U.S. SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
For the Fiscal Year Ended December 31, 2001
Commission File Number 0-14908

TGC INDUSTRIES, INC.
(Name of small business issuer in its charter)

Texas	74-2095844
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1304 Summit, Suite 2, Plano, Texas	75074
(Address of principal executive offices)	(Zip Code)

Issuer's telephone number: (972) 881-1099

Securities registered under Section 12(b) of the Exchange Act: NONE

Securities registered under Section 12(g) of the Exchange Act:
Common Stock ($.30 Par Value)
Series C 8% Convertible Exchangeable Preferred Stock ($1.00 Par Value)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 X No __

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB. (X)

State issuer's revenues (from continuing operations) for its most recent fiscal year: $10,101,117

State the aggregate market value of the registered voting stock (Common Stock, $.30 par value and Series C 8% Convertible Exchangeable Preferred Stock, $1.00 par value) held by non-affiliates computed by reference to the price at which the stock was sold on March 22, 2002: $967,440

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Class	Outstanding as of March 22, 2002
Common Stock ($.30 Par Value)	5,509,764

Documents Incorporated by Reference

Document	Part of the Form 10-KSB Into Which the Document is Incorporated
Portions of the Proxy Statement for Annual Meeting of shareholders to be held on June 13, 2002	Items 9 through 12 of Part III

Part I

ITEM 1. DESCRIPTION OF BUSINESS.

TGC Industries, Inc. ("TGC" or the "Company") is a Texas corporation engaged in the geophysical service business, primarily conducting Three-D ("3-D") surveys for clients in the oil and gas business. TGC's principal business office is located at 1304 Summit Avenue, Suite 2, Plano, Texas 75074. (Telephone: 972-881-1099).

History

In April 1980, Supreme Industries, Inc., formerly ESI Industries, Inc., ("Supreme") formed a wholly owned subsidiary that acquired certain equipment, instruments, and related supplies of Tidelands Geophysical Co., Inc. ("Tidelands"), a Houston-based corporation that had been organized in 1967 and was engaged in the business of conducting seismic, gravity, and magnetic surveys under contracts to companies in the exploration for oil and gas. In July 1986, Tidelands' name was changed to TGC Industries, Inc. ("TGC"). On June 30, 1986, the Board of Directors of Supreme and TGC approved a spin-off whereby substantially all of the shares of TGC owned by Supreme were distributed as a stock dividend to Supreme security holders.

On July 30, 1993, TGC acquired, through a wholly owned subsidiary, Chase Packaging Corporation ("Chase"), a specialty packaging business, principally supplying products to the agricultural industry, through the purchase of certain assets of the Chase Packaging division of Union Camp Corporation.

In June 1996, the Board of Directors of TGC approved the spin-off of Chase, effective July 31, 1996, whereby all of the shares of Chase owned by TGC were distributed as a stock dividend to the shareholders of TGC under the terms of the spin-off transaction. Pursuant to the terms of the spin-off, and following clearance by the Securities and Exchange Commission on March 7, 1997, the holders of TGC's Common Stock and, on an as-if-converted basis, the holders of TGC's Series C 8% Convertible Exchangeable Preferred Stock received the dividend distribution of Chase Common Stock.

During July 1996, the Company issued 1,150,350 shares of Series C 8% Convertible Exchangeable Preferred Stock ("Series C Preferred Stock") in a private placement offering with gross proceeds of approximately $5,800,000.

The Series C Preferred Stock sold in the private placement entitles the holder to receive cumulative cash dividends as, when and if declared by the Board of Directors at a rate of 8% per annum prior to any dividend or distribution in cash or other property on any class or series of stock junior to the Series C Preferred Stock. The dividends on the Series C Preferred Stock are payable as, when and if declared by the Board of Directors on January 1 and July 1 of each year, commencing January 1, 1997. The dividend on the Series C Preferred Stock is cumulative.

From the proceeds of the private placement, TGC made a capital contribution to Chase of $2,716,403 to facilitate the spin-off; and TGC retained $2,000,000 for the purchase of state-of-the-art geophysical recording equipment. Under the terms of the spin-off, the effective date of which was July, 31, 1996, TGC completed the spin-off of the business and assets relating to the Chase operations, except TGC retained the Portland, Oregon facility and canceled all inter-company debt owed by Chase to TGC.

The distribution of Chase Stock was March 7, 1997. On March 18, 1997, TGC sold the Portland, Oregon facility for $2,430,000 and applied such proceeds in satisfaction of the mortgage indebtedness with respect to such facility and in satisfaction of a debt obligation owing by TGC to Chase to pay to Chase any such proceeds in excess of the amount of the mortgage indebtedness.

As of July 31, 1996, the effective date of the spin-off, TGC Industries, Inc.'s only business has been the geophysical service business, primarily conducting Three-D ("3-D") surveys for clients in the oil and gas business.

On December 13, 1999, WEDGE Energy Services, L.L.C., ("WEDGE Energy") an affiliate of WEDGE Group Incorporated, a diversified Houston, Texas firm with interests in oil and gas services, purchased a $2,500,000 8.5% Convertible Subordinated Debenture, Series B due December 1, 2009 (the "Debenture"), of the Company. Proceeds of the financing together with other available funds were utilized for working capital and an expanded capital expenditure program. The Debenture, at WEDGE's option, could be converted into either preferred stock or common at a price of $1.15 per share.

The holders of the Company's outstanding Series C Preferred Stock, voted at the Annual Meeting held May 11, 2000, to consent to a new series of 8.5% Senior Convertible Preferred Stock ("Senior Preferred Stock"). The affirmative vote of the holders of two-thirds (2/3) of the outstanding shares of Series C Preferred Stock approved the new series of Senior Preferred Stock. As a result of the consent to the new series of Senior Preferred Stock by the Series C Preferred Stock shareholders and in accordance with the terms of the Debenture Agreement, WEDGE Energy, on May 17, 2000, converted its Debenture plus accrued interest into 2,252,445 shares of Senior Preferred Stock. Per the Debenture Agreement, dividends on the Senior Preferred Stock were paid by the issuance of additional shares of Senior Preferred Stock through December 1, 2000. As a result, 7,445 and 96,045 shares of Senior Preferred Stock were issued to WEDGE Energy as payment of the June 1, 2000, and December 1, 2000, dividends, respectively. WEDGE Energy elected to receive payment of the June 1, 2001, and December 1, 2001, dividends in additional shares of Senior Preferred Stock. As a result, 100,127 and 104,383 shares of Senior Preferred Stock were issued to WEDGE Energy as payment of the June 1, 2001, and December 1, 2001, dividends, respectively.

General Description of the Company's Business

Geophysical Business

Since its formation, TGC has engaged in the domestic geophysical services business principally through conducting seismic surveys and to a lesser extent through sales of gravity information from the Company's Data Bank to companies engaged in the exploration for oil and gas in the United States. Geophysics is the study of the structure and composition of the earth's interior and involves the measuring and interpretation of the earth's properties with appropriate instruments. Such studies are generally conducted by means of surveys performed by field crews employing seismic, gravity, or magnetic instruments to acquire data that is then interpreted by various means to obtain useful information for oil and gas companies. The two survey techniques used by the Company in acquiring geophysical data are seismic and

gravity. Land seismic surveys are the Company's principal method of data acquisition and are by far the most widely used geophysical technique. TGC's seismic crews use dynamite and vibroseis as energy sources for such surveys.

In July 1996, the Company purchased an Opseis Eagle 24-BIT 1500 channel recording system, cables and geophones for approximately $2,900,000, using $2,000,000 from proceeds from the Company's Series C Preferred Stock private placement, a $750,000 equipment loan, and funds from internal cash flow. In late November 1996, the Company purchased a second 1000 channel Eagle system using the proceeds and trade-in from TGC's two older systems along with equipment financing of $855,000 and internal cash flow. In 1997, TGC purchased an additional 1500 channels utilizing equipment financing of $2,242,685. The greater precision and improved subsurface resolution obtainable from 3-D seismic data have enabled energy companies in the U.S. to better evaluate important subsurface features. The processing and interpretation of seismic data acquired by TGC are transmitted by the Company to data processing centers (not owned or operated by the Company) designated by the clients for processing.

The Company's Data Bank contains gravity data, and to a lesser extent magnetic data, from many of the major oil and gas producing areas located within the United States. TGC does not have a seismic data bank. Data Bank information has been amassed through participatory surveys as well as speculative surveys funded by TGC alone. All data and interpretations may be licensed to customers at a fraction of the cost of newly acquired data.

In January 2002, the Company entered into a two year Joint Venture Agreement (the "Joint Venture") with a gravity data processing center, (the "Processing Center"). Per the Joint Venture the Company will furnish the Processing Center with approximately 100,000 stations of the Company's digitized gravity data, and the Processing Center, using industry standards along with the latest technological gravity data processing software and techniques will process the digitized data producing a data set (the "Data Set"). During the term of this Agreement the Company and the Processing Center will endeavor to market and license the Data Set. In consideration for the Processing Center's processing services utilizing its unique state-of-the-art gravity processing software and techniques, upon licensing by the Company or the Processing Center of any or all of the Data Set, the Company agrees to pay the Processing Center a twenty percent commission. Upon expiration of the Joint Venture, the Data Set and all related information provided the Processing Center will be returned to the Company. Revenue from the licensing of gravity data represents a small portion of the Company's total revenue, however, because the Data Bank has been fully amortized and only minimal expenses are incurred with each license agreement, revenues from the licensing of gravity data are very profitable. Though there can be no assurance, management believes the addition of the Data Set will enhance the Company's future gravity revenue thereby improving the Company's performance.

As a service business, the Company's domestic geophysical services business is not dependent upon the supply of raw materials or any other products and, therefore, the Company does not have arrangements with any raw material suppliers.

The Company has the capability of utilizing two seismic crews to perform its geophysical services and, in any given period, these crews may generate a significant portion of their respective revenues from one or more clients. For the year ended December 31, 2001, four customers accounted for

thirty-eight percent (38%), fourteen percent (14%), thirteen percent (13%) and thirteen percent (13%) of the Company's revenue, respectively. The Company enters into a general or master agreement with each of its clients for the provision of geophysical services and a supplementary agreement (which becomes a part of the general agreement) with respect to each particular job that the Company performs for a client. Under the terms of such agreements, the Company generally contracts to supply all personnel, transportation and equipment to perform seismic surveys for a given prospect for a fixed price plus reimbursement for certain third party charges. The Company generally bills its clients on a progressive basis over the term of the contract. The Company is generally obligated to maintain insurance against injury or damage to persons or equipment arising from the performance of its services and to indemnify its customers against all claims and liability arising therefrom. Management believes this insurance coverage is sufficient.

Prior to the second half of 1998, activity in the U.S. Geophysical Industry had increased with the success and acceptance of 3-D surveys. The improved cost effectiveness gained from the data acquisition and processing of 3-D surveys had resulted in increased profits for the U.S. operations of the major and independent oil companies. With these cost advantages and the uncertainty of foreign operations, many of the major U.S. oil companies increased participation in the domestic oil industry. However, beginning approximately in mid 1998, activity declined significantly due to a decline in the price of oil. As a result, TGC reduced its operations to one crew in 1999 and continued to operate one crew during 2000.

TGC experienced an increase in demand for its services in 2001 compared with 2000 securing a sufficient number of contracts to deploy a second seismic crew during the second quarter of 2001. TGC's other seismic crew was employed the majority of 2001. This increased level of activity resulted in a significant increase in revenue in 2001 over 2000. As a result of this increased revenue, TGC significantly reduced its loss from operations in 2001 compared with 2000. Although TGC experienced significant improvement in 2001, excess capacity remains in the land-based geophysical service industry and pricing continues to be very competitive. Company management continues to monitor expenses and, where possible, implement cost containment programs to remain highly competitive through this continued period of reduced industry activity. Despite the recent difficult industry conditions, management believes that bidding activity for seismic services will remain at or near current levels and the geophysical services industry has favorable long-term prospects.

In February 2002, the Company entered into an agreement with a corporation to dispose of the Company's shot hole drilling equipment, and to use the proceeds of the disposal to acquire five buggy-mounted Vibroseis units and purchase certain additional equipment needed to make the Vibroseis equipment compatible with the Company's recording equipment. A one-year $30,000 note payable to the corporation financed this additional equipment. The acquisition of this equipment opens up an opportunity in an existing market, in which the Company has not participated, thereby increasing its bidding opportunities. Though there can be no assurance, management believes the Company will be successful in securing its share of existing business in this market thereby improving its performance.

As of December 31, 2001, TGC employed 89 employees, supporting two seismic crews with a total of 82 crew members and direct support members. The Company believes its relationship with its employees to be satisfactory.

ITEM 2. DESCRIPTION OF PROPERTY.

The Company's headquarters are in leased facilities located in Plano, Texas from which it conducts all its current operations. These facilities include 8,000 square feet of office and warehouse space and an outdoor storage area of approximately 10,000 square feet. The monthly rent is $5,245. This facility is used to house corporate offices and serves as the headquarters for the geophysical business. The Company is not responsible for insuring the facilities. The condition of the Company's facilities is good and TGC management believes that these properties are suitable and adequate for the Company's foreseeable needs.

ITEM 3. LEGAL PROCEEDINGS.

The Company is a defendant in various legal actions that arose out of the normal course of business. In the opinion of Management, none of the actions will result in any significant loss to the Company.

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

No matters were submitted by the Company, during the fourth quarter of the fiscal year ended December 31, 2001, to a vote of the Company's security holders, through the solicitation of proxies or otherwise.

Part II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Company's Common Stock has traded on the NASDAQ SmallCap Market under the symbol "TGCI" since September 25, 1994.

The number of shareholders of record of TGCI's Common Stock as of March 22, 2002, was 112. Due to the number of shares held in nominee or street name, the Company believes that there are a significantly greater number of beneficial owners of its Common Stock. As of such date, CEDE & CO. held 4,176,893 shares in street name. On March 22, 2002, TGC's Common Stock was quoted at a closing sales price of $0.32. High and low sales prices (adjusted for the Reverse Split effective November 6, 1998) of TGC's Common Stock for the period of January 1, 2000, to December 31, 2001, were as follows:

Sales Price of TGC Common Stock

Date	High	Low
October 1 -- December 31, 2001	.750	.150
July 1 -- September 30, 2001	1.000	.500
April 1 -- June 30, 2001	1.590	.760
January 1 -- March 31, 2001	1.250	.625
October 1 -- December 31, 2000	1.250	.500
July 1 -- September 30, 2000	1.250	.625
April 1 -- June 30, 2000	1.875	.625
January 1 -- March 31, 2000	1.875	.688

The above sale quotations were furnished to TGC by the NASD.

On November 6, 1998, the Company effected a one-for-three reverse stock split of its Common Stock, whereby each three shares of issued and outstanding Common Stock was converted and combined into one share of Common Stock (the "Reverse Split"). The Common Stock commenced trading on a post-Reverse Split basis on November 9, 1998.

As a consequence of the Reverse Split: (1) pursuant to the provisions for adjustment of the conversion ratio of the Company's Series C Preferred Stock, the conversion price per share of Common Stock on a post-Reverse Split basis increased from $0.75 to $2.25 per share; and (2) pursuant to the terms for adjustment to the exercise price of the Company's Common Share Purchase Warrants, each Warrant purchased on a post-Reverse Split basis, 1/3 of a share of Common Stock at a price of $1.125 per share of Common Stock. Under the terms of the Warrant Agreement dated July 28, 1995 (and all amendments thereto) for the Company's Common Share Purchase Warrants, that have expired, any outstanding unexercised Warrant Certificates were automatically deemed exercised on behalf of each record holder of Warrant Certificates into shares of the Company's Common Stock at the rate of one-tenth (1/10th) of a share of common stock for each three Warrants. There was no exercise price payable to the Company in connection with this deemed exercise.

On June 3, 1999, the TGC Board of Directors voted that in lieu of declaring the July 1999 semi-annual dividend on the Series C Preferred Stock to reduce, on a post-Reverse Split basis, the initial conversion price of the Series C Preferred Stock from $2.25 per share of Common Stock to $2.00 per share of Common Stock and delay the increase in the conversion price of the Series C Preferred Stock until the close of business on December 31, 2001. The increase in the conversion price of the Series C Preferred Stock from $2.00 per share of Common Stock to $3.75 per share of Common Stock, following the reduction described above, was otherwise scheduled to increase at the close of business on December 31, 2000. As a result of the adjustments described above, the conversion price of the Series C Preferred Stock was $2.00 per share of Common Stock if exercised prior to the close of business on December 31, 2001. After December 31, 2001 and prior to the close of business on December 31, 2002, the conversion price per share of Common Stock was $3.75. Thereafter, the conversion price will be $6.00 per share of Common Stock.

At a November 30, 2001 meeting, the Company's Board of Directors, in an effort to encourage the conversion of Series C Preferred Stock into shares of Common Stock, voted to reduce, on a post-Reverse Split basis, the conversion price of the Series C Preferred Stock from $2.00 per share of Common Stock to $1.61 per share of Common Stock. In addition, the Board of Directors voted to extend the conversion price increase date of the Series C Preferred Stock from the close of business on December 31, 2001 until the close of business on January 31, 2002. As a result, the conversion price was $1.61 per share of Common Stock if converted prior to the close of business on January 31, 2002. After January 31, 2002, and prior to the close of business on December 31, 2002, the conversion price per share of Common Stock shall be $3.75. Thereafter, the conversion price per share of Common Stock shall be $6.00.

As of January 31, 2002, a total of 1,092,250 shares of Series C Preferred Stock had been converted into shares of Common Stock. As a result, 58,100 shares of Series C Preferred Stock remained outstanding at January 31, 2002.

Dividends are payable on the Company's Common Stock at the discretion of the Board of Directors. In light of the working capital needs of the Company, it is unlikely that cash dividends will be declared and paid on the Company's Common Stock in the foreseeable future.

The Company has been notified by NASDAQ of potential delisting of the Company's Common Stock for: (1) having failed to maintain a minimum market value of publicly held shares of $1,000,000, and (2) having failed to equal or exceed the minimum bid price requirement of $1 per share, in each case for thirty (30) consecutive trading days. The Company, as a condition to continued listing of its securities on the SmallCap Market, must satisfy these requirements for a minimum of ten (10) consecutive trading days by May 15, 2002 and August 13, 2002, respectively. As of March 22, 2002, the Company's market value of publicly held shares was $942,651. As set forth in the notification from NASDAQ, if at any time before May 15, 2002 the market value of publicly held shares of the Company's Common Stock is $1,000,000 or more for a minimum of ten (10) consecutive trading days, the NASDAQ staff will provide written notification to the Company that it complies with this requirement. If the Company fails to satisfy this requirement, the NASDAQ staff will provide written notification that the Company's Common Stock will be delisted. At that time the Company may appeal the staff's determination to a Listing Qualifications Panel. Although there can be no assurance, management of the Company believes that the Company's market value of publicly held shares will meet this requirement before May 15, 2002. With respect to the requirement that the Company's Common Stock equal or exceed the minimum bid price requirement of $1 per share, if at any time before August 13, 2002, the Company's Common Stock closes at $1 per share or more for a minimum of ten (10) consecutive trading days, the NASDAQ staff will provide written notification to the Company that it complies with this requirement. If the Company fails to satisfy this requirement, the NASDAQ staff will provide written notification that the Company's Common Stock will be delisted. At that time the Company may appeal the staff's determination to a Listing Qualifications Panel. At the present time, the Board of Directors of the Company has not made a determination as to what action, if any, may be taken with respect to addressing the failure of the Company's Common Stock to meet the minimum bid price requirement.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Results of Operations

Geophysical Operation (Continuing Operations)

Revenues for the year ended December 31, 2001 were $10,101,117 compared with revenues of $6,455,915 for the year ended December 31, 2000. The Company incurred a net loss, before dividend requirements on preferred stock, of $(1,148,843) for the year ended December 31, 2001 compared with a net loss, before dividend requirements on preferred stock of $(1,912,064) for the

year ended December 31, 2000. The net loss of $(1,912,064), before dividend requirements on preferred stock, for the year ended December 31, 2000 included a charge of $202,000 for deferred income tax expense, due to an increase to provide a 100% valuation allowance on the Company's net deferred tax assets.

The Company's shareholders, at a special meeting of shareholders on November 5, 1998, approved an Amendment to the Company's Articles of Incorporation to effect a one-for-three reverse stock split of its Common Stock (the "Reverse Split"). The Reverse Split was effected on November 6, 1998, and the Common Stock commenced trading on a post-Reverse Split basis on November 9, 1998. All references to number of shares, except shares authorized, and to per share information have been adjusted to reflect the reverse stock split.

TGC's cost of services, as a percentage of revenue, decreased to 102.1% in 2001 from 109.3% in 2000. This percentage decrease was principally a result of the increased revenue level in 2001. Selling, general and administrative expense decreased to $916,258 in 2001 from $969,875 in 2000. This decrease was primarily the result of TGC closing its Colorado sales office in mid 2000 and a reduction in legal expenses in 2001. Interest expense decreased by $124,258 to $18,067 in 2001 compared to $142,325 in 2000. This decrease was the result of the conversion by WEDGE Energy in May 2000, of its Debenture, plus accrued interest, into Senior Preferred Stock and certain debt issues that matured in late 2000. Non-cash charges for depreciation and amortization were $1,617,515 in 2001 compared with $1,644,331 in 2000.

For over thirty years, TGC has successfully served the geophysical industry. However, due to a significant decline in spending for seismic services, that began in mid 1998, by a number of oil and gas clients as a result of significantly lower oil prices, TGC reduced its operations to one seismic acquisition crew in 1999. TGC continued to operate at this one crew level during 2000. Early in 2001, TGC experienced an increase in demand for its services securing a sufficient number of contracts to deploy a second seismic crew during the second quarter of 2001. Operating at a two-crew level enabled TGC to significantly increase revenues and decrease its losses in 2001. However, 2001 revenues failed to attain sufficient levels to return the Company to profitability in 2001. Excess capacity remains in the land-based geophysical service industry and pricing continues to be very competitive. Company management continues to monitor expenses and, where possible, implement cost containment programs to remain highly competitive through this continued period of reduced industry activity. Despite the recent difficult industry conditions, management believes that bidding activity for seismic services will remain at or near current levels and the geophysical services industry has favorable long-term prospects.

In January 2002, the Company entered into a two year Joint Venture Agreement (the "Joint Venture") with a gravity data processing center, (the "Processing Center"). Per the Joint Venture the Company will furnish the Processing Center with approximately 100,000 stations of the Company's digitized gravity data, and the Processing Center, using industry standards along with the latest technology gravity data processing software and techniques, will process the digitized data producing a data set (the "Data Set"). During the term of this Agreement the Company and the Processing Center will endeavor to market and license the Data Set. In consideration for the Processing Center's processing services utilizing its unique state-of-the-art gravity processing software and techniques, upon licensing by the Company or the Processing Center of any or all of the Data Set, the Company

agrees to pay the Processing Center a twenty percent commission. Upon expiration of the Joint Venture, the Data Set and all related information provided the Processing Center will be returned to the Company. Revenue from the licensing of gravity data represents a small portion of the Company's total revenue, however, because the Data Bank has been fully amortized and only minimal expenses are incurred with each license agreement, revenues from the licensing of gravity data are very profitable. Although there can be no assurance, management believes the addition of the Data Set will enhance the Company's future gravity revenue thereby improving the Company's performance.

In February 2002, the Company entered into an agreement with a corporation to dispose of the Company's shot hole drilling equipment, and to use the proceeds of the disposal to acquire five buggy-mounted Vibroseis units and purchase certain additional equipment needed to make the Vibroseis equipment compatible with the Company's recording equipment. A one-year $30,000 note payable to the corporation financed this additional equipment. The acquisition of this equipment opens up an opportunity in an existing market, in which the Company has not participated, thereby increasing its bidding opportunities. Although there can be no assurance, management believes the Company will be successful in securing its share of existing business in this market thereby improving its performance.

This report contains forward-looking statements which reflect the view of Company's management with respect to future events. Although management believes that the expectations reflected in such forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from such expectations are disclosed in the Company's Securities and Exchange Commission filings, and include, but are not limited to the dependence upon energy industry spending for seismic services, the unpredictable nature of forecasting weather, the potential for contract delay or cancellation, the potential for fluctuations in oil and gas prices, and the availability of capital resources. The forward-looking statements contained herein reflect the current views of the Company's management and the Company assumes no obligation to update the forward-looking statements or to update the reasons actual results could differ from those contemplated by such forward-looking statements.

At December 31, 2001, the Company had net operating loss carry forwards of approximately $8,100,000 available to offset future taxable income, which expires at various dates through 2021.

Discontinued Operations

During June 1996, the Board of Directors approved the spin-off of Chase Packaging Corporation ("Chase"), whereby all of the shares of Chase would be distributed as a stock dividend to the shareholders of TGC common stock and, on an as if converted basis, TGC preferred stock, effective July 31, 1996. The date of the distribution of Chase's stock was March 7, 1997. The spin-off distribution of Chase to TGC stockholders reduced stockholders' equity by $103,976, which represents the book value of the net assets of Chase as of March 7, 1997. In addition, on March 18, 1997, TGC sold the Portland, Oregon manufacturing facility of Chase for approximately $2,400,000, and applied such proceeds in satisfaction of the mortgage indebtedness with respect to such facility and in satisfaction of a debt obligation owing by TGC to Chase to pay to Chase any such proceeds in excess of the amount of the mortgage indebtedness.

Financial Condition

Cash of $1,435,767 was provided by operations for the twelve months ended December 31, 2001, compared with cash used in operations of $383,582 for the same period of the prior year. The reasons for the increase in cash from operations in 2001 compared with 2000 were a significant increase in revenue that resulted in a decrease in the net loss, a higher level of receivable collections and the Company's management of payables. Net cash of $244,542 was used in investing activities during 2001. This was principally the result of capital expenditures in the amount of $250,542 required to deploy the second seismic crew during the second quarter of 2001 and to replace certain vehicles and equipment that had become worn-out during 2001. Principal payments of debt obligations in the amount of $244,225, principal payments on capital lease obligations of $165,936, and proceeds of $3,766 from the exercise of warrants resulted in net cash of $406,395 being used in financing activities in 2001. The capital leases entered into in 2001 were primarily for equipment to field the second crew and replace certain other equipment. The lives of these capital-leases range in length from six months to three years. The Company anticipates that available funds, together with anticipated cash flows generated from future operations will be sufficient to meet the Company's minimum lease and note payment obligations.

Working capital decreased $117,178 to $212,356 at December 31, 2001 from the December 31, 2000, working capital of $329,534. The Company's current ratio decreased to 1.1 to 1.0 at December 31, 2001 from 1.4 to 1.0 at December 31, 2000. Stockholders' equity decreased to $3,026,783 at December 31, 2001, from the December 31, 2000, balance of $4,171,860 due primarily to the net loss incurred in 2001 of $1,148,843.

In September 2001, the Company entered into a three year operating lease for the Company's headquarters facility located in Plano, Texas. The Company anticipates that available funds, together with anticipated cash flows generated from future operations will be sufficient to meet the Company's minimum rental payment obligations that are as follows: $63,720 in 2002, $67,041 in 2003, and $52,488 in 2004.

On November 7, 2001, the Company entered into an unsecured revolving line of credit arrangement with a bank, providing for borrowings of up to $125,000. The facility bears interest at prime plus 1% (5.75% at December 31, 2001) per annum, and matures in October 2002. The Company has no borrowings under this arrangement but has committed the availability to irrevocable letters of credit totaling $125,000 which also expire in October 2002. Therefore, the Company has no borrowing availability under this line of credit. The letters of credit, with an insurance company as beneficiary, will be used to guarantee continuing seismic insurance bonds totaling $125,000, issued by the insurance company to two states in which the Company performs seismic surveys. In the opinion of management, the chances that the insurance company will draw on the letters of credit are improbable.

The holders of the Company's outstanding Series C 8% Convertible Exchangeable Preferred Stock ("Series C Preferred Stock"), voted at the Annual Meeting held May 11, 2000, to consent to a new series of Senior Preferred Stock. The affirmative vote of the holders of two-thirds (2/3) of the outstanding shares of Series C Preferred Stock approved the new series of Senior Preferred Stock. As a result of the consent to the new series of Senior Preferred Stock by the Series C Preferred Stock shareholders and in accordance with the terms of the Debenture Agreement, WEDGE Energy, on May

17, 2000, converted its Debenture plus accrued interest into 2,252,445 shares of Senior Preferred Stock. Per the Debenture Agreement, dividends on the Senior Preferred Stock were paid by the issuance of additional shares of Senior Preferred Stock through December 2000. As a result, 103,490 shares of Senior Preferred Stock were issued to WEDGE Energy as payment for the June and December 2000 dividends. WEDGE Energy elected to receive payment of the June 2001, and December 2001, dividends in additional shares of Senior Preferred Stock. As a result, 100,127 and 104,383 shares of Senior Preferred Stock were issued to WEDGE Energy as payment of the June and December 2001, dividends, respectively.

At a November 30, 2001 meeting, the Company's Board of Directors, in an effort to encourage the conversion of Series C Preferred Stock into shares of Common Stock, voted to reduce, on a post-Reverse Split basis, the conversion price of the Series C Preferred Stock from $2.00 per share of Common Stock to $1.61 per share of Common Stock. In addition, the Board of Directors voted to extend the conversion price increase date of the Series C Preferred Stock from the close of business on December 31, 2001 until the close of business on January 31, 2002. As a result, the conversion price was $1.61 per share of Common Stock if converted prior to the close of business on January 31, 2002. After January 31, 2002, and prior to the close of business on December 31, 2002, the conversion price per share of Common Stock shall be $3.75. Thereafter, the conversion price per share of Common Stock shall be $6.00. This action by the Board of Directors has resulted in 977,550 shares of Series C Preferred Stock being converted into 3,030,539 shares of Common Stock since December 31, 2001. As a result, 58,100 shares of Series C Preferred Stock remained outstanding at January 31, 2002 and the cumulative dividends in arrears on the Series C Preferred Stock were $69,720 at January 31, 2002 compared with $1,242,780 at December 31, 2001 as noted in Note H of Notes To Financial Statements.

The Company anticipates that available funds, together with anticipated cash flows generated from future operations will be sufficient to meet the Company's cash needs during 2002, so long as one of the Company's two crews is employed, of which there is no assurance.

ITEM 7. FINANCIAL STATEMENTS.

Financial Statements
December 31, 2001 and 2000

CONTENTS

Report of Independent Certified Public Accountants

Board of Directors and Stockholders
TGC Industries, Inc.

We have audited the accompanying balance sheets of TGC Industries, Inc. as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TGC Industries, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

GRANT THORNTON LLP

Dallas, Texas
February 19, 2002

TGC Industries, Inc.

BALANCE SHEETS

December 31,

ASSETS	2001	2000
CURRENT ASSETS		
Cash and cash equivalents	$ 1,043,961	$ 259,131
Trade accounts receivable	1,255,954	894,764
Costs and estimated earnings in excess of billings on uncompleted contracts	20,134	8,550
Prepaid expenses and other	72,819	72,085
Total current assets	2,392,868	1,234,530
PROPERTY AND EQUIPMENT - at cost		
Machinery and equipment	11,585,080	11,187,043
Automobiles and trucks	887,226	757,111
Furniture and fixtures	323,323	323,323
Other	6,810	4,536
	12,802,439	12,272,013
Less accumulated depreciation and amortization	(9,831,017)	(8,309,781)
	2,971,422	3,962,232
OTHER ASSETS	4,824	395
	$ 5,369,114	$ 5,197,157

TGC Industries, Inc.

BALANCE SHEETS - CONTINUED

December 31,

LIABILITIES AND STOCKHOLDERS' EQUITY	2001	2000
CURRENT LIABILITIES		
Trade accounts payable	$ 1,067,506	$ 336,876
Accrued liabilities	176,986	140,535
Billings in excess of costs and estimated earnings on uncompleted contracts	763,001	179,050
Current maturities of notes payable	15,475	244,225
Current portion of capital lease obligations	157,544	4,310
Total current liabilities	2,180,512	904,996
NOTES PAYABLE, less current maturities	104,826	120,301
CAPITAL LEASE OBLIGATIONS, less current portion	56,993	-
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY		
Preferred stock, $1.00 par value; 4,000,000 shares authorized;		
8.5% senior convertible preferred stock; 2,560,445 and 2,355,935 shares issued and outstanding in 2001 and 2000, respectively	2,560,445	2,355,935
8% Series C convertible exchangeable preferred stock; 1,150,350 shares issued, 1,035,650 and 1,085,550 shares outstanding at 2001 and 2000, respectively	1,035,650	1,085,550
Common stock, $.30 par value; 25,000,000 shares authorized; 2,511,169 and 2,360,818 shares issued in 2001 and 2000, respectively	753,350	708,245
Additional paid-in capital	5,413,336	5,609,285
Accumulated deficit	(6,520,684)	(5,371,841)
Treasury stock, at cost (31,944 shares in 2001 and 2000)	(215,314)	(215,314)
	3,026,783	4,171,860
	$ 5,369,114	$ 5,197,157

The accompanying notes are an integral part of these statements.

TGC Industries, Inc.

STATEMENTS OF OPERATIONS

Years ended December 31,

	2001	2000
Revenue	$10,101,117	$ 6,455,915
Cost and expenses		
Cost of services	10,315,635	7,053,779
Selling, general and administrative	916,258	969,875
Interest expense	18,067	142,325
	11,249,960	8,165,979
Loss from operations before income taxes	(1,148,843)	(1,710,064)

Income tax expense		
Deferred	-	202,000
Net loss	(1,148,843)	(1,912,064)
Less dividend requirements on preferred stock	(651,112)	(572,426)
Loss allocable to common stockholders	$ (1,799,955)	$(2,484,490)
Loss per common share - basic and diluted	$(.75)	$(1.08)
Weighted average number of common shares - basic and diluted	2,407,036	2,296,210

The accompanying notes are an integral part of these statements.

TGC Industries, Inc.

STATEMENT OF STOCKHOLDERS' EQUITY

	Preferred stock		Common stock		Additional paid-in capital	Accumulated deficit	Treasury stock	Total
	Shares	Amount	Shares	Amount				
Balances at January 1,2000	1,115,750	$1,115,750	2,285,318	$685,595	$5,367,358	$(3,459,777)	$(215,314)	$3,493,612
Conversion of note into preferred stock	2,252,445	2,252,445	-	-	337,867	-	-	2,590,312
Conversion of preferred stock	(30,200)	(30,200)	75,500	22,650	7,550	-	-	-
Dividend on 8-1/2% senior convertible preferred stock	103,490	103,490	-	-	(103,490)	-	-	-
Net loss	-	-	-	-	-	(1,912,064)	-	(1,912,064)
Balances at December 31, 2000	3,441,485	3,441,485	2,360,818	708,245	5,609,285	(5,371,841)	(215,314)	4,171,860
Exercise of stock warrants	-	-	3,333	1,000	2,766	-	-	3,766
Common stock issued for redeemed stock warrants	-	-	22,268	6,680	(6,680)	-	-	-
Conversion of preferred stock	(49,900)	(49,900)	124,750	37,425	12,475	-	-	-
Dividend on 8-1/2% senior convertible preferred stock	204,510	204,510	-	-	(204,510)	-	-	-
Net loss	-	-	-	-	-	(1,148,843)	-	(1,148,843)
Balances at December 31, 2001	3,596,095	$3,596,095	2,511,169	$753,350	$5,413,336	$(6,520,684)	$(215,314)	$3,026,783

The accompanying notes are an integral part of these statements.

TGC Industries, Inc.

STATEMENTS OF CASH FLOWS

Years ended December 31,

	2001	2000
Cash flows from operating activities		
Net loss	$(1,148,843)	$(1,912,064)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	1,617,515	1,644,331
Gain on disposal of property and equipment	(6,000)	(22,508)
Deferred income taxes	-	202,000
Changes in operating assets and liabilities		
Trade accounts receivable	(361,190)	(894,764)
Costs and estimated earnings in excess of billings on uncompleted contracts	(11,584)	(8,550)
Prepaid expenses and other	(734)	(27,606)
Other assets	(4,429)	100
Trade accounts payable	730,630	285,944
Accrued liabilities	36,451	170,485
Billings in excess of costs and estimated earnings on uncompleted contracts	583,951	179,050
Net cash provided by (used in) operating activities	1,435,767	(383,582)
Cash flows from investing activities		
Capital expenditures	(250,542)	(543,311)
Proceeds from sale of property and equipment	6,000	22,508
Net cash used in investing activities	(244,542)	(520,803)
Cash flows from financing activities		
Proceeds from exercise of warrants	3,766	-
Proceeds from issuance of debt	-	79,304
Principal payments on notes payable	(244,225)	(808,428)
Principal payments on capital lease obligations	(165,936)	(6,034)
Net cash used in financing activities	(406,395)	(735,158)
Net increase (decrease) in cash and cash equivalents	784,830	(1,639,543)
Cash and cash equivalents at beginning of year	259,131	1,898,674
Cash and cash equivalents at end of year	$ 1,043,961	$ 259,131

TGC Industries, Inc.

STATEMENTS OF CASH FLOWS - CONTINUED

Years ended December 31,

	2001	2000
Supplemental cash flow information		
Interest paid	$ 18,067	$ 153,360
Income taxes paid	$ -	$ -
Noncash investing and financing activities		
Capital lease obligations incurred	$ 376,163	$ 10,344

During 2000, the holder of the Company's $2,500,000 debenture payable converted the debenture and accrued interest of $90,312 into 2,252,445 shares of 8.5% Senior Preferred Stock. In accordance with the terms of the Debenture Agreement, dividends payable through December 1, 2000 were paid by the issuance of additional 103,490 shares of 8.5% Senior Preferred Stock. At the election of the Senior Preferred Stockholder, 100,127 and 104,383 shares of 8.5% Senior Preferred Stock were issued to the Senior Preferred Stockholder as payment for the June 1, 2001 and December 1, 2001 dividends, respectively.

The accompanying notes are an integral part of these statements.

TGC Industries, Inc.

NOTES TO FINANCIAL STATEMENTS

December 31, 2001 and 2000

NOTE A - NATURE OF OPERATIONS

TGC Industries, Inc. (TGC or the Company) is engaged in the domestic geophysical services business and primarily conducts seismic surveys and sells gravity data to companies engaged in exploration in the oil and gas industry.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash Equivalents

The Company considers all highly liquid investments with original maturity dates of three months or less to be cash equivalents.

Property and Equipment

Property and equipment are stated at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the individual assets ranging from 1 to 7 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expenses as incurred.

Long-Lived Assets

Long-lived assets held and used by the Company are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For the purposes of evaluating the recoverability of long-lived assets, the recoverability test is performed using undiscounted cash flows estimated to be generated by those assets.

Income Taxes

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes.

Stock-Based Compensation

The Company accounts for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25(APB 25), "Accounting for Stock Issued to Employees" and provides the required pro forma disclosures prescribed by Statement of Financial Accounting Standards No. 123.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial Instruments

The Company's financial instruments recorded on the balance sheet include cash and cash equivalents, accounts receivable, accounts payable and debt. The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short-term nature of these items. Fair value of long-term debt is based on rates available to the Company for debt with similar terms and maturities.

Revenue Recognition

Revenues from conducting seismic surveys are recognized over the term of the contract using the percentage-of-completion method. Under this method, revenues are recognized on the units-of-production method. Revenues for the sale of gravity data are recognized when services are rendered.

Earnings (Loss) Per Share

Basic earnings (loss) per common share is based upon the weighted average number of shares of common stock outstanding. Diluted earnings (loss) per share is based upon the weighted average number of common shares outstanding and, when dilutive, common shares issuable for stock options, warrants and convertible securities.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Use of Estimates

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

New Accounting Standards

In July 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 141 ("SFAS 141"), "Business Combinations," which eliminates the pooling method of accounting for business combinations initiated after June 30, 2001. In addition, SFAS 141 addresses the accounting for intangible assets and goodwill acquired in a business combination. This portion of SFAS 141 is effective for business combinations completed after June 30, 2001. The Company does not expect SFAS 141 will have a material impact on the Company's financial position or results of operations.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 ("SFAS 142"), "Goodwill and Intangible Assets," which revises the accounting for purchased goodwill and intangible assets. Under SFAS 142, goodwill and intangible assets with indefinite lives will no longer be amortized, but will be tested for impairment annually as well as in the event of an impairment indicator. The Company will adopt SFAS 142 effective January 1, 2002. The adoption of this statement is expected to have no impact on the Company's financial position or results of operations.

In October 2001, the FASB issued Statement of Financial Accounting Standards No. 144 ("SFAS 144"), "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets. This statement supersedes Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("SFAS 121") and related literature and establishes a single accounting model, based on the framework established in SFAS 121, for long-lived assets to be disposed of by sale. The Company is required to adopt SFAS 144 for fiscal years beginning after December 15, 2001. The Company does not expect SFAS 144 will have a material impact on the Company's financial position or results of operations.

NOTE C - COSTS AND ESTIMATED EARNINGS ON UNCOMPLETED CONTRACTS

The components of uncompleted contracts are as follows:

	December 31, 2001	December 31, 2000
Costs incurred on uncompleted contracts and estimated earnings	$ 628,019	$ 127,680
Less billings to date	(1,370,886)	(298,180)
	$ (742,867)	$(170,500)

The components of uncompleted contracts are reflected in the balance sheets at December 31, 2001 and 2000 as follows:

	2001	2000
Costs and estimated earnings in excess of billings on uncompleted contracts	$ 20,134	$ 8,550
Billings in excess of costs and estimated earnings on uncompleted contracts	(763,001)	(179,050)
	$(742,867)	$(170,500)

NOTE D - ACCRUED LIABILITIES

Accrued liabilities consist of the following:

	December 31, 2001	December 31, 2000
Compensation and payroll taxes	$ 77,697	$ 25,994
Insurance	35,000	48,000
Other	64,289	66,541
	$176,986	$140,535

NOTE E - DEBT

Line of Credit

During 2001, the Company entered into an unsecured revolving line of credit arrangement with a bank, providing for borrowings of up to $125,000. The facility bears interest at prime plus 1% (5.75% at December 31, 2001) per annum, and matures in October 2002. The Company had no borrowings under this arrangement at December 31, 2001, but had committed the availability to irrevocable letters of credit totaling $125,000 which also expire in October 2002. Therefore, the Company had no borrowing availability under this line of credit at December 31, 2001.

Notes Payable

Notes payable consist of the following:

	December 31, 2001	December 31, 2000
Note payable to a finance company, interest at 4%, due in monthly installments of $552 including interest; collateralized by equipment and accounts receivable	$103,850	$106,142
Note payable to a finance company, interest at 4%, due in monthly installments of $1,130 including interest; collateralized by equipment and accounts receivable	16,451	28,962
Note payable to a finance company, interest at 9.5%, due in monthly installments of $5,143 including interest; collateralized by equipment	-	34,928
Note payable to a finance company, interest at 8.7%, due in monthly installments of $5,038 including interest; collateralized by equipment	-	43,796
Note payable to a finance company, interest at 8.8%, due in monthly installments of $4,974 including interest; collateralized by equipment	-	57,061
Note payable to a finance company, interest at 9.4%, due in monthly installments of $12,104 including interest, collateralized by equipment	-	93,637
	$120,301	$364,526

NOTE E - DEBT - Continued

Aggregate annual maturities of notes payable at December 31, 2001 are as follows:

Year ending December 31,	
2002	$ 15,475
2003	5,854
2004	2,594
2005	2,702
2006	2,816
Thereafter	90,860
	120,301
Less current maturities	15,475
	$104,826

Subordinated Debt

On December 14, 1999, the Company issued a $2,500,000 convertible subordinated debenture to a corporation. The debenture bore interest at 8.5%, payable semi-annually, and was to mature in December 2009. The debenture was converted into 8.5% Senior Preferred Stock at a conversion price of $1.15 per share on May 17, 2000.

NOTE F - LEASES

Capital Leases

The Company leases certain specialized seismic equipment under leases classified as capital leases. The following is a schedule showing the future minimum lease payments under capital leases by years and the present value of the minimum lease payments as of December 31, 2001.

Year ending December 31,	
2002	$164,283
2003	38,913
2004	22,384
Total minimum lease payments required	225,580
Less: Amount representing interest	11,043
Present value of minimum lease payments	$214,537

The net book value of the capital assets leased as of December 31, 2001 was $344,536. Total accumulated depreciation on these assets as of December 31, 2001 was $31,627.

Operating Leases

The Company leases office space under an operating lease that expires September 30, 2004. The lease expense for the years ended December 31, 2001 and 2000, was $61,617 and $58,584, respectively.

The following is a schedule by years of future minimum rental payments required under the operating lease as of December 31, 2001:

Year ending December 31:	
2002	$ 63,720
2003	67,041
2004	52,488
Total minimum payments required	$183,249

NOTE G - FAIR VALUE OF DEBT OBLIGATIONS

The fair value of debt obligations is estimated using discounted cash flows based on the Company's incremental borrowing rate for similar types of borrowings. A comparison of the carrying value and fair value of these instruments is as follows:

	December 31, 2001	December 31, 2000
Carrying value	$ 120,301	$364,526
Fair value	$ 87,821	$311,033

NOTE H - STOCKHOLDERS' EQUITY

Earnings Per Share

The effect of preferred stock dividends on the amount of loss available to common stockholders was $.27 and $.25 for the years ended December 31, 2001 and 2000, respectively.

Outstanding warrants that were not included in the diluted calculation because their effect would be anti-dilutive total 850,000 and 1,136,575 for the years ended December 31, 2001 and 2000, respectively. Outstanding options that were not included in the diluted calculation because their effect would be anti-dilutive total 258,827 and 185,757 for the years ended December 31, 2001 and 2000, respectively.

Stock-Based Compensation Plans

The Company's 1986 Incentive Stock Option Plan (the "1986 Plan") expired during July 1997. All 6,335 options outstanding at December 31, 2000 expired unexercised during 2001.

The Company currently has in effect a 1993 Stock Option Plan (the "1993 Plan") covering a total of 283,334 shares of the Company's common stock. Options under the 1993 Plan must be granted at prices not less than the market price at the date of grant and must be exercised within five years from the date of grant. Options covering 54,004 shares expired or were canceled during 2001. Options covering 30,000 shares are exercisable as follows: (i) one-third of the shares on January 1, 1999, and (ii) all of the shares after January 1, 2000. Options covering 33,100 shares are exercisable as follows: (i) one-third of the shares after the 12 month period following the date of the grant, (ii) two-thirds of the shares after the 24 month period following the date of the grant, and (iii) all of the shares of stock after the 36 month period following the date of the grant. At December 31, 2001, outstanding options for 52,067 shares were exercisable.

NOTE H - STOCKHOLDERS' EQUITY - CONTINUED

In conjunction with the spin-off of the Company's wholly-owned subsidiary, Chase Packaging Corporation (Chase), in 1996, options held by employees of Chase under the 1993 Plan were converted into a nonqualified plan. All 53,058 options outstanding at December 31, 2000 expired unexercised during 2001.

The Company currently has in effect a 1999 stock option plan (the "1999 Plan") covering up to 300,000 shares of the Company's common stock. Options under the 1999 Plan must be granted at prices not less than the lesser of the par value per share of the stock or the fair market value per share of the Company's stock on the date of the grant, and their term cannot exceed ten years from the date of the grant. Options outstanding at December 31, 2001, covering 169,000 shares, expire five years from the date of the grant and are exercisable as follows: (i) one-third of the shares after the 12 month period following the date of the grant, (ii) two-thirds of the shares after the 24 month period following the date of the grant, and (iii) all of the shares of stock after the 36 month period following the date of the grant. At December 31, 2001, outstanding options covering 56,333 shares were exercisable.

NOTE H - STOCKHOLDERS' EQUITY - CONTINUED

The following table summarizes activity under the Plans:

	Shares under option	Weighted average exercise price
Balance at January 1, 2000	176,497	$1.92
Granted	169,000	1.00
Balance at December 31, 2000	345,497	1.47
Canceled/expired	(113,397)	.33
Balance at December 31, 2001	232,100	$.96
Exercisable at December 31:		
2001	108,400	$ .95
2000	151,762	$2.11

The following information applies to options outstanding at December 31, 2001:

Range of exercise prices	Number outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price
$.75 - $1.00	232,100	7.14	$.96

The following information applies to options exercisable at December 31, 2001:

Range of exercise prices	Number exercisable	Weighted average exercise price
$.75 - $1.00	108,400	$.95

The Company has adopted only the disclosure provisions of SFAS 123. The Company will continue to apply APB 25 and related interpretations in accounting for its stock-based compensation plans. Had compensation cost for the Company's stock grants been determined consistent with SFAS 123, the Company's net loss and net loss per common share for 2001 and 2000 would approximate the pro forma amounts indicated below:

NOTE H - STOCKHOLDERS' EQUITY - Continued

	2001		2000	
	As reported	Pro forma	As reported	Pro forma
Net loss	$(1,148,843)	$(1,213,073)	$(1,912,064)	$(1,926,337)
Net loss allocable to common stockholders	$(1,799,955)	$(1,864,185)	$(2,484,490)	$(2,498,763)
Loss per common share basic and diluted	$(.75)	$(.77)	$(1.08)	$(1.09)

The fair value of the options granted during 2000 was estimated at the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants: expected volatility of 192%; risk-free interest rate of 5.5%; and expected life of 5 years. The weighted average fair value of options granted was $.97.

Stock Warrants

At December 31, 2001 and 2000, warrants covering 850,000 and 1,136,575 shares were outstanding, respectively. In connection with the issuance of subordinated notes payable during 1999, certain officers and directors received warrants covering 850,000 shares with a value of $391,000. These warrants have a strike price of $.30 and expire on July 31, 2009. Effective January 1, 2001, 10,000 warrants covering 3,333 shares of common stock were exercised and 849,674 warrants covering 283,224 shares of common stock expired. Per the warrant agreement, any unexercised warrants were automatically deemed exercised at the rate of one share of the Company's common stock for each 30 warrants held. During 2001, 668,040 warrants were redeemed for 22,268 shares of the Company's common stock, and 181,634 warrants remain unredeemed at December 31, 2001.

Preferred Stock

During 1996, the Company issued 1,150,350 shares of Series C 8% convertible exchangeable preferred stock ("Series C Preferred Stock") at $5.00 per share in a private placement offering with gross proceeds of approximately $5,800,000. The Series C Preferred Stock is, at the option of the Company, exchangeable into 8% subordinated convertible debentures. Prior to November 30, 2001, the Series C Preferred Stock and debentures were convertible into shares of the Company's common stock at the conversion price of (i) $2.00 per share if exercised by December 31, 2001, (ii) $3.75 per share if exercised from January 1, 2002 through December 31, 2002, and (iii) $6.00 per share thereafter. At a November 30, 2001 meeting, the Company's Board of Directors approved amendments to the conversion terms of the Series C Preferred Stock. The amendments

were as follows: the conversion price was reduced from $2.00 per share to $1.61 per share and the date of the conversion price increase to $3.75 per share was delayed from December 31, 2001, until January 31, 2002. The subsequent date of the increase in the conversion price to $6.00 per share will remain December 31, 2002. Since December 31, 2001, the Series C Preferred shareholders have converted 977,550 shares of Series C Preferred Stock into 3,030,539 shares of common stock. As a result, 58,100 shares of Series C Preferred Stock remained outstanding as of January 31, 2002.

During 2000, the holders of the Series C Preferred Stock voted to consent to a new series of 8.5% Senior Convertible Preferred Stock ("Senior Preferred Stock"). As a result, in accordance with the terms of a debenture agreement, the $2,500,000 debenture on the books of the Company at December 31, 1999, plus accrued interest, was converted into 2,252,445 shares of the Senior Preferred Stock. The Company, in accordance with the terms of the agreement, issued 103,490 additional shares of Senior Preferred Stock to the Senior Preferred stockholder as payment for the June and December 2000 dividends. In addition, at the election of the Senior Preferred stockholder, the Company issued 100,127 and 104,383 additional shares of Senior Preferred Stock to the Senior Preferred stockholder as payment for the June 1, 2001 and December 1, 2001 dividends, respectively, resulting in 2,560,445 shares outstanding at

December 31, 2001.

Dividends

Holders of the Company's Series C Preferred Stock will receive, when, as and if declared by the Board of Directors of the Company, dividends at a rate of 8% per annum. The dividends are payable semi-annually during January and July of each year. At December 31, 2001, cumulative dividends of $1,242,780 ($1.20 per share) were in arrears. As of January 31, 2002, following the conversion of 977,550 shares of the Series C Preferred Stock as noted above, cumulative dividends of $69,720 were in arrears.

Holders of the Company's Senior Preferred Stock will receive, when, as and if declared by the Board of Directors of the Company, dividends at a rate of 8.5% per annum. The dividends are payable semi-annually during June and December of each year. Dividends payable in 2001 and 2000 were paid in additional shares of Senior Preferred Stock, in accordance with the terms of the agreement in 2000 and at the election of the Senior Preferred Stockholder in 2001.

NOTE I - INCOME TAXES

The income tax provision (benefit) reconciled to the tax computed at the statutory Federal rate is as follows:

	Years ended December 31,	
	2001	2000
Federal tax benefit at statutory rate	$(390,607)	$(581,422)
Non-deductible expenses	29,103	22,916
Change in prior year estimates	(5,015)	(212,210)
Change in valuation allowance	366,519	972,716
	$ -	$ 202,000

Deferred tax assets and liability consist of the following:

	December 31,	
	2001	2000
Deferred tax assets		
Net operating loss carryforwards	$ 2,877,025	$ 2,636,873
Other	14,605	20,661
Deferred tax liability		
Property and equipment	(547,171)	(679,594)
	2,344,459	1,977,940
Less valuation allowance	(2,344,459)	(1,977,940)
Net deferred tax asset	$ -	$ -

At December 31, 2001, the Company had net operating loss carryforwards of approximately $8,100,000 available to offset future taxable income, which expire at various dates through 2021. Future tax benefits, such as net operating loss carryforwards, are recognized to the extent that realization of such benefits are more likely than not.

NOTE J - 401(k) PLAN

The Company has a 401(k) salary deferral plan which covers all employees who have reached the age of 20.5 years and have been employed by the Company for at least one year. The covered employees may elect to have an amount deducted from their wages for investment in a retirement plan. The Company makes contributions to the plan equal to 100% of each participant's salary reduction contributions to the plan up to 2% of the

NOTE J 401(k) PLAN - CONTINUED

participant's compensation. The Company's matching contribution to the plan was approximately $13,000 and $14,000 for the years ended December 31, 2001 and 2000, respectively.

NOTE K - CONCENTRATION OF CREDIT RISK

The Company sells its geophysical services primarily to large independent oil and gas companies operating in the United States. The Company performs ongoing credit evaluations of its customer's financial condition and, generally, requires no collateral from its customers.

Sales and accounts receivable from the Company's largest customers as of and for the years ended December 31, 2001 and 2000 consist of the following:

	Sales		Accounts receivable	
Company	2001	2000	2001	2000
A	38%	-	23%	-
B	14%	-	-	-
C	13%	19%	-	-
D	13%	-	-	20%
E	-	23%	-	2%
F	-	18%	-	63%
G	-	15%	-	-

As of December 31, 2001, four additional customers accounted for 23%, 20%, 19%, and 13% of outstanding accounts receivable, respectively. At December 31, 2000, one additional customer accounted for 14% of accounts receivable.

NOTE L - CONTINGENCIES

In conducting its activities, the Company from time to time is the subject of various claims arising from the ordinary course of business. In the opinion of management, the ultimate resolution of such claims is not expected to have a material adverse effect upon the financial position of the Company.

On November 7, 2001, the Company obtained unsecured irrevocable letters of credit totaling $125,000, expiring on October 25, 2002. These letters of credit, with an insurance company as beneficiary, will be used to guarantee continuing seismic insurance bonds totaling $125,000, issued by the insurance company to two states in which the Company performs seismic surveys. In the opinion of management, the chances that the insurance company will draw on the letters of credit are improbable.

ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTER AND CONTROL PERSONS, COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT.

Certain information required by Item 9 of the Form 10-KSB is hereby incorporated by reference from the Company's definitive proxy statement, which will be filed pursuant to Regulation 14A within 120 days after the Company's year end for the year covered by this report, under the caption "Nominees for Directors" in the proxy statement.

ITEM 10. EXECUTIVE COMPENSATION.

The information required by Item 10 of Form 10-KSB is hereby incorporated by reference from the Company's definitive proxy statement, which will be filed pursuant to Regulation 14A within 120 days after the Company's year end for the year covered by this report, under the caption "Executive Compensation" in the proxy statement.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The information required by Item 11 of Form 10-KSB is hereby incorporated by reference from the Company's definitive proxy statement, which will be filed pursuant to Regulation 14A within 120 days after the Company's year end for the year covered by this report, under the caption "Security Ownership of Certain Beneficial Owners and Management" in the proxy statement.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The information provided by Item 12 of Form 10-KSB is hereby incorporated by reference from the Company's definitive proxy statement, which will be filed pursuant to Regulation 14A within 120 days after the Company's year end for the year covered by this report, under the caption "Transactions with Management" in the proxy statement.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K.

Item 13 (a). The following is a list of exhibits to this Form 10-KSB:

3.1 Restated Articles of Incorporation as of July 31, 1986, filed as Exhibit 3(a) to the Company's Registration Statement on Form 10 (Registration No. 0-14908), filed with the Commission and incorporated herein by reference.

3.2 Certificate of Amendment to the Company's Restated Articles of Incorporation, as of July 5, 1988, filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1988, and incorporated herein by reference.

3.3 Restated Articles of Incorporation (with amendment) as of November 6, 1998, filed as Exhibit 3.3 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1998, and incorporated herein by reference.

3.4 First Amended Bylaws of the Company as amended, filed as Exhibit 3.2 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1987, and incorporated herein by reference.

3.5 Amendment to the Company's First Amended Bylaws as adopted by the Board of Directors on March 7, 1988, filed as Exhibit 3.3 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1987, and incorporated herein by reference.

4.1 Statement of Resolution Establishing Series of Preferred Stock of TGC Industries, Inc. filed with the Secretary of State of Texas on July 16, 1993, filed as Exhibit 2 to the Company's Current Report on Form 8-K dated August 11, 1993, and incorporated herein by reference.

4.2 Statement of Resolution Establishing Series C 8% Convertible Exchangeable Preferred Stock of TGC Industries, Inc. as filed with the Secretary of State of Texas on July 9, 1996, filed as Exhibit B to the Company's current report on Form 8-K dated July 11, 1996, filed with the Commission and incorporated herein by reference.

4.3 Statement of Resolution Regarding Series C 8% Convertible Exchangeable Preferred Stock of TGC

Industries, Inc. as filed with the Secretary of State of Texas on December 30, 1998, filed as Exhibit 4.3 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 30, 1998, and incorporated herein by reference.

4.4 Statement of Resolution Regarding Series C 8% Convertible Exchangeable Preferred Stock of TGC Industries, Inc. as filed with the Secretary of State of Texas on July 9, 1999 filed as Exhibit 4.4 to the Company's Annual Report on Form 10-KSB for fiscal year ended December 31, 2000, and incorporated herein by reference.

4.5 Statement of Resolution regarding Series C 8% Convertible Exchangeable Preferred Stock of TGC Industries, Inc. as filed with the Secretary of State of Texas on December 4, 2001.

4.6 Form of Debenture Agreement and Debenture for 8% Subordinated Convertible Debentures, Series A, filed as Exhibit 4.2 to the Company's Registration Statement on Form SB-2 (Registration No. 333-12269), as amended, filed with the Commission and incorporated herein by reference.

4.7 Form of Warrant Agreement dated July 28, 1995, as amended, and Warrant, filed as Exhibit 4.3 to the Company's Registration Statement on Form SB-2 (Registration No. 333-12269), as amended, filed with the Commission and incorporated herein by reference.

4.8 Debenture Agreement dated December 10, 1999, with respect to the Company's $2,500,000 8 1/2% Convertible Subordinated Debenture, Series B payable to Wedge Energy Services, L.L.C., filed as Exhibit 4.6 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference.

4.9 Statement of Resolution Establishing 8-1/2% Senior Convertible Preferred Stock of TGC Industries, Inc. as filed with the Secretary of State of Texas on May 17, 2000, filed as Exhibit 4.8 to the Company's Annual Report on Form 10-KSB for fiscal year ended November 31, 2000, and incorporated herein by reference.

10.1 Service Mark License Agreement dated as of July 31, 1986, between the Company and Supreme Industries, Inc. (formerly ESI Industries, Inc.), relating to the use of the Company's logo, filed as Exhibit 10(b) to the Company's Registration Statement on Form 10 (Registration No. 0-14908), filed with the Commission and incorporated herein by reference.

10.2 The Company's 1986 Incentive and Nonqualified Stock Option Plan, filed as Exhibit 10(c) to the Company's Registration Statement on Form 10 (Registration No. 0-14908), filed with the Commission and incorporated herein by reference.

10.3 Amendment Number One to the Company's 1986 Incentive and Nonqualified Stock Option Plan as adopted by the Board of Directors on May 1, 1987, filed as Exhibit 10.4 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1987, and incorporated herein by reference.

10.4 The Company's 1993 Stock Option Plan as adopted by the Board of Directors on June 3, 1993, filed as Exhibit 10.4 to the Company's Registration Statement on Form S-2 (Registration No. 33-73216), filed with the Commission and incorporated by reference.

10.5 Master Contract for Geophysical Services-Onshore dated April 18, 1990 between Marathon Oil Co. and the

Company together with a form of Supplementary Agreement thereto, filed as Exhibit 10.8 to the Company's Registration Statement on Form S-2 (Registration No. 33-73216), filed with the Commission and incorporated herein by reference.

10.6 Agreement for Spin-off of Subsidiary Stock filed as Exhibit 1 to the Company's Form 8-K filed with the Commission on August 9, 1996 and incorporated herein by reference.

10.7 Bill of Sale dated July 31, 1996 between TGC Industries, Inc. and Chase Packaging Corporation, filed as Exhibit 10.8 to the Company's annual report on Form 10-KSB for the fiscal year ended December 31, 1996, and incorporated herein by reference.

10.8 Amendment No. 1 to the 1993 Stock Option Plan as adopted by the Board of Directors on July 24, 1996, filed as Exhibit 10.9 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1998, and incorporated herein by reference.

10.9 Amendment No. 2 to the 1993 Stock Option Plan as adopted by the Board of Directors and approved by Company's Shareholders on June 4, 1998, filed as Exhibit 10.10 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1998, and incorporated herein by reference.

10.10 Warrant Agreements and Warrant Certificates dated July 30, 1999 issued by the Company to JMS Inc. Cust FBO William J. Barrett Keogh, JMS Inc. Cust FBO Herbert M. Gardner Keogh, Edward L. Flynn, Allen T. McInnes, and Wayne A. Whitener in connection with the issuance by the Company of notes payable to such persons, filed as Exhibit 10.10 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference.

10.11 Debenture Purchase Agreement dated December 10, 1999, between WEDGE Energy Services, L.L.C. and the Company with respect to the purchase by WEDGE of the Company's 8 1/2% Convertible Subordinated Debenture, Series B, for the cash consideration of $2,500,000 paid by WEDGE to the Company, filed as Exhibit 10.11 to the Company's Annual Report filed on Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference.

10.12 Voting Agreement dated December 10, 1999, between the Company, WEDGE Energy Services, L.L.C., and the following shareholders of the Company: Allen McInnes, Wayne Whitener, Herbert Gardner, William J. Barrett and Edward L. Flynn, filed as Exhibit 10.12 to the Company's Annual Report on Form 10-KSB for the fiscal

year ended December 31, 1999, and incorporated herein by reference.

10.13 The Company's 1999 Stock Option Plan as adopted by the Board of Directors on December 14, 1999, filed as Exhibit 10.13 to the Company's Annual Report on Form 10-KSB for the fiscal year ended December 31, 1999, and incorporated herein by reference.

(b). Reports on Form 8-K.

A report under Item 5 of Form 8-K was filed on December 5, 2001, to announce the conversion price reduction of the Company's Series C 8% Convertible Exchangeable Preferred Stock from $2.00 per share to $1.61 per share, and the delay of the conversion price increase from December 31, 2001, to January 31, 2002.

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TGC INDUSTRIES, INC.

Date: March 26, 2002 By: /s/ Wayne A. Whitener
Wayne A. Whitener
President (Principal Executive

Officer)

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 26, 2002	By:	/s/ Allen T. McInnes Allen T. McInnes Chairman of the Board and Secretary
Date: March 26, 2002	By:	/s/ Edward L. Flynn Edward L. Flynn Director
Date: March 26, 2002	By:	/s/ Wayne A. Whitener Wayne A. Whitener President, Chief Executive Officer and Director
Date: March 26, 2002	By:	/s/ Kenneth Uselton Kenneth Uselton, Treasurer (Principal Financial and Accounting Officer)
Date: March 26, 2002	By:	/s/ William J. Barrett William J. Barrett Director
Date: March 26, 2002	By:	/s/ Herbert M. Gardner Herbert M. Gardner Director

Date: March 26, 2002	By:	/s/ William H. White William H. White Director
Date: March 26, 2002	By:	/s/ Pasquale V. Scaturro Pasquale V. Scaturro Director

EXHIBIT 4.5

Statement of Resolution Regarding
Series of Preferred Stock of
TGC Industries, Inc.

Pursuant to the provisions of Article 2.13 of the Texas Business Corporation Act, and the Articles of Incorporation, as amended, of the undersigned Corporation, the Corporation submits the following with respect to its Statement of Resolution Establishing its Series C 8% Convertible Exchangeable Preferred Stock for the purpose of modifying certain terms of the Series C Preferred Stock, which Statement of Resolution was originally filed with the Secretary of State of Texas on July 9, 1996, and was modified by Statements of Resolution filed with the Secretary of State of Texas on July 22, 1998, December 9, 1998, December 30, 1998, and July 2, 1999.

1. The name of the Corporation is TGC Industries, Inc.; and

2. A resolution adopting the Statement of Resolution Regarding Series C 8% Convertible Exchangeable Preferred Stock is attached as Exhibit "A" hereto and incorporated herein by reference. Such resolution was duly adopted by all necessary action on the part of the Corporation at a Special Meeting of the Board of Directors of the Corporation held on November 30, 2001.

Dated December 3, 2001.

TGC INDUSTRIES, INC.

By: /s/Rice M. Tilley, Jr.
Rice M. Tilley, Jr., Assistant Secretary

EXHIBIT "A"

STATEMENT OF RESOLUTION REGARDING
SERIES C 8% CONVERTIBLE EXCHANGEABLE PREFERRED STOCK OF

TGC INDUSTRIES, INC.

Pursuant to the provisions of Article 2.13 of the Texas Business Corporation Act and the Articles of Incorporation, as amended, of TGC Industries, Inc., a Texas corporation (the "Corporation" or the "Company"), the Corporation has adopted the following resolution by all necessary action on the part of the Corporation, at a Special Meeting of the Board of Directors held on November 30, 2001, for the purpose of modifying certain terms of its Series C 8% Convertible Exchangeable Preferred Stock as provided therein:

RESOLVED, that pursuant to the authority vested in the Board of Directors of the Corporation by Article 4.b of the Corporation's Articles of Incorporation, as amended, the Corporation hereby approves a modification with respect to its Statement of Resolution Establishing Series C 8% Convertible Exchangeable Preferred Stock (the "Preferred Stock"), which Statement of Resolution was originally filed with the Secretary of State of Texas on July 9, 1996, and was modified by Statements of Resolution filed with the Secretary of State of Texas on July 22, 1998, December 9, 1998, December 30, 1998 and July 2, 1999, by adopting the following modification to subparagraph 3(d) thereof to (i) reduce the conversion price per share of Common Stock and (ii) delay the date of the increase of the conversion price of the Preferred Stock from December 31, 2001 until January 31, 2002, so that subparagraph 3(d) of such Statement of Resolution shall read in its entirety as set forth below. Except as modified as set forth below, the Statement of Resolution Establishing Series C 8% Convertible Exchangeable Preferred Stock as filed with the Secretary of State on July 9, 1996, shall remain in full force and effect.

> "(d)Conversion Ratio. Each share of Preferred Stock may, at the discretion of the holder thereof, be converted into shares of Common Stock of the Corporation at the conversion price per share of (i) prior to the close of business on January 31, 2002, the conversion price per share of Common Stock of One Dollar and Sixty-One Cents ($1.61), (ii) after January 31, 2002 and prior to the close of business on December 31, 2002, the conversion price per share of Common Stock of Three Dollars and Seventy-Five Cents ($3.75), and (iii) thereafter, the conversion price per share of Common Stock of Six Dollars ($6.00), as such conversion price may be adjusted and readjusted from time to time in accordance with subparagraph 3(g) hereof (such conversion price, as adjusted and readjusted and in effect at any time, being herein called the "Conversion Price" or the "Conversion Ratio"), into the number of fully paid and non-assessable shares of Common Stock determined by dividing (x) the $5.00 per share price of the Preferred Stock to be so converted by (y) the Conversion Price in effect at the time of such conversion. The Conversion Ratios referred to above will be subject to adjustment as set forth in subparagraph 3(g)."

[END]