations and transactions.
12. Borrower shall promptly pay any reasonable costs incurred by the Bank in connection with the preparation or enforcement of this Agreement, the Notes, the Security Instruments, and any other documentation executed concurrently herewith.
13. Borrower shall remain in substantial compliance with all Environmental Laws and will not place or permit to be placed any Hazardous Materials on any of its properties in violation of any such 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, the Borrower shall give notice to the Bank within five (5) days after receiving notice of such notice or filing.

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

B. Negative Covenants.

1. Borrower shall not make any change in its present accounting method or change his present fiscal year.
2. Borrower shall not make any substantial change in the nature of its business as now conducted.
3. Borrower shall not reorganize or merge with any other entity, without the prior written consent of the Bank.
4. Borrower shall not sell, contract to sell, convey, assign, transfer, mortgage, pledge, hypothecate, encumber, or in any way alienate its interest in any of the collateral covered by the Security Instruments, without the consent of the Bank.

V. EVENTS OF DEFAULT

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

- A. Borrower fails to pay when due any principal, interest, or other amount payable under this Agreement or any 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 false or 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 shall occur 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 court of competent jurisdiction enters or renders judgment or judgments against Borrower for the payment of money, which Borrower fails to satisfy, discharge, or stay no less than thirty (30) days prior to the date on which any of its assets could be lawfully sold to satisfy such judgment or judgments; or

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

VI. REMEDIES

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

ONCE AN EVENT OF DEFAULT HAS OCCURRED, WESTERN MAY PURSUE THE REMEDIES PROVIDED FOR IN THIS AGREEMENT, THE NOTES, AND THE SECURITY INSTRUMENTS WITHOUT PRESENTMENT, DEMAND, PROTEST, NOTICE OF ACCELERATION, NOTICE OF INTENT TO ACCELERATE, NOTICE OF PROTEST OR NOTICE OF DISHONOR, OR ANY OTHER NOTICE OF ANY KIND, ALL OF WHICH ARE EXPRESSLY WAIVED BY BORROWER.

All rights, powers, and remedies of the Bank in connection with this Agreement, the 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, excluding those deposit accounts held by Borrower as agent for any third party) against any liability of the Borrower to the Bank.

VII. WAIVER

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

VIII. NOTICES

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

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

Western: Western National Bank
Attention: Mr. Marshall N. Vicknair
508 West Wall Street, Suite 1100
Midland, Texas 79701

Any party to this Agreement may change its address by providing written notice to the other parties. Such a change of address shall be effective as of the date that each party receives it.

IX. SUCCESSORS AND ASSIGNS

This Agreement shall 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 participation 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 promissory notes, the Borrower, 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, must 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 submit to the exclusive jurisdiction of such courts for the purpose of any such suit, action or proceeding. The Borrower hereby irrevocably consent 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 addresses 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.

FURTHER, THE BORROWER HEREBY IRREVOCABLY WAIVES ANY RIGHT GRANTED BY STATUTE, RULE OR COURT OR OTHERWISE TO HAVE SUCH SUIT, ACTION, PROCEEDING, OR ISSUE TRIED BY A JURY. THE BORROWER HAS WAIVED THE RIGHT TO TRIAL BY JURY KNOWINGLY AND VOLUNTARILY, AND SUCH WAIVER SHALL BE INTERPRETED TO ENCOMPASS INDIVIDUALLY AND COLLECTIVELY EACH INSTANCE AND EACH INSTANCE AS TO WHICH THE RIGHT TO TRIAL BY JURY MIGHT OTHERWISE ACCRUE. THE BORROWER HEREBY AGREES THAT THE BANK MAY INCLUDE A COPY OF THIS PARAGRAPH IN ANY PLEADING OR OTHER DOCUMENTATION IN ORDER TO EVIDENCE THE WAIVER PROVIDED HEREUNDER.

XII. MISCELLANEOUS

- A. Texas Law Applicable.** This Agreement, the Notes, the Security Instruments, and any contracts or instruments relating thereto, shall be governed by and construed in accordance with the laws of the State of Texas, except to the extent that the Bank has greater rights or remedies under federal law or the law of any jurisdiction in which the collateral properties are located, in which case such

choice of Texas law shall not be deemed to deprive the Bank of such rights and remedies under federal law or the law of any jurisdiction in which the collateral properties are located, in which case such choice of Texas law shall not be deemed to deprive the Bank of such rights and remedies as may be available under such law.

- B. **Discretionary Reviews.** Western National Bank reserves the right to periodically conduct a review of the Borrower=s ability to perform under the terms of the Notes and to limit or restrict future advances under the Notes.
- C. **Notice of Final Agreement.** THIS AGREEMENT, THE NOTES, AND ANY CONTRACTS OR INSTRUMENTS RELATING THERETO, REPRESENT THE ENTIRE AGREEMENT BETWEEN THE PARTIES, AND IT IS EXPRESSLY UNDERSTOOD THAT ALL PRIOR CONVERSATIONS OR MEMORANDA BETWEEN THE PARTIES REGARDING THE TERMS OF THIS AGREEMENT SHALL BE SUPERSEDED BY THIS AGREEMENT. ANY AMENDMENT, APPROVAL, OR WAIVER BY WESTERN OF THE TERMS OF THIS AGREEMENT, THE NOTES AND ANY CONTRACTS OR INSTRUMENTS RELATING THERETO, MUST BE IN WRITING OR CONFIRMED WRITING, AND SHALL BE EFFECTIVE ONLY TO THE EXTENT SPECIFICALLY SET FORTH IN SUCH WRITING. THIS AGREEMENT, IN CONJUNCTION WITH THE NOTES AND ANY CONTRACTS OR INSTRUMENTS RELATING THERETO, SHALL SERVE TO EVIDENCE THE TERMS OF THE ENTIRE AGREEMENT BETWEEN THE PARTIES.

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

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

Very truly yours,

WESTERN NATIONAL BANK

By: /s/ Marshall N. Vicknair

Marshall N. Vicknair
Senior Vice President

**AGREED TO AND ACCEPTED AS OF THE ELEVENTH
DAY OF MAY 2012.**

BORROWER:

DAWSON GEOPHYSICAL COMPANY

By: /s/ Stephen C. Jumper

Stephen C. Jumper
President

By: /s/ Christina W. Hagan

Christina W. Hagan
Secretary

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the “**Security Agreement**”) is made and entered into this 11th day of May 2012, by and between **DAWSON GEOPHYSICAL COMPANY**, a Texas Corporation, whose address is 508 West Wall Street, Suite 800, Midland, Texas 79701 (the “**Debtor**”), and **WESTERN NATIONAL BANK**, a national banking association, whose address is 508 West Wall Street Suite 1100, Midland, Texas 79701 (the “**Secured Party**”).

NOTICE IS TAKEN OF THE FOLLOWING:

- A.** Reference is made to that certain Loan Agreement, of even date herewith, (the “**Loan Agreement**”) by and between Debtor, as Borrower, and the Secured Party, as Lender. Pursuant to the terms of the Loan Agreement, the Secured Party has agreed to advance certain loans to Debtor, from time to time (collectively, the “**Loans**”).
- B.** The Loans are, or will be, evidenced by: (i) that certain Revolving Line of Credit Note, dated as of June 2, 2011, in the original principal amount of Twenty Million and No/100 Dollars (\$20,000,000.00), executed by the Debtor, as Maker, and payable to the order of the Secured Party, as Payee, together with any and all renewals, extension for any period, increases and rearrangements thereof; (ii) that certain Term Note, dated as of June 30, 2011, in the original principal amount of Sixteen Million Four Hundred Twenty-Six Thousand Six Hundred Eighty and Six/100 Dollars (\$16,426,680.06), executed by the Debtor, as Maker, and payable to the order of the Secured Party, as Payee (the “**First Term Note**”, together with any and all renewals, extension for any period, increases and rearrangements thereof; and (iii) that certain Multiple Advance Term Note, dated as of May 11, 2012, in the original principal amount of Fifteen Million and No/100 Dollars (\$15,000,000.00), executed by the Debtor, as Maker, and payable to the order of the Secured Party, as Payee, (the “**Second Term Note**”) together with any and all renewals, extension for any period, increases and rearrangements thereof. Collectively, the promissory notes described in (i) and (ii) are referred to herein as the “**Notes**”. The Loan Agreement, the Notes, and all documents executed by the parties simultaneously therewith, as any of the same may be amended, extended or replaced from time to time are collectively referred to herein as the “**Credit Documents**.” Capitalized terms not otherwise defined herein are used with the same meanings as in the Credit Documents.
- C.** To induce Secured Party to extend such credit, and in support of its performance under the Loan Agreement and the Notes, Debtor has agreed to pledge and to grant to Secured Party a security interest in and hen upon certain property of Debtor described more particularly herein.

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

AGREEMENT

1. Grant of Security Interest

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

2. Collateral

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

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

3. Obligations

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

4. Representations and Warranties

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

- a. **Authority.** It has authority, and has completed all proceedings and obtained all approvals and consents necessary, to execute, deliver, and perform this Security Agreement and the transactions contemplated hereby.
- b. **No Default or Lien.** Such execution, delivery, and performance will not contravene, or constitute a default under or result in a lien upon any property of Debtor pursuant to any applicable law or regulation or any contract, agreement, judgment, order, decree, or other instrument binding upon or affecting Debtor.
- c. **Enforceability.** This Security Agreement constitutes a legal, valid, and binding obligation of Debtor, enforceable in accordance with its terms (except as enforceability may be affected by bankruptcy, insolvency, or other similar laws affecting the enforcement of creditor's rights), and this Security Agreement grants to Secured Party a valid, first-priority perfected and enforceable lien on the Collateral.
- d. **No Litigation.** There is no action, suit or proceeding pending or, to the best knowledge of Debtor after reasonable investigation, threatened against Debtor that might adversely affect its property or financial condition in any material respect.
- e. **Ownership of Collateral.** Debtor is the sole owner of and has good and marketable title to the Collateral (or, in the case of after-acquired Collateral, at the time the Debtor acquires rights in the Collateral, will be the sole owner thereof) and is the record and beneficial owner of any such Collateral.
- f. **Priority.** Except for security interests in favor of Secured Party, no person has (or, in the case of after-acquired Collateral, at the time Debtor acquires rights therein, will have) any right, title, claim, or interest (by way of security interest or other lien or charge) in, against or to the Collateral.
- g. **Accuracy of Information.** All information heretofore, herein or hereafter supplied to Secured Party by or on behalf of Debtor with respect to the Collateral is true and correct.
- h. **Delivery of Documents.** Debtor has delivered to Secured Party all instruments, documents, chattel paper, and other items of Collateral in which a security interest is or may be perfected by possession, the certificate of title with respect to each motor vehicle, if any, included in the Collateral, and any certificated Pledged Shares together with such additional writings, including, without limitation, assignments and stock powers, with respect thereto as Secured Party shall request.

- i. **Exclusion of Certain Collateral.** Unless otherwise agreed by Secured Party, the Collateral does not include any aircraft, watercraft or vessels, railroad cars, railroad equipment locomotives or other rolling stock intended for a use related to interstate commerce, trade names, trademarks, service marks, mask works, copyrights, patents, fixtures or uncertificated securities.
- j. **Enforceability Against Account Debtors.** Each account, contract right, item of chattel paper, instrument or any other right to the payment of money constituting Collateral is genuine and enforceable in accordance with its terms against the party obligated to pay the same (an Account Debtor), which terms have not been modified or waived in any respect or to any extent.
- k. **Amount Due From Account Debtors.** Any amount represented by Debtor to Secured Party as owing by any Account Debtor is the correct amount actually and unconditionally owing by such Account Debtor.
- l. **No Account Debtor Defense.** No Account Debtor has any defense, set off, claim, or counterclaim against Debtor that can be asserted against Secured Party, whether in any proceeding to enforce Secured Party's rights in the Collateral, or otherwise.

5. **Covenants and Agreements of Debtor**

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

- a. **Preservation of Collateral.** To do all acts that may be necessary to maintain, preserve, and protect the Collateral.
- b. **Use of Collateral.** Not to use or permit any Collateral to be used unlawfully or in violation of any provision of this Security Agreement, any other agreement with Secured Party related hereto or any applicable statute, regulation, or ordinance or any policy of insurance covering the Collateral.
- c. **Payment of Taxes.** To pay promptly when due all taxes, assessments, charges, encumbrances and liens now or hereafter imposed upon or affecting any Collateral.
- d. **Defense of Litigation.** To appear in and defend any action or proceeding that may affect its title to or Secured Party's interest in the Collateral.

- e. **Possession of Collateral.** Not to surrender or lose possession of (other than to Secured Party), sell, encumber, lease, rent, or otherwise dispose of or transfer any Collateral or right or interest therein except as hereinafter provided, and to keep the Collateral free of all levies and security interests or other liens or charges except those approved in writing by Secured Party.
- f. **Compliance with Law.** To comply with all laws, regulations, and ordinances relating to the possession, operation, maintenance, and control of the Collateral.
- g. **Standard of Care by Secured Party.** That such care as Secured Party gives to the safekeeping of its own property of like kind shall constitute reasonable care of the Collateral when in Secured Party's possession.
- h. **Maintenance of Records.** To keep separate, accurate, and complete records of the Collateral and to provide Secured Party with such records and such other reports and information relating to the Collateral as Secured Party may request from time to time.
- i. **Further Assurances.** To procure, execute, and deliver from time to time any endorsements, notifications, registrations, assignments, financing statements, certificates of title, ship mortgages, aircraft mortgages, copyright mortgages assignments or mortgages of patents, mortgages of mask works, mortgages for filing pursuant to the Interstate Commerce Act, and other writings deemed necessary or appropriate by Secured Party to perfect, maintain, and protect its security interest in the Collateral hereunder and the priority thereof; and to take such other actions as Secured Party may request to protect the value of the collateral and of Secured Party's security interest in the Collateral, including, without limitation, provision of assurances from third parties regarding Secured Party's access to, right to foreclose on or sell, Collateral and right to realize the practical benefits of such foreclosure or sale.
- j. **Payment of Secured Party's Costs and Expenses.** To reimburse Secured Party upon demand for any costs and expenses, including, without limitation, attorney fees and disbursements, Secured Party may incur in preparing the Credit Documents and while exercising any right, power, or remedy provided by this Security Agreement or by law, all of which costs and expenses are included in the Obligations.
- k. **Notification Regarding Certain Types of Collateral.** To promptly notify Secured Party of inclusion in the Collateral after the date hereof of any aircraft, watercraft or vessels, railroad cars, railroad equipment, locomotives or other rolling stock intended for a use related to interstate commerce, trade names, trademarks, service marks, mask works, copyrights, patents, fixtures, or uncertificated securities.

- l. Notice of Changes.** To give Secured Party thirty (30) days prior written notice of any change in Debtor's residence or chief place of business or legal name or tradename(s) or style(s) set forth in the penultimate paragraph of this Security Agreement.
- m. Location of Records.** To keep the records concerning the collateral at the location(s) set forth in the penultimate paragraph of this Security Agreement and not to remove such records from such location(s) without the prior written consent of the Secured Party.
- n. Purchase Money Agreement.** If Secured Party gives value to enable Debtor to acquire rights in or the use of any Collateral, to use such value for such purpose.

6. Authorized Action by Secured Party

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

7. Default

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

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

Borrower shall fail to make any payment or there shall otherwise occur any event which would permit Secured Party to accelerate amounts outstanding to Borrower which are guaranteed by Debtor pursuant to the Credit Documents.

8. Remedies

Upon the occurrence of any such Event of Default, Secured Party may, at its option, and without notice to or demand on Debtor and in addition to all rights and remedies available to Secured Party under the Credit Documents, at law, in equity, or otherwise, do any one or more of the following:

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

9. Cumulative Rights

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

10. Waiver

Any waiver, forbearance or failure or delay by Secured Party in exercising any right, power, or remedy shall not preclude the further exercise thereof, and every right, power, or remedy of Secured Party shall continue in full force and effect until such right power or remedy is specifically waived in a writing executed by Secured Party. Debtor waives any right to require Secured Party to proceed against any person or to exhaust any Collateral or to pursue any remedy in Secured Party's power.

11. Setoff

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

12. Binding Upon Successors

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

13. Entire Agreement; Severability

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

14. Choice of Law

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

15. Amendment

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

16. Residence; Collateral Location Records

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

17. Addresses for Notices

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

EXECUTED this 11th day of May 2012.

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

DEBTOR:

DAWSON GEOPHYSICAL COMPANY

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

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

SECURED PARTY:

WESTERN NATIONAL BANK

508 West Wall Street, Suite 1100
Midland, Texas 79701

By: /s/ Marshall N. Vicknair
Marshall N. Vicknair
Senior Vice President

CERTIFICATION

I, Stephen C. Jumper, certify that:

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

Dated: August 9, 2012

/s/ Stephen C. Jumper

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

CERTIFICATION

I, Christina W. Hagan, certify that:

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

Dated: August 9, 2012

/s/ Christina W. Hagan

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

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

In connection with the quarterly report of Dawson Geophysical Company (the "Company") on Form 10-Q for the period ended June 30, 2012, 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 780(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2012

/s/ Stephen C. Jumper

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

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

In connection with the quarterly report of Dawson Geophysical Company (the "Company") on Form 10-Q for the period ended June 30, 2012, 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 780(d)); and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 9, 2012

/s/ Christina W. Hagan

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