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

FORM 10-QSB

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDING SEPTEMBER 30, 1998.

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM ______________ TO ______________.

Commission File Number 0-14908

TGC INDUSTRIES, INC.
(Exact name of small business issuer as specified in its charter)

| | |
|---|---|
| Texas | 74-2095844 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 1304 Summit, Suite 2<br>Plano, Texas | 75074 |
| (Address of principal executive offices) | (Zip Code) |

Issuer's telephone number, including area code: 972-881-1099

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

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

| Class | Outstanding at October 30, 1998 |
|---|---|
| Common Stock ($.10 Par Value) | 6,515,985 |

PART I -- FINANCIAL INFORMATION

ITEM 1 -- FINANCIAL STATEMENTS

Incorporated herein is the following unaudited financial information:

Balance Sheet as of September 30, 1998.

Statements of Income for the three and nine-month periods ended September 30, 1998 and 1997.

Statements of Cash Flows for the nine-month periods ended September 30, 1998 and 1997.

Notes to Financial Statements.

TGC INDUSTRIES, INC.
BALANCE SHEET
(UNAUDITED)

| | SEPTEMBER 30, 1998 |
|---|---|
| ASSETS | |
| CURRENT ASSETS | |
| Cash and cash equivalents | $ 864,780 |
| Accounts receivable | 696,479 |
| Prepaid expenses and other | 245,995 |
| Deferred income taxes | 170,000 |
| Total current assets | 1,977,254 |
| PROPERTY AND EQUIPMENT - at cost | |
| Machinery and equipment | 10,720,033 |
| Automobiles and trucks | 723,360 |
| Furniture and fixtures | 317,167 |
| | 11,760,560 |
| Less accumulated depreciation | (4,439,554) |
| | 7,321,006 |
| OTHER ASSETS | 963 |
| Total assets | $ 9,299,223 |

See notes to Financial Statements

TGC INDUSTRIES, INC.
BALANCE SHEET -- CONTINUED
(UNAUDITED)

| | SEPTEMBER 30, 1998 |
|---|---|
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| CURRENT LIABILITIES | |
| Trade accounts payable | $ 454,446 |
| Accrued liabilities | 448,521 |
| Billings in excess of costs and estimated earnings on uncompleted contracts | 200,020 |
| Current maturities of long-term obligations | 1,482,028 |
| Total current liabilities | 2,585,015 |
| LONG-TERM OBLIGATIONS, less current maturities | 1,143,701 |
| STOCKHOLDERS' EQUITY | |
| Preferred stock, $1.00 par value; 4,000,000 shares authorized; 1,129,350 issued and outstanding | 1,129,350 |
| Common stock, $.10 par value; 25,000,000 shares authorized; 6,611,817 shares issued | 661,182 |
| Additional paid-in capital | 5,165,213 |
| Accumulated deficit | (1,169,924) |
| Treasury stock, at cost (95,832 shares) | (215,314) |
| | 5,570,507 |
| Total liabilities and stockholders' equity | $9,299,223 |

See notes to Financial Statements

TGC INDUSTRIES, INC.
STATEMENTS OF INCOME

| | Three Months Ended September 30, (Unaudited) | | Nine Months Ended September 30, (Unaudited) | |
|---|---|---|---|---|
| | 1998 | 1997 | 1998 | 1997 |

| | | | | |
|---|---|---|---|---|
| Revenue | $5,536,737 | $4,166,333 | $15,376,804 | $11,647,356 |
| Cost of services | 4,233,053 | 3,598,677 | 12,302,030 | 10,125,181 |
| Selling, general, adm. | 287,802 | 217,059 | 830,640 | 674,741 |
| | 4,520,855 | 3,815,736 | 13,132,670 | 10,799,922 |
| INCOME FROM OPERATIONS | 1,015,882 | 350,597 | 2,244,134 | 847,434 |
| Interest expense | 58,057 | 40,245 | 195,750 | 126,192 |
| NET INCOME | 957,825 | 310,352 | 2,048,384 | 721,242 |
| Less dividend requirement on preferred stock | 112,935 | 114,885 | 338,805 | 344,655 |
| INCOME ALLOCABLE TO COMMON STOCKHOLDERS | $ 844,890 | $ 195,467 | $1,709,579 | $ 376,587 |
| Earnings per common share | | | | |
| Basic | $ .13 | $ .03 | $ .26 | $ .06 |
| Diluted | $ .07 | $ .02 | $ .14 | $ .05 |
| Weighted average number of common shares | | | | |
| Basic | 6,514,420 | 6,341,426 | 6,493,954 | 6,322,355 |
| Diluted | 14,323,043 | 14,697,868 | 14,410,191 | 14,649,687 |

See notes to Financial Statements

TGC INDUSTRIES, INC.
Statements of Cash Flows (Unaudited)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 1998 | 1997 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net Income | $2,048,384 | $721,242 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 1,297,335 | 929,798 |
| Loss (gain) on disposal of property and equipment | 4,488 | (208,985) |
| Changes in operating assets and liabilities | | |
| Accounts receivable | 1,806,603 | (1,123,767) |
| Billings in excess of cost and estimated earnings on uncompleted contracts | (2,025,691) | 1,251,375 |
| Prepaid expenses | (58,242) | (252,414) |
| Accounts payable | (956,224) | (225,792) |
| Accrued liabilities | 180,528 | 122,217 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | 2,297,181 | 1,213,674 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (385,289) | (1,087,286) |
| Proceeds from sale of property and equipment | 3,400 | 210,332 |
| Decrease (increase) in other assets | 34,269 | (33,840) |
| NET CASH USED IN INVESTING ACTIVITIES | (347,620) | (910,794) |

| | | |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Dividends paid | (225,870) | (459,840) |
| Proceeds from issuance of debt | - | 337,401 |
| Proceeds from exercise of stock options and warrants | 15,187 | - |
| Principal payments of debt obligations | (997,446) | (562,335) |
| Other | 2,813 | (18,736) |
| NET CASH USED IN FINANCING ACTIVITIES | (1,205,316) | (703,510) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 744,245 | (400,630) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 120,535 | 655,280 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | $864,780 | $254,650 |

TGC INDUSTRIES, INC.
Statements of Cash Flows (Unaudited) Continued

| | Nine Months Ended September 30, | |
|---|---|---|
| | 1998 | 1997 |
| Supplemental cash flow information | | |
| Cash paid during the period | | |
| Cash paid for interest | $195,750 | $126,192 |
| Cash paid for income taxes | $ 15,230 | $ - |

Noncash investing and financing activities

During the third quarter of 1998, the Company financed the acquisition of equipment through notes payable in the amounts of $144,787, $343,768 and $144,787, respectively.

See notes to Financial Statements

TGC INDUSTRIES, INC.
NOTES TO FINANCIAL STATEMENTS (UNAUDITED)
September 30, 1998

NOTE A -- BASIS OF PRESENTATION

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-QSB and therefore do not include all information and footnotes necessary for a fair presentation of financial position, results of operations and changes in financial position in conformity with generally accepted accounting principles.

NOTE B -- MANAGEMENT PRESENTATION

In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of financial position, results of operations, and changes in financial position have been included. The results of the interim periods are not necessarily indicative of results to be expected for the entire year. For further information, refer to the financial statements and the footnotes thereto included in the Company's Annual Report for the year ended December 31, 1997 filed on Form 10-KSB.

NOTE C -- EARNINGS PER SHARE

During December 1997, the Company adopted Statement of Financial Accounting Standards No. 128 (SFAS 128),"Earnings Per Share." Under SFAS 128, basic earnings per common share is based upon the weighted average number of shares of common stock outstanding. Diluted earnings 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. Earnings per share data for 1997 has been restated to conform to the provisions of SFAS 128.

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

RESULTS OF OPERATIONS

TGC Industries, Inc. ("TGC") reported revenues increased to $5,536,737 for the three months ended September 30, 1998, from $4,166,333 for the same period of the prior year. Net income, before dividend requirements on preferred stock increased to $957,825, compared with net income, before dividend requirements on preferred stock, of $310,352 for the same period of the prior year. Income per common share, on a diluted basis, was $.07 for the third quarter of 1998, as compared with income of $.02 per common share for the same period of 1997.

For the nine month period ended September 30, 1998, revenues increased to $15,376,804 from $11,647,356 for the same period of the prior year. Net income, for the first nine months of 1998, before dividend requirements on preferred stock, increased to $2,048,384, compared with net income, before dividend requirements on preferred stock, of $721,242 for the same period of the prior year. Income per common share, on a diluted basis, was $.14 for the first nine months of 1998, as compared with income of $.05 per common share for the same period of 1997.

TGC's cost of services, as a percentage of revenue, were 76.5% for the third quarter of 1998, compared to 86.4% for the same period of 1997. Selling, general and administrative expense, as a percentage of revenue, was 5.2% for the third quarter of 1998 and 1997 respectively. Interest expense increased by $17,812 in the third quarter of 1998 when compared with the same period of 1997. This increase was primarily a result of the financing of additional geophysical equipment in the second half of 1997.

TGC's cost of services, as a percentage of revenue, were 80% for the first nine months of 1998, compared to 86.9% for the same period of 1997. Selling, general and administrative expense, as a percentage of revenue, was 5.4% for the first nine months of 1998, compared to 5.8% for the same period of 1997. Interest expense increased by $69,558 in the first nine months of 1998, when compared with the same period of the prior year. This increase was principally attributable to the financing of additional geophysical equipment in the second half of 1997.

Non-cash charges for depreciation were $1,297,335 in the first nine months of 1998 compared with $929,798 for the same period of 1997.

At December 31, 1997, TGC had net operating loss carryforwards of approximately $4,400,000 available to offset future taxable income, which expire at various dates through 2012.

TGC operates two land seismic crews primarily conducting Three-D ("3-D") seismic surveys for clients in the oil and gas business. Oil and gas prices (principally oil prices) have declined significantly during 1998. As a result, related service industries have been negatively impacted. Many oil and gas exploration projects have been put on hold, canceled, or postponed until favorable prices return. The Company's nine month financial results are at record levels, but unsettled pricing conditions in the Oil and Gas Industry will negatively impact results for the fourth quarter of 1998 and are expected to continue into early 1999.

FINANCIAL CONDITION

Cash of $2,297,181 was provided from operations for the first nine months of 1998 compared with cash provided from operations of $1,213,674 for the same period of 1997. The funds generated in the first nine months of 1998 were primarily attributable to net earnings before non-cash depreciation charges. Cash used in investing activities for the first nine months of 1998 was primarily for the replacement of equipment in the amount of $385,289. Cash used in financing activities for the first nine months of 1998 was primarily for principal payments of debt obligations in the amount of $997,446, and dividend payments on preferred stock of $225,870.

Working capital deficit decreased $1,640,126 to $607,761 from the December 31, 1997 balance of $2,247,887. The Company's current ratio was .76 to 1.0 at September 30, 1998, compared with .57 to 1.0 at December 31, 1997. Stockholders equity increased $1,840,514 from the December 31, 1997 balance of $3,729,993 to $5,570,507 at September 30, 1998. This increase was primarily attributable to net income for the nine months ended September 30, 1998, of $2,048,384.

During the fourth quarter of 1997, to support future growth of the Company, a $1,000,000 revolving bank line of credit was secured from a major bank. The line of credit bears interest at prime plus 1.5%, is collateralized by equipment and accounts receivable and requires the maintenance of certain financial ratios.

The Company is working to resolve the potential impact of the year 2000 on the ability of the Company's computerized information systems to accurately process information that may be date-sensitive. The Company utilizes a number of computer programs across its entire operation. None of these computer programs have been custom written for the Company. The Company is completing its assessment, but currently believes that costs of addressing this issue will not have a material adverse impact on the Company's financial position.

The Company anticipates that available funds, together with anticipated cash flows generated from future operations and amounts available under its revolving line of credit will be sufficient to meet the Company's cash needs.

The Company has been notified by Nasdaq of potential delisting of the Company's Common Stock due to having failed to equal or exceed the minimum bid price requirement of $1.00 per share for thirty consecutive trading days. The Company, as a condition to continued listing of its securities on the SmallCap Market, must satisfy the minimum bid price requirement. On September 3, 1998, the Company filed a Proxy Statement with the Securities and Exchange Commission with respect to a special meeting of its shareholders to be held on November 5, 1998, to approve a 1-for-3 reverse stock split of the Company's Common Stock. The record date for the special meeting was September 22, 1998, and the Proxy Statements were mailed to shareholders on September 24, 1998. The Company is confident that the shareholders will approve the 1-for-3 reverse stock split of its Common Stock. The Company's Board of Directors believes that the reverse stock split, which will cause the price of the Common Stock to increase, will satisfy the minimum bid price requirement. On October 26, 1998, Nasdaq informed the Company of the determination of the Nasdaq Listing Qualifications Panel following a written hearing on October 23, 1998, to continue the listing of the Company's securities provided that the Company effect its 1-for-3 reverse stock split on or before November 11, 1998, and thereafter evidence a closing bid price for its Common Stock that meets or exceeds $1.00 per share for a minimum of ten consecutive trading days. The Company believes that it can meet these conditions. As stated above, the Company is confident that the shareholders will approve the 1-for-3 reverse stock split of its Common Stock at the special meeting on November 5, 1998, and the Company intends to effect the reverse stock split effective with the close of business on Friday, November 6, 1998, and for the Common Stock to commence trading on a post-reverse split basis on Monday, November 9, 1998.

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, without limitation, the unpredictable nature of forecasting weather, the potential for contract delay or cancellation, and the potential for fluctuations in oil and gas prices. 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.

## PART II - OTHER INFORMATION

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a. Exhibits -- None.

b. Reports --

1. A report under Item 5 of Form 8-K was filed on June 1,1998 to report amending the Company's Warrant Agreement to extend the term of the Warrants from July 31, 1998, to December 31, 1998; and also delaying the increase in the conversion price (from $0.75 to $1.25) of the Company's Series C 8% Convertible Exchangable Preferred Stock from July 1, 1998, to December 31, 1998, and also to delay the increase from $1.25 to $2.00 in the conversion price of the Preferred Stock from July 1, 1999, to December 31, 1999.

## SIGNATURES

In accordance with the requirements 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: October 30, 1998 /s/ Robert J. Campbell
Robert J. Campbell
Vice Chairman of the Board
(Principal Executive Officer)

Date: October 30, 1998 /s/ Kenneth W. Uselton
Kenneth W. Uselton
Treasurer (Principal Financial
and Accounting Officer)

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SEP-30-1998
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