FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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FILER

3DX TECHNOLOGIES INC
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SIC: **1311** Crude petroleum & natural gas

Mailing Address
12012 WICKCHESTER
SUITE 250
HOUSTON TX 77079

Business Address
12012 WICKCHESTER
SUITE 250
HOUSTON TX 77079
2815793398

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

FORM 10-K

For Annual and Transition Reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

(Mark One)

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

for the fiscal year ended December 31, 1998

OR

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

Commission File No. 0-21841

3DX TECHNOLOGIES INC.
(Exact name of registrant as specified in its charter)

DELAWARE	76-0386601
(State of Incorporation)	(IRS Employer Identification Number)
12012 WICKCHESTER, SUITE 250, HOUSTON, TEXAS	77079
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code: (281) 579-3398

Securities registered pursuant to Section 12(b) of the Exchange Act:
(None)

Securities registered pursuant to Section 12(g) of the Exchange Act:
Common Stock, $0.01 par value
(Title of Class)

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately $2,604,000 on March 12, 1999 based upon the closing sale price of common stock on such date of $0.406 per share on the NASDAQ National Market. As of March 12, 1999, the registrant had 9,379,209 shares of common stock issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III is incorporated by reference to the Registrant's definitive Proxy Statement for the Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission on or before April 30, 1999.

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

THIS ANNUAL REPORT ON FORM 10-K CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933, AS AMENDED, AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. BECAUSE SUCH STATEMENTS INCLUDE RISKS AND UNCERTAINTIES, ACTUAL RESULTS, EVENTS AND CIRCUMSTANCES COULD DIFFER MATERIALLY FROM THOSE EXPRESSED IN OR IMPLIED BY SUCH STATEMENTS DUE TO VARIOUS FACTORS. SUCH FACTORS INCLUDE THE POSSIBILITY THAT THE DRILLING OF WELLS IN PROJECTS IN WHICH THE COMPANY HAS A WORKING INTEREST MAY BE DELAYED OR ABANDONED, ACTUAL RATES OF PRODUCTION MAY NOT REACH ANTICIPATED LEVELS AND OPPORTUNITIES FOR THE COMPANY TO ACQUIRE FUTURE WORKING INTERESTS IN ADDITIONAL PROJECTS MAY BE LIMITED OR UNAVAILABLE, CHANGING ECONOMIC, REGULATORY AND COMPETITIVE CONDITIONS, OTHER TECHNOLOGICAL DEVELOPMENTS AND OTHER RISKS AND UNCERTAINTIES, INCLUDING THOSE SET FORTH HEREIN. THE COMPANY'S FUTURE FINANCIAL RESULTS WILL DEPEND PRIMARILY ON: (I) THE COMPANY'S ABILITY TO CONTINUE TO SOURCE AND SCREEN POTENTIAL PROJECTS; (II) THE COMPANY'S ABILITY TO DISCOVER COMMERCIAL QUANTITIES OF HYDROCARBONS; (III) THE MARKET PRICE FOR OIL AND GAS; AND (IV) THE COMPANY'S ABILITY TO OBTAIN ADDITIONAL SOURCES OF FUNDING TO FULLY IMPLEMENT ITS EXPLORATION AND DEVELOPMENT PROGRAM. THERE CAN BE NO ASSURANCE THAT THE COMPANY WILL BE SUCCESSFUL IN ANY OF THESE RESPECTS OR THAT THE PRICES OF OIL AND GAS PREVAILING AT THE TIME OF PRODUCTION WILL BE AT A LEVEL ALLOWING

FOR PROFITABLE PRODUCTION.

PART I

ITEM 1. BUSINESS.

THE COMPANY

3DX Technologies Inc. ("the Company") is an independent oil and gas company that explores, develops and produces oil and gas from the onshore and offshore Gulf Coast region of the United States. Started in 1993, 3DX recognized a niche for technical expertise due to the increasing use of 3-D seismic as an exploration tool for the onshore areas of the United States. The Company focuses on technically advanced reservoir imaging and applied technology in the search of commercial hydrocarbons with a core competency in the application and utilization of 3-D seismic. The Company participates in selected exploration projects as a non-operating working interest owner, sharing both the risk and rewards with its partners. By reducing drilling risk through 3-D imaging and analysis, the Company expects its return on investment to exceed industry standards.

STRATEGY

The Company's goal is to grow with an "educated drill bit" by increasing the proven reserve base and production rate to generate additional cash flow. To realize its goal, 3DX's business strategy includes:

FOCUS ON THE EXPERTISE OF 3D IMAGING AND ANALYSIS

The Company focuses all of its technical resources on obtaining the best possible subsurface image to reduce exploration risk and identify the most effective location and target for each prospect. By focusing on the technical issues of a 3-D project, the Company relies on the strategic relationships with its partners to provide other core needs, such as drilling operations.

MAINTAIN AND SUPPORT TECHNOLOGICALLY ADVANCED EXPLORATIONISTS

The quality and interpretation of information derived from 3-D imaging is often dependent on the Company's ability to retain and develop creative, experienced geoscientists and engineers. In order to capitalize on the intellectual resources, the Company is committed to motivate the technical staff by providing and utilizing the most advanced imaging and analytical technology available on the market. Additionally, the Company offers each employee an incentive with options to purchase common stock.

EMPHASIZE TECHNICAL ADVANTAGES AND NICHES

The Company's internal seismic processing capabilities are a competitive advantage over similar size companies. With internal processing, the Company has developed the process of 3DXPRESS. 3DXPRESS is an innovative technique used in exploration that improves the quality of seismic data and significantly compresses the traditional time frame for acquisition through interpretation. This process allows analysis of 3-D data while the survey is being conducted, giving the Company's explorationists the ability to ensure data quality and steer data collection toward areas where prospects are more likely to exist. Utilizing this technology, the Company has proven its capability to image and analyze projects for potential drilling sites more rapidly and accurately than with traditional methods.

FOCUS EXPLORATION PROJECTS IN THE UNITED STATES GULF COAST

The Company has been involved in projects both domestically and internationally, spreading its technical expertise to many parts of the world. 3DX re-directed its focus to the Gulf Coast area of the United States during 1998. By focusing on the Gulf Coast, the Company participates in projects in which they have an established knowledge base and track record. Additionally, these opportunities can lead to core areas for the Company. With a focus on knowledge based areas, the Company also believes the probability of success in its program will be higher. Finally, with an emphasis on the U.S. Gulf Coast, the Company will have a focus on projects that can deliver a shorter cycle time to positive cash flow.

SELECTIVE PROJECT PARTICIPATION, PARTNERING AND DRILLING EFFORTS

The Company's project screening process continually adapts the criteria to select projects that are likely to maximize the return on its capital investments and continually builds a balanced portfolio. The Company's selection criteria favor projects which (i) are managed by reliable and successful operating partners; (ii) are located on properties to which 3-D imaging can be effectively applied to evaluate the primary geologic risk; (iii) have prospect repeatability or upside potential; (iv) have projected rates of return which make the production of hydrocarbons economically attractive.

BALANCE BETWEEN GROWTH AND CASH FLOW

The Company believes that a key to achieving long-term viability is growth based on an expanding cash flow. By committing its talents and resources to expanding the proven reserve base and hydrocarbon production rate, the Company will develop the cash flow necessary to sustain future growth.

PROJECTS, BUSINESS RELATIONSHIPS AND TECHNOLOGY

PROJECT GENERATION AND BUSINESS RELATIONSHIPS

By its participation in multiple projects, many with multiple partners, the Company has been able to build upon a knowledge base outside of 3DX, create a resource for future opportunities and generate a partner base for 3DX's internal generated projects. The Company has also undertaken the initiative to bring geologic consultants into the Company to support the geophysical skills. This has already proven beneficial with the Hall Ranch Project in Karnes County, Texas, providing an integrated interpretation and better understanding of the remaining drilling opportunities.

TECHNOLOGY

The Company maintains an extensive computer facility to support its oil-finding activities. A Silicon Graphics Power Challenge provides the large-scale computing capacity to support real-time data processing and imaging. A network of nine workstations, functioning in a client-server environment, provides the framework for synthesis of the geological, geophysical and engineering data into an integrated image of the subsurface. The principal supplier of the software used by the Company for both data processing and interpretation is Landmark Graphics Corporation and its subsidiaries. In addition, the Company owns licenses for certain geological and geophysical applications including Hampson-Russell Software, Inc., Paradigm Geophysical, Inc., Interpretative Imaging and Petrosoft Inc.

SIGNIFICANT PROPERTIES AND ACTIVITIES

During 1998, 3DX undertook an evaluation of its core producing properties and the focus of its exploration activities. Some of the exploration plays were located outside the Gulf Coast of the United States including international plays in offshore West Africa, carbonate plays in Florida and deepwater plays in the Gulf of Mexico. In some cases, the prospect opportunities were associated with high drilling and operating costs, a long cycle time to positive cash flow or limited technical knowledge in the area. The Company undertook the task of reducing its exposure in the high cost projects and non-core properties. The results of this effort were two-fold. First, it provided the Company with needed cash. Second, it allowed the Company to participate in seven drilling opportunities at no cost to 3DX. This was accomplished by selling and converting working interest to a carried interest on selected projects while preserving significant interest for upside potential.

HALL RANCH PROJECT, KARNES COUNTY, TEXAS

The Hall Ranch Project has become one of the core areas for the Company. After two drilling successes in the area, the Company looks forward to drilling an additional key prospect in 1999. 3DX has a twenty-five percent (25%) working interest in Hall Ranch.

GILLOCK PROJECT, GALVESTON COUNTY, TEXAS

In 1998, the Company participated in the Gillock Project, a sixty (60) mile shoot in the area of southern Galveston County. This project covers several prolific Frio fields and is in the vicinity of the recent Eagle Point Vicksburg discovery in Galveston Bay. The Company took a fifteen (15%) working interest and applied the 3DXPRESS process to the project. Results from the interpretation have added sixteen (16) new prospects to 3DX's inventory with drilling beginning in the second quarter of 1999.

FOUR ISLE DOME PROJECT, TERREBONNE PARISH, LOUISIANA

The impact and integration of 3-D seismic on an existing field is clearly demonstrated by the Four Isle Dome Project. A proprietary 3-D was shot on the dome in 1996, which identified new fault blocks and updip potential to production. 3DX participated in two successful wells during 1998 with a combined production rate of 33 million cubic feet of gas per day (MMCFG/D) and over 700 barrels of condensate per day (BC/D). This is the highest production rate for the field since 1982. 3DX own a five- percent (5%) working interest in the project.

SMITH POINT 3-D PROJECT, CHAMBERS COUNTY, TEXAS

The drilling evaluation phase on the Smith Point 3-D Project in Chambers County, Texas was started in 1998. In April 1998, 3DX elected to farmout fifty percent (50%) of its working interest in the project. This resulted in 3DX

retaining a 7.5% working interest (after payout) of the first three (3) prospects drilled. During 1998, two of the three prospects were drilled with one success and the third well will spud in the second quarter of 1999.

RAMROD 3-D PROJECT, MATAGORDA COUNTY, TEXAS

By late 1997, 3DX established a significant discovery on its Ramrod property in Matagorda County, Texas. The St. George #1 well had sustained flow rates of 8 MMCFG/D and 140 BC/D. Deeper potential was recognized on the property and in November 1998, 3DX elected to sell one half (50%) of its interest in the property for cash and a one hundred percent (100%) carry on a 15,500' exploration well. Based on the drilling results from the new well (St. Andrew #1), 3DX elected to sell its remaining interest in the project.

REPUBLIC OF COTE D'IVOIRE

Through a partnership for technical services, 3DX established a position in two offshore blocks in offshore Cote d'Ivoire. This area is located off the West Coast of Africa. In August 1998, 3DX converted a ten percent (10%) working interest to a two and one half percent (2.5%) carried interest through a sale transaction and stock trade with the operator. The result of the transaction gives 3DX a carry on all drilling costs for two wells, one in Block 24 (drilled during 1998) and the remaining test well on Block 202 which is anticipated to spud in 1999.

SUNNILAND TREND PROJECT, FLORIDA

In 1996, through a joint partnership with the operator, 3DX acquired an eight percent (8%) working interest in exchange for technical expertise and support on the Sunniland Trend. One well was drilled in the Raccoon Point prospect area during 1998 and was non-economic. Due to poor drilling results, high operating and development costs and low oil prices, the Company elected to sell its interest and exit the play at the end of 1998. This sale represents a continuing divestment of non-core properties in the 3DX portfolio.

REGULATION

The Company's operations are subject to numerous federal, state and local laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Public interest in the protection of the environment has increased dramatically in recent years.

Offshore drilling in certain areas has been opposed by environmental groups and, in certain areas, has been restricted. The Company believes that the trend of more expansive and stricter environmental legislation and regulations will continue. To the extent laws are enacted or other governmental action is taken which prohibit or restrict onshore and offshore drilling or impose environmental protection requirements that result in increased costs to the oil and gas industry in general, the business and prospects of the Company could be adversely affected.

The Oil Pollution Act of 1990 (the "OPA") and regulations thereunder impose a variety of requirements on "responsible parties" related to the prevention of oil spills and liability for damages resulting from such spills in United States waters. A "responsible party" includes the owner or operator of a facility or vessel, or the lessee or permittee of the area in which an offshore facility is located. The OPA assigns liability to each responsible party for oil removal costs and a variety of public and private damages including natural resource damages. While liability limits apply in some circumstances, a party cannot take advantage of liability limits if the spill was caused by gross negligence or willful misconduct or resulted from violation of a federal safety, construction or operating regulation. If the party fails to report a spill or to cooperate fully in the cleanup, liability limits likewise do not apply. Few defenses exist to the liability imposed by the OPA.

Under the OPA and regulations promulgated thereunder, owners and operators of "offshore facilities" must satisfy certain financial assurance requirements

to evidence their ability to cover potential environmental cleanup and restoration costs. In projects in which the Company has a participating working interest, the operator partner is responsible for all demonstrations of financial responsibility including the posting of any indemnity bonds which are required by applicable governmental regulations. The expenses incurred in the operator partner's demonstration of financial responsibility are expenses which are allocated to each project partner based on the respective partner's working interest.

The OPA also imposes other requirements, such as the preparation of an oil spill contingency plan. The Company has such a plan in place. Failure to comply with ongoing requirements or inadequate cooperation during a spill event may subject a responsible party to civil or criminal enforcement actions.

To complement the OPA, the State of Texas enacted the Oil Spill Prevention and Response Act ("OSPRA"). The Texas General Land Office ("GLO") is the lead agency for carrying out OSPRA, and to that end the GLO has promulgated regulations affecting anyone who owns or operates a vessel or facility that stores or transfers oil in areas where a spill could reach Texas coastal waters.

In addition, the Outer Continental Shelf Lands Act ("OCSLA") authorizes regulations relating to safety and environmental protection applicable to lessees and permittees operating on the Outer Continental Shelf (the "OCS"). Specific design and operational standards may apply to OCS vessels, rigs, platforms, vehicles and structures. Violations of lease conditions or regulations issued pursuant to the OCSLA can result in substantial civil and criminal penalties, as well as potential court injunctions curtailing operations and the cancellation of leases. Such enforcement liabilities can result from either governmental or private prosecution.

The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), also known as the "Superfund" law, imposes liability, without regard to fault or the legality of the original conduct, on certain classes of persons that are considered to have contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the disposal site or sites where the release occurred and companies that disposed or arranged for the disposal of the hazardous substances found at the site. Persons who are or were responsible for releases of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources. Additionally, it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment. Further, certain oilfield wastes are subject to the Resource Conservation & Reservation Act ("RCRA") with respect to the regulation of hazardous wastes. The RCRA regulates the generation, transportation and disposal of hazardous wastes.

The Texas Railroad Commission has issued rules for management of certain types of hazardous waste generated in the oilfield. However, until delegation of the RCRA program to the Railroad Commission, hazardous wastes generated in the oilfield are regulated by the Texas Natural Resources Conservation Commission. The Texas Railroad Commission regulates pollution of groundwater and surface water resulting from exploration, production and development of oil and natural gas resources.

The Clean Water Act ("CWA") and regulations promulgated thereunder prohibit the discharge of pollutants into waters of the United States without a permit pursuant to the National Pollutant Discharge Elimination System ("NPDES") provisions. The CWA also requires reporting of oil spills to the National Response Center. The United States Environmental Protection Agency ("EPA") has issued general NPDES permits for oil and gas platforms in the Gulf of Mexico, which impose limits on discharges of such things as oil, grease, produced water and drilling fluids. Onshore platforms may also be subject to the requirement for NPDES permits for both production discharges and for discharges of stormwater. In Louisiana, the NPDES permit program has recently been delegated to the State of Louisiana. In Texas, the NPDES permit program is administered by the TNRCC. Failure to obtain the proper permit may result in both civil and criminal penalties as well as an order to cease discharges, which in effect is an order to shut down production.

Management believes that the Company is in substantial compliance with current applicable environmental laws and regulations. Compliance with such laws and regulations has not historically represented a significant expense for the Company and management does not foresee the need for material expenditures to ensure continued compliance with currently existing laws and regulations. Laws and regulations in these areas are, however, subject to change and there can be no assurance that future laws or regulations will not have a material adverse effect on the Company.

OPERATING HAZARDS AND INSURANCE

The oil and gas business involves a variety of operating risks, including the risk of fire, explosions, blow-out, pipe failure, casing collapse, abnormally pressured formations and environmental hazards such as oil spills, gas leaks, ruptures and discharges of toxic gases, the occurrence of any of which could result in substantial losses to the Company due to injury or loss of life, severe damage to or destruction of property, natural resources and equipment, pollution or other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. In addition to the foregoing, offshore operations are subject to the additional hazards of marine operations, such as capsizing, collision and adverse weather and sea conditions.

The Company maintains insurance coverage against some, but not all, operating risks. The insurance maintained generally does not cover claims relating to failure of title to oil and gas leases, trespass during 3-D survey acquisition or surface damage attributable to seismic operations, business interruption nor does it protect against loss of revenues due to well failure. There can be no assurance that any insurance obtained by the Company covering claims related to worker's compensation, comprehensive general liability for bodily injury and property damage, comprehensive automobile liability and pollution, cleanup, underground blowout and evacuation will be adequate to cover any losses or liabilities which may be incurred within projects in which the Company participates. The Company cannot predict the continued availability of insurance coverage or the availability of insurance at premium levels that justify its purchase. If the Company were unable to procure insurance at an acceptable cost with respect to each of the projects in which the Company participates, the occurrence of significant adverse events not fully insured or indemnified against could materially and adversely affect the Company's financial condition and operations.

COMPETITION

Competition in the oil and gas industry is intense, particularly with respect to the acquisition of acreage and capital. The Company's competitors in the exploration for oil and gas include numerous major and independent oil and gas companies, smaller, technology-driven service companies, individual proprietors, drilling and income programs and partnerships. Many of the Company's competitors possess and employ financial and personnel resources substantially in excess of those available to the Company and may, therefore, be able to define, evaluate, bid for and participate in a greater number of oil and gas properties than the Company. The Company believes that technology, experience and reliability are the primary elements upon which the Company competes in the industry. Although the Company believes that it competes effectively in each of these areas, there can be no assurance that the Company's ability to attract and invest in high quality projects will not be adversely affected if its current competitors or new market entrants introduce new services with better quality technology than those available to the Company.

EMPLOYEES AND INDEPENDENT CONSULTANTS

As of December 31, 1998, the Company had 7 full-time employees including 2 explorationists. The Company believes that its relationship with its employees is good. None of the Company's employees is covered by a collective bargaining agreement.

ITEM 2. PROPERTIES

SIGNIFICANT PROJECTS AND PROPERTIES

The Company's exploration activities are focused in the onshore Gulf Coast region of the United States, principally in Texas, but also include projects in Louisiana, Mississippi, and Alabama. Additionally, the Company has exploration projects offshore in the Gulf of Mexico and internationally in the Republic of Cote d'Ivoire.

3-D seismic imaging is an effective tool to identify the structural and stratigraphic features in the Gulf Coast region and provides the Company with an ability to identify hydrocarbon potential in and around existing fields that could not be detected with 2-D seismic and earlier exploration techniques. Due to geologic complexities within the Gulf Coast, it may be possible to identify multiple prospects within a single project. These prospects typically offer multiple drilling opportunities with individual wells capable of penetrating multiple reservoirs.

The extensive drilling history within Gulf Coast trends provides a powerful subsurface and production database to which seismic data can be calibrated. This data provides the foundation required to design a seismic program that optimizes resolution at targeted reservoirs. This subsurface information, when combined with 3-D seismic data, provides a more accurate assessment of reservoir quality, productivity, reserve potential and, in some instances, fluid type.

The major producing areas in which the Company holds an interest are reflected in the table below as of and for the year ended December 31, 1998:

	PROVED RESERVES		1998 PRODUCTION	
AREA / TREND	GAS MMCF	OIL MBBL	GAS MMCF	OIL MBBL
Texas Frio Trend	1,482	27	830	24
Texas Wilcox Trend	1,307	12	140	2
Texas Miocene Trend	471	-	516	-
Other Properties	625	23	392	12
	3,885	62	1,878	38

GULF COAST AREA

Of the 15 wells drilled in 1998, 14 were in the Gulf Coast area, including 10 in Texas, 2 in Louisiana, and 1 in Florida. All of the Company's 8 successful wells in 1998 were in the Gulf Coast area.

TEXAS GULF COAST. This area includes both onshore and near-shore properties and generally extends along the Texas coast for a distance of approximately 100 miles inland from the coastline. Prospective geology in the trend is characterized by numerous stacked sand formations that were deposited continuously by river channels and deltas. The trend's primary oil and gas producing formations include the Miocene, Frio, Vicksburg, Yegua, and Wilcox. The Company has exploration projects targeting each of these oil and gas formations from depths of 3,000' to 16,000'. Of the Company's 33 exploration projects, 20 are in the Texas Gulf Coast area. The Company acquired 120 square miles of new 3-D seismic data in the Texas Gulf Coast region during 1998. Below is a discussion of certain of the active exploration projects in this area:

TEXAS MIOCENE TREND. The Company has participated in six projects, with over 200 square miles of 3-D seismic data in this trend. The Company currently has nine producing gas wells in the Miocene Trend, in Calhoun

and Matagorda counties, Texas, at depths between 3,000' and 6,000'. The Company owns working interests ranging from 15% to 20% in these wells, which are operated by Prime Operating Company, a subsidiary of PrimeEnergy Corporation. In addition to these projects, the Company is actively pursuing additional opportunities in this trend.

TEXAS FRIO TREND. The Company has participated in nine projects, with over 400 square miles of 3-D seismic data in this trend. This includes 120 square miles acquired during 1998. The 1998 new projects are located in Galveston and Chambers counties, Texas, and have resulted in excess of 15 new exploration prospects added to 3DX's drilling inventory. While the primary target for these new projects are Frio sands, significant Vicksburg potential exists within the projects. The Company spud seven wells for Frio objectives in 1998, three of which were successful, and one was drilling at December 31, 1998. The Company owns working interests ranging from 7.5% to 22% in these projects.

TEXAS WILCOX TREND. The Company has four active projects in the Texas Wilcox Trend, located in Karnes, Lavaca, Goliand, and Dewitt counties, Texas. These projects cover approximately 140 square miles of 3-D seismic data. Wilcox objectives have been identified within these projects at depths of 10,000' to 15,000'. The Company drilled three wells in the trend during 1998, two of which were successful. 3DX owns working interests ranging from 12.5% to 25% in these projects.

OTHER PROJECTS

LOUISIANA. The Company has two active exploration projects in Louisiana. The Four Isle Dome project in Terrebonne Parish, operated by Burlington Resources, targets Miocene-age sands at depths up to 15,000'. The Company participated in the sidetrack of one well, and drilling of another during 1998. Both wells were successful, resulting in a combined rate of over 30 million cubic feet of gas per day. The Company has a 5% working interest in Four Isle Dome. The second project area is located in Calcasieu and Jefferson Davis Parishes. The Company participated in a 14,000' wildcat well during 1998, which was unsuccessful. 3DX has a 10% working interest in this project.

OFFSHORE GULF OF MEXICO. The Company had two producing properties offshore in the Gulf of Mexico. The two producing properties, the Cove project at Matagorda Island Block 487-L and the Hollywood project at East Cameron Block 42, are considered to be fully developed. The Company elected to sell it's 7% in the Cove project during 1998, while retaining it's 5% working interest in East Cameron Block 42. The Company also has a 1% carried interest in 3 exploratory projects located in the deep water flex trend of the Gulf of Mexico. These projects have eight-year lease terms which expire in March 2005.

WEST AFRICA. The Company joined its partner, Santa Fe Energy Resources (Cote d'Ivoire) Ltd., in 1997 to evaluate Block CI-24 and Block CI-202 located in the offshore waters of The Republic of Cote d'Ivoire, and a 3 million acre concession offshore Ghana. Late in 1997, the partnership began work on a 400 square kilometer 3-D seismic survey, which was completed during the first quarter of 1998. After interpreting the 3-D seismic data for the partnership, the Company converted it's 10% working interest in Block CI-202 and Block CI-24 to a 2.5% carried interest, and elected to exit the offshore Ghana project. The partnership drilled one exploratory well on Block CI-24 during 1998, which was unsuccessful.

OIL AND GAS RESERVES

All of the Company's proved reserves described below are located onshore and offshore Texas and in the Federal waters offshore Louisiana. All of the Company's proved reserves reflected in the table are proved developed reserves. The reserve estimates were prepared by the independent engineering consulting firm Ryder Scott Company Petroleum Engineers. In accordance with applicable requirements of the Securities and Exchange Commission, the estimated discounted future net revenues from estimated proved reserves are based on prices and costs as of the date of the estimate unless such prices or costs are contractually determined at such date. The Company has not provided any estimates of total proved reserves, comparable to those disclosed herein, in any reports filed with federal authorities or agencies other than the Securities and Exchange Commission.

	DECEMBER 31,		
	1998	1997	1996
Estimated Net Proved Reserves Data:			
Gas (Mmcf)	3,885	3,932	2,464
Oil and condensate (Mbbl)	62	89	32
Total equivalent, converted at 6:1 (Mmcfe)	4,257	4,466	2,656
Pre-tax present value of proved reserves discounted at 10% (in thousands)	$5,782	$7,048	$6,623
Standardized Measure of Discounted Future Net Cash Flows (in thousands) (1)	$5,782	$7,048	$6,623

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(1) In accordance with statutory requirements of the Securities and Exchange Commission, these amounts represent the present value of estimated future net revenues after income taxes discounted at 10%. The present value amounts are the same before taxes and after projected income taxes as a result of the Company's substantial net operating loss carryforwards.

The process of estimating proved developed and proved undeveloped oil and gas reserves is very complex, requiring significant subjective decisions in the evaluation of available geologic, engineering and economic data for each reservoir. The data for a given reservoir may change over time as a result of additional development activity, production history and viability of production under varying economic conditions. The actual production, revenues, severance taxes, development and operating expenditures with respect to the Company's reserves will likely vary from such estimates, and such variances could be material.

PRODUCTIVE WELLS

At December 31, 1998, 1997 and 1996, the Company held interests in the following productive wells:

	AT DECEMBER 31,					
	1998		1997		1996	
	GROSS	NET	GROSS	NET	GROSS	NET
Oil Wells	4	0.66	9	0.54	8	0.31
Gas Wells	22	3.34	21	4.49	11	1.71
Total Wells	26	4.00	30	5.03	19	2.02

The number of gross wells equals the total number of wells in which the Company owns a working interest. The number of net wells equals the sum of the Company's fractional working interests owned in gross wells.

OIL AND GAS DRILLING ACTIVITIES

The following table sets forth the gross and net number of productive, dry and total exploratory and development wells that the Company drilled in each of 1998, 1997, and 1996:

<TABLE>
<CAPTION>

	GROSS WELLS			NET WELLS		
	PRODUCTIVE	DRY	TOTAL	PRODUCTIVE	DRY	TOTAL
EXPLORATORY WELLS						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Year ended December 31, 1998	3	6	9	0.49	0.56	1.05
Year ended December 31, 1997	11	9	20	2.98	1.83	4.81
Year ended December 31, 1996	7	7	14	0.74	0.84	1.58
DEVELOPMENT WELLS						
Year ended December 31, 1998	5	-	5	0.36	-	0.36
Year ended December 31, 1997	-	3	3	-	0.48	0.48
Year ended December 31, 1996	3	-	3	0.60	-	0.60

</TABLE>

As of December 31, 1998, the Company was participating in 1 gross (0.20 net) exploratory wells.

PRODUCTION

The following table summarizes the net volumes of oil and gas produced and sold and the average prices received with respect to such sales from all properties in which the Company held an interest during 1998, 1997 and 1996, respectively.

	GAS		OIL	
	NET PRODUCTION (MMCF)	AVERAGE SALES PRICE/MCF	NET PRODUCTION (MMCF)	AVERAGE SALES PRICE/BBL
Year ended December 31, 1998	1,877.9	$2.17	37.8	$ 12.20
Year ended December 31, 1997	1,131.8	2.46	14.1	18.54
Year ended December 31, 1996	271.2	2.50	8.5	20.43

Average oil and gas operating expenses per Mcfe including severance and ad valorem taxes, were $0.35, $0.36, and $0.33 for 1998, 1997 and 1996, respectively.

ACREAGE

The following table sets forth the developed and undeveloped oil and gas acreage in which the Company held an interest as of December 31, 1998. Undeveloped acreage consists of those lease acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas, regardless of whether or not such acreage contains proved reserves.

	DEVELOPED		UNDEVELOPED	
	GROSS	NET	GROSS	NET
Texas...............	9,221	1,441	97,193	22,967
Louisiana...........	325	16	20,081	1,122
Mississippi/Alabama.	82	19	107	44
Offshore Federal....	1,440	72	-	-
International.......	-	-	162,842	4,071
Total...........	11,068	1,548	280,223	28,204

ITEM 3. LEGAL PROCEEDINGS

The Company has not been the subject of any legal proceedings since its organization. There can be no assurance, however, that the Company will not in the future be involved in litigation incidental to the conduct of its business.

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

There were no matters submitted to a vote of security holders during the fourth quarter of 1998.

PART II

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

The Company's common stock was traded through March 23, 1999 on the NASDAQ National Market under the symbol "TDXT". Effective March 24, 1999, the Company's common stock was traded on the NASDAQ SmallCap Market under the symbol "TDXTC". The following table sets forth, on a per share basis for the periods indicated, the high and low prices as quoted by the NASDAQ National Market since the shares became publicly traded on December 26, 1996. As of February 17, 1999 there were approximately 70 record holders of the common stock. See Note 10 in Notes for Financial Statements contained elsewhere herein regarding the transfer of the Company's securities to The NASDAQ SmallCap Market.

	HIGH	LOW
1998		
Fourth Quarter ended December 31, 1998	$0.72	$0.25
Third Quarter ended September 30, 1998	1.50	0.56
Second Quarter ended June 30, 1998	1.88	1.38
First Quarter ended March 31, 1998	3.72	1.50
1997		
Fourth Quarter ended December 31, 1997	$9.25	$2.25
Third Quarter ended September 30, 1997	12.50	8.00
Second Quarter ended June 30, 1997	10.50	7.75
First Quarter ended March 31, 1997	13.13	10.00

DIVIDEND POLICY

The Company has not declared or paid any cash dividends on its common stock since its formation. The Company's current credit agreement prohibits the payment of cash dividends. The Company does not anticipate paying cash dividends on its common stock in the foreseeable future. The Company currently intends to retain any future earnings to finance the expansion and continued development of its business.

ITEM 6. SELECTED FINANCIAL DATA

The financial information set forth below for the years ended December 31, 1998, 1997, 1996, 1995 and 1994 is derived from the financial statements of the Company, which were audited by Arthur Andersen LLP. This information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations," the financial statements of the Company, the notes related thereto and other financial data included elsewhere in this Form 10-K.

<TABLE>
<CAPTION>

STATEMENT OF OPERATIONS DATA:	YEAR ENDED DECEMBER 31,				
	1998	1997	1996	1995	1994

(IN THOUSANDS, EXCEPT PER SHARE DATA)

Revenues (a):					
<S>	<C>	<C>	<C>	<C>	<C>
Oil and gas............................	$ 4,545	$ 3,046	$ 852	$ 275	$ 304
Interest and other.....................	54	585	248	236	53
Total revenues....................	4,599	3,631	1,100	511	357
Costs and expenses:					
Total lease operating..................	732	437	107	79	34
Impairment of oil and gas properties	7,864	9,061	1,477	1,627	-
Depletion, depreciation & amortization..	3,545	2,636	423	158	91
General and administrative and other (a)	2,047	2,533	1,828	1,135	617
Total costs and expenses...............	14,188	14,667	3,835	2,999	742
Net loss	(9,589)	(11,036)	(2,735)	(2,488)	(385)
Dividends and accretion on preferred stock	-	-	(941)	(1,108)	(452)
Net loss applicable to common stockholders...........................	$(9,589)	$(11,036)	$(3,676)	$(3,596)	$ (837)
Basic and diluted net loss per common share as previously reported.....	$ (1.15)	$ (1.53)	$ (1.16)	$ (1.14)	$(0.33)
Retroactive effect of change in accounting principle (b)...........................	-	-	(0.05)	(0.06)	(0.02)
Basic and diluted net loss per common share..................................	$ (1.15)	$ (1.53)	$ (1.21)	$ (1.20)	$(0.35)
Weighted average number of common shares outstanding......................	8,328	7,194	3,042	2,988	2,373

STATEMENT OF CASH-FLOW DATA					
Net cash provided by (used in) operating activities............................	$ 2,484	$ 1,430	$ 615	$ (503)	$ 16
Net cash used in investing activities.....	5,960	21,187	5,022	4,113	2,018
Net cash provided by financing activities. activities.............................	3,356	3,803	16,225	7,876	2,515

BALANCE SHEET DATA:	AS OF DECEMBER 31,				
	1998	1997	1996	1995	1994
	(IN THOUSANDS)				
Working capital..........................	$ 801	$ (632)	$15,987	$ 7,265	$2,103
Property and equipment, net...............	10,866	18,372	8,576	2,935	2,669
Total assets.............................	13,501	21,310	26,827	10,451	5,197
Series B preferred stock..................	-	-	-	6,278	5,452
Series C preferred stock..................	-	-	-	7,904	-
Stockholders' equity (deficit)...........	$10,531	$17,818	$24,574	$(4,240)	$ (674)

</TABLE>

(a) As discussed in Note 2 to the financial statements, rental income has been reflected as a reduction of general and administrative expenses in all periods presented.
(b) As discussed in Note 2 to the financial statements, earnings per share for periods prior to the Company's initial public offering have been restated to retroactively reflect the effect of SAB No. 98.

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

The following is a discussion of the financial condition and results of operations of the Company for the three years ended December 31, 1998. This discussion should be read in conjunction with the financial statements of the Company, the notes thereto and the other financial data included elsewhere in this Annual Report on Form 10-K.

OVERVIEW

The Company is a knowledge-based oil and gas exploration company whose core competence and strategic focus is the utilization of 3-D imaging and other advanced technologies in the search for commercial quantities of hydrocarbons. The Company enters into arrangements that enable it to combine its expertise and exploration capabilities with the operating skills of other oil and gas companies. The Company participates in selected exploration projects as a non-operating working interest owner, sharing both risks and rewards with its partners. The Company commenced operations in January 1993 to take advantage of perceived opportunities emerging from changes in the domestic oil and gas industry, including the divestiture of domestic oil and gas properties, advances in technology and the outsourcing of specialized technical capabilities. By reducing drilling risk through 3-D imaging and analysis, the Company seeks to improve the expected return on investment in its oil and gas projects.

As a working interest partner, the Company shares all project costs in proportion to its working interest percentage. In instances in which exploration and development activities are unsuccessful, the Company incurs an economic loss equal to its proportionate share of project costs prior to the time the project is abandoned. Similarly, the Company incurs an economic loss if the Company's proportionate share of revenues generated from production is insufficient to cover the Company's share of project costs.

The Company's future financial results will depend primarily on: (i) the Company's ability to continue to source and screen potential projects; (ii) the Company's ability to discover commercial quantities of hydrocarbons; (iii) the market price for oil and gas; and (iv) the Company's ability to fully implement its exploration and development program, which is dependent on the availability of capital resources. There can be no assurance that the Company will be successful in any of these respects, that the prices of oil and gas prevailing at the time of production will be at a level allowing for profitable production, or that the Company will be able to obtain additional funding to increase its currently limited capital resources.

RESULTS OF OPERATIONS

The following table sets forth certain operating information of the Company during the periods indicated:

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
PRODUCTION:			
Gas (MMcf)	1,877.9	1,131.8	271.2
Oil and condensate (Mbbls)	37.8	14.1	8.5
Total equivalent, converted at 6:1 (Mmcfe) 6:1 (Mmcfe)	2,104.8	1,216.2	322.2
AVERAGE SALES PRICE:			
Gas (per Mcf)	$ 2.17	$2.46	$ 2.50
Oil and condensate (per Bbl)	12.20	18.54	20.43
AVERAGE EXPENSES (PER MCFE):			
Lease operating (1)	$ 0.35	$0.36	$ 0.33
Depletion of oil and gas properties	1.68	2.17	1.31

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(1) Includes all lease operating expenses and taxes attributable to the Company's properties, including production and ad valorem taxes.

OIL AND GAS REVENUES. Oil and gas revenues increased to $4,544,690 for the year ended December 31, 1998 (the "1998 period") from $3,045,447 for the year ended December 31, 1997 (the "1997 period"). This increase was attributable to higher oil and gas production levels. Production increased by over 73% to 2,104.8 Mmcfe for the 1998 period, from 1,216.2 Mmcfe for the 1997 period. The increased production resulted from successful wells drilled during the latter part of 1997 and throughout the year in 1998. The average sales price for natural gas, which accounted for 89% of equivalent production during the 1998 period, decreased by 12% to $2.17 per Mcf from $2.46 per Mcf for the 1997 period. The average sales price for oil decreased to $12.20 per barrel during the 1998 period versus $18.54 per barrel for the 1997 period.

Oil and gas revenues increased to $3,045,447 for the 1997 period from $851,827 for the year ended December 31, 1996 (the "1996 period"). This increase was primarily attributable to higher oil and gas production levels. Production increased by over 277% to 1,216.2 Mmcfe for the 1997 period, from 322.2 Mmcfe for the 1996 period. The increased production resulted from successful wells drilled during the last three months of 1996 and throughout the year in 1997. The number of productive wells in which the Company owned an interest increased to 30 (5.03 net) at the end of the 1997 period from 19 (2.02 net) at the end of the 1996 period. The average sales price for natural gas, which accounted for 93% of equivalent production during the 1997 period, decreased by 2% to $2.46 per Mcf from $2.50 per Mcf for the 1996 period. The average sales price for oil decreased to $18.54 per barrel during the 1997 period versus $20.43 per barrel for the 1996 period.

LEASE OPERATING EXPENSES. Total lease operating expenses, including production taxes, increased to $731,749 for the 1998 period from $436,243 for the 1997 period. This increase was primarily attributable to the additional costs of operating new producing wells drilled throughout the latter part of 1997 and into the 1998 period and is comparable to the increase in production during the corresponding periods. Lease operating expenses per Mcfe of production decreased to $0.35 per Mcfe for the 1998 period from $0.36 per Mcfe for the 1997 period.

Total lease operating expenses, including production taxes, increased to $436,243 for the 1997 period from $107,676 for the 1996 period. This increase was primarily attributable to the additional costs of operating new producing wells drilled during the last three months of 1996 and throughout the year in

1997 and is comparable to the increase in production during the corresponding periods. Lease operating expenses per Mcfe of production increased slightly to $0.36 per Mcfe for the 1997 period from $0.33 per Mcfe for the 1996 period.

DEPLETION, DEPRECIATION AND AMORTIZATION EXPENSE. Depletion of oil and gas properties for the 1998 period increased to $3,545,328 from $2,636,305 for the 1997 period. The increase in depletion of oil and gas properties resulted primarily from the increase in oil and gas production during the 1998 period, as discussed above. Depletion of oil and gas properties per Mcfe for the 1998 period decreased to $1.68 per Mcfe, or 23%, from the rate of $2.17 per Mcfe in the corresponding period in 1997. The decrease in the rate resulted from greater net additions to oil and gas reserves than the net additions to evaluated oil and gas property costs relative to the existing depletion rate per Mcfe.

Depletion of oil and gas properties for the 1997 period increased to $2,636,305 from $422,839 for the 1996 period. The increase in depletion of oil and gas properties resulted from both the increase in oil and gas production during the 1997 period, as discussed above, and an increase in the depletion rate for this period. Depletion of oil and gas properties per Mcfe for the 1997 period increased to $2.17 per Mcfe, or 66%, from the rate of $1.31 per Mcfe in the corresponding period in 1996. The increase in the rate resulted from greater additions to evaluated oil and gas property costs than the additions to oil and gas reserves relative to the existing depletion rate per Mcfe. This was principally the result of the costs of unsuccessful wells drilled in 1997.

IMPAIRMENT OF OIL AND GAS PROPERTIES. Under the rules of the full-cost accounting method as prescribed by the Securities and Exchange Commission, the Company is required to compare the net costs of its evaluated properties to the net present value of its proved reserves, using prices and costs in effect at the end of each quarterly period. If such evaluated costs, net of accumulated depreciation, depletion and amortization, exceed the present value of proved reserves, an impairment charge is required to writedown those excess costs. Oil and gas impairment charges recorded during 1998 were $7,863,536. The impairments recorded were principally the result of increased additions to evaluated property costs and the decline in oil and gas prices being received by the Company on December 31, 1998 as compared to December 31, 1997.

Oil and gas impairment charges recorded during 1997 were $9,061,240, all of which were attributable to the fourth quarter ended December 31, 1997. This writedown results principally from the significant decline in oil and gas prices being received by the Company on December 31, 1997 as compared to September 30, 1997, and a relatively large investment in three unsuccessful exploratory wells, all of which were evaluated in the fourth quarter of 1997.

GENERAL AND ADMINISTRATIVE EXPENSE. General and administrative expense, net of costs capitalized to exploration and development projects, decreased 20% to $2,033,756 for the 1998 period from $2,532,474 for the 1997 period. This decrease was primarily attributable to a downsizing in personnel that occurred during the second quarter of 1998. The downsizing had the following effects on total general and administrative expenses: (1) an increase in compensation expense due to severance pay recorded, (2) a decrease in the amount of capitalized overhead, as the majority of the terminated personnel were from technical departments, and (3) a decrease in stock option expense to adjust the amortization of deferred compensation recorded for these employees relating to stock options issued within one year of the initial public offering. The 1997 amount represented a 39% increase from $1,827,946 incurred during the year ended December 31, 1996. The increase was primarily a result of personnel costs associated with hiring which occurred during 1997 and increased professional fees and other costs associated with being a public company, offset by a decrease in the amount of $390,616 relating to the amortization of deferred compensation expense.

INTEREST AND OTHER INCOME. Interest and other income decreased 91% to $53,984 for the 1998 period from $585,154 for the comparable period during 1997. This decrease is primarily a result of a substantially lower balance of short-term investments during the 1998 period. The 1997 amount represents a 136% increase from the $247,960 earned during the comparable 1996 period. This increase reflects interest income on the higher level of short-term investments during 1997 as a result of investment of the proceeds of the Company's initial public offering.

NET LOSS. As a result of the foregoing, the Company's net loss decreased to $9,588,542 for the 1998 period from $11,036,144 for the 1997 period. The significant factors which caused the decrease in net loss were the increase in revenues and the decrease in impairment of oil and gas properties, with a slight offset from the increase in depletion, depreciation and amortization of oil and gas properties. The net loss for the 1997 period increased from the net loss of $3,676,411 in the 1996 period. The most significant factor which caused the increase in net loss was the impairment of oil and gas properties recorded under full-cost accounting rules.

INCOME TAXES. The Company recorded a valuation allowance against the estimated amount of deferred tax assets for which realization is uncertain. The Company reviews the valuation allowance at the end of each quarter and makes adjustments, as necessary, if it is determined that it is more likely than not that the deferred tax assets will be realized. As of December 31, 1998, the Company had tax net operating loss carryforwards ("NOL's") of approximately $11.7 million which begin to expire in 2008. As a result of the recent stock transactions, including the initial public offering, there is a yearly limitation placed on the Company's utilization of its NOL's under Section 382 of the Internal Revenue Code of 1986, as amended. See Note 5 to the financial statements of the Company included elsewhere herein.

LIQUIDITY AND CAPITAL RESOURCES

See further discussion of these issues under Note 3, "Going Concern" in Notes to Financial Statements contained elsewhere herein.

To date, net cash provided by operating activities has been limited and the Company has funded its oil and gas exploration activities principally through cash provided by the sale of equity securities. On December 26, 1996, the Company consummated an initial public offering of common stock which provided approximately $23.6 million in proceeds, net of offering expenses. In January 1997, the Company's underwriters exercised their over-allotment option to purchase 375,000 additional shares of common stock, resulting in additional net proceeds to the Company of approximately $3.8 million. Approximately $7.5 million of the proceeds of the initial public offering was used to redeem all the issued and outstanding shares of the Series B preferred stock and to pay accrued dividends on the issued and outstanding Series C preferred stock. The balance of the net proceeds was designated to fund the Company's exploration and development capital expenditures and for general corporate purposes, including expenses associated with hiring additional personnel.

The Company has made and will be required to make oil and gas capital expenditures substantially in excess of its net cash flow from operations in order to complete the exploration and development of its existing properties. The company will also need to acquire exploration prospects and find additional oil and gas reserves in order for its asset base not to be depleted by current oil and gas production. Cash outlays for capital expenditures for oil and gas exploration and development activities for the years ended December 31, 1998, 1997, and 1996 were $8.7 million, $19.9 million, and $6.2 million, respectively. The level of capital spending in 1999 and thereafter will be highly dependent upon the Company's ability to obtain additional capital. The Company expects that its projected net cash flows from currently producing properties will be sufficient to fund its general and administrative expenditures through December 31, 1999, including technical employee and related costs which are capitalized under full-cost accounting. However, such projected cash flows could be adversely affected by declines in oil and gas prices and unanticipated declines in oil and gas production from existing properties. This raises substantial doubt about the Company's ability to pay its obligations as they become due.

On December 18, 1997, the Company executed a credit agreement with a commercial bank, the borrowing capacity of which was set at $2.0 million in April 1998. During the quarter ended June 30, 1998 the Company borrowed $2.0 million under the credit agreement and made payments of $200,000 and $600,000, during the third and fourth quarters of 1998, respectively, and an additional payment of $450,000 in the first quarter of 1999. The maximum amount currently

available for borrowing under the credit facility is $750,000. The borrowing capacity is a function of the value of the Company's proved oil and gas reserves, and is redetermined on a semi-annual basis. The credit agreement is secured by substantially all of the Company's oil and gas properties and contains restrictions on dividends and additional liens and indebtedness and requires the maintenance of a minimum current ratio and net worth, each as defined in the credit agreement.

As a result of the Company's periodic review of each of its oil and gas exploration and development properties and its available capital, the Company has occasionally sold partial interests in specific oil and gas projects to other investors to reduce its total investment commitment to such projects. No gain or loss has been recognized on these transactions. In September 1998, the Company sold one of its properties located in Cove Field, Texas for approximately $440,000 (of which $200,000 was used to reduce the balance of borrowings on the company's bank credit agreement). In November, 1998, the Company closed a sale of 50% of its working interest in the Ramrod project in Matagorda county, Texas. Proceeds to the Company from this sale were $2 million and were used to reduce accounts payable and the bank loan. In accordance with full-cost accounting rules, no gain or loss was recorded from the sales. In the first quarter of 1999, the Company sold all of the remaining interest in the Ramrod project for $600,000. As of December 31, 1998, the Company had working capital of approximately $801,000.

The Company will require additional sources of financing to fund drilling expenditures on properties currently owned by the Company and to fund leasehold costs and geological and geophysical costs on its active exploration projects. The Company's 1999 expenditure plans currently include up to eleven exploratory and development wells and various lease and seismic data acquisitions. The Company generally has the right, but not the obligation, to participate for its percentage interest in drilling wells and can decline to participate if it does not have sufficient capital resources at the time such drilling operations are proposed. The Company can also potentially transfer its right to participate in drilling wells in exchange for cash, a reversionary interest, or some combination thereof. To recover its investment in unevaluated properties, it is necessary for the Company to either participate in drilling which finds commercial oil and gas production and produce such reserves or receive sufficient value through the sale or transfer of all or a portion of its interests.

Management of the Company continues to seek financing for its capital program from a variety of sources. The Company is actively soliciting new common or preferred equity investors, which could lead to a sale of all or a substantial portion of the Company's equity interests to a merger partner. The Company could also seek additional debt financing, although it has no additional borrowings currently available under its credit agreement. The Company also recently sold interests in oil and gas properties to help fund its capital program, and will consider additional property sales, although no such sales are imminent. No assurance can be given that the Company will be able to obtain additional financing by these or other means on terms that would be acceptable to the Company. The Company's inability to obtain additional financing would have a material adverse effect on the Company. Without raising additional capital, the Company anticipates that it will be required to limit or defer its planned oil and gas exploration and development program, which could adversely affect the recoverability and ultimate value of the Company's oil and gas properties. The Company may also be required to pursue other financial alternatives, which could include a sale or merger of the Company.

Management intends to pursue exploration and development opportunities to the extent additional capital becomes available in the current oil and gas environment. However, the uncertainties about the Company's future cash flows and the lack of firm commitments to attract additional capital at this time raise substantial doubt about the ability of the Company to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

EFFECTS OF INFLATION AND CHANGES IN PRICE

The Company's results of operations and cash flows are affected by changing oil and gas prices. If the price of oil and gas increases (decreases), there could be a corresponding increase (decrease) in the operating cost that the Company is required to bear for operations, as well as an increase (decrease) in revenues. Historically, general price inflation has had a minimal effect on the Company.

YEAR 2000

Many computer software systems were structured to use a two-digit date field meaning that they will not be able to properly recognize dates in the Year 2000. As a result, computer systems and software may need to be upgraded to comply with such "Year 2000" requirements. Significant uncertainty exists concerning the potential effects associated with such compliance as systems that do not properly recognize such information could generate erroneous data or cause a system to fail.

As of December 31, 1998, the Company has assessed the expected impact of the date change in the Year 2000 on the software programs used in its operations. The majority of the Company's technical applications are not date sensitive. The applications that do have date sensitive aspects, including the Company's accounting software, have either been updated to compensate for the date change in the Year 2000 or are currently being updated by the software vendors. The Company believes that any disruption caused from a third party's inability to be Year 2000 compliant will not be material to its operations.

The Company believes that it will not be required to make any material expenditures to address the Year 2000 problem as it relates to its existing systems. To date, costs incurred to address Year 2000 compliance have been internal in nature and have been charged to income as incurred. Such costs have been funded from cash provided by operating activities. However, uncertainty exists concerning the potential costs and effects associated with any Year 2000 compliance, and the Company intends to continue to make efforts to ensure that third parties with whom it has relationships are Year 2000 compliant. The Company is not aware of any information technology projects that have been delayed due to the Year 2000 compliance program.

The Company's goal has been to ensure that all of the critical systems and processes which are under the direct control of the Company remain functional. However, because certain systems and processes may be interrelated with systems outside of the control of the Company, there can be no assurance that all implementations will be successful. The Company believes that most, if not all, of the Year 2000 risk to the Company will come from third parties, primarily oil and gas operators, pipelines, banking institutions, governmental entities, communications systems providers and similar entities. The Company does not operate any oil and gas properties and relies minimally on the software of third parties, which consists primarily of purchased or leased operating system, analysis, accounting and seismic programs. These programs have been determined to be either Year 2000 compliant or capable of Year 2000 compliance with little cost to the Company.

There can be no assurance that unexpected Year 2000 compliance problems of either the Company or its vendors, customers and service providers would not materially and adversely affect the Company's business, financial condition or operating results. The Company will continue throughout 1999 to consider the likelihood of a material business interruption due to the Year 2000 issue.

OTHER

In connection with stock options granted within one year prior to the initial filing of the registration statement relating to the initial public offering, the Company recorded deferred compensation expense based on the difference between the option exercise price and the fair value of the Company's common stock at the date of grant, using the $11.00 per share initial public

offering price as an estimate of the fair value. Such deferred compensation is being amortized as additional compensation expense over the vesting period for the options. As of December 31, 1998, the Company had unamortized deferred compensation of $136,304 which will be charged to expense during the next three years. The Company has elected not to adopt the fair value accounting of Statement of Financial Accounting Standards No. 123, "Accounting For Stock Based Compensation", for employees and continues to account for these plans under Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees".

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item are incorporated under Item14 in Part IV of this report.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEMS 10 TO 13 INCLUSIVE.

These items have been omitted in accordance with the general instructions to Form 10-K Annual Report. The Registrant will file with the Securities and Exchange Commission in April 1999, pursuant to Regulation 14A, a definitive proxy statement that will involve the election of directors. The information required by these items will be included in such proxy statement and are incorporated herein by reference.

PART IV

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

(A)(1) FINANCIAL STATEMENTS:

INDEX TO FINANCIAL STATEMENTS

(A)(2) FINANCIAL STATEMENT SCHEDULES:

Not applicable

(A)(3) EXHIBITS:

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
11.1*	Computation of Earnings per Share
23.1*	Consent of Arthur Andersen LLP
23.2*	Consent of Ryder Scott Company
24.1*	Power of Attorney (included on signature page)
27.1*	Financial Data Schedule for December 31, 1998 (for SEC use only)
27.2*	Financial Data Schedule for December 31, 1997 (restated) (for SEC use only)
27.3*	Financial Data Schedule for December 31, 1996 (restated) (for SEC use only)

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* filed herewith

(B) REPORTS ON FORM 8-K:

Current Report on Form 8-K filed with the Securities and Exchange Commission on September 9, 1998.

Current Report on Form 8-K filed with the Securities and Exchange Commission on November 10, 1998.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

3DX TECHNOLOGIES INC.

By: /s/ Russell L. Allen

Vice President, Finance, Chief Financial Officer and Secretary

Know All Men By These Presents, that each individual whose signature appears below hereby constitutes and appoints Ronald P. Nowak and Russell L. Allen and each of them individually, his true and lawful agent, proxy and attorney-in-fact, with full power of substitution and resubstitution, for him in his name, place and stead, in any and all capacities, to (i) act on, sign and file with the Securities and Exchange Commission any and all amendments to this report together with all schedules and exhibits thereto, (ii) act on, sign and file with the Securities and Exchange Commission any exhibits to this report, (iii) act on, sign and file such certificates, instruments, agreements and other documents as may be necessary or appropriate in connection therewith and (iv) take any and all actions which may be necessary or appropriate in connection therewith, granting unto such agents, proxies and attorneys-in-fact and each of them individually, full power and authority to do and perform each and every act and thing necessary or appropriate to be done, as fully for all intents and purposes as he might or could do in person, hereby approving, ratifying and confirming all that such agents, proxies and attorneys-in-fact, any of them or any of his or their substitute or substitutes may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, 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	SIGNATURE	TITLE(S)
March 23, 1999	/s/ Ronald P. Nowak -------------------------- Ronald P. Nowak	President and Chief Executive Officer (Principal Executive Officer)
March 23, 1999	/s/ Russell L. Allen -------------------------- Russell L. Allen	Vice President, Finance and Chief Financial Officer (Principal Financial and Accounting Officer)
March 23, 1999	/s/ Jon W. Bayless -------------------------- Jon W. Bayless	Director

DATE	SIGNATURE	TITLE(S)
March 23, 1999	/s/ Charles E. Edwards -------------------------- Charles E. Edwards	Director
March 23, 1999	/s/ C. Eugene Ennis -------------------------- C. Eugene Ennis	Chairman of the Board

March 23, 1999	/s/ C.D. Gray -------------------------- C.D. Gray	Director
March 23, 1999	/s/ Douglas C. Williamson -------------------------- Douglas C. Williamson	Director

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and the Board
of Directors of 3DX Technologies Inc.:

We have audited the accompanying balance sheets of 3DX Technologies Inc. (a Delaware corporation) as of December 31, 1998 and 1997, and the related statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the 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 3DX Technologies Inc. as of December 31, 1998 and 1997, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 3 to the financial statements, the uncertainties about the Company's ability to pay its obligations when they become due and the lack of firm commitments to attract additional capital raise substantial doubt about the ability of the Company to continue as a going concern. Management's plans in regard to these matters are also described in Note 3. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern

Houston, Texas
March 22, 1999 ARTHUR ANDERSEN LLP

3DX TECHNOLOGIES INC.

BALANCE SHEETS

	DECEMBER 31, 1998	DECEMBER 31, 1997
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,447,756	$ 1,568,091
Accounts receivable	1,039,331	1,181,083
Prepaid expenses	83,892	110,681
Total current assets	2,570,979	2,859,855
Property and equipment:		
Oil and gas properties, full-cost method:		
Evaluated	32,664,307	22,521,673
Unevaluated	4,450,731	10,098,698
Technical interpretation equipment	2,734,149	2,605,439
Other property and equipment	273,780	273,780
	40,122,967	35,499,590
Less accumulated depletion, depreciation and amortization	(29,256,556)	(17,127,846)
	10,866,411	18,371,744
Other assets	63,771	78,041
	$13,501,161	$21,309,640
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,301,828	$ 1,713,209
Accrued liabilities	468,028	1,778,543
Total current liabilities	1,769,856	3,491,752
Borrowings on credit agreement	1,200,000	-
Total liabilities	2,969,856	3,491,752
Stockholders' equity:		
Preferred stock, $.01 par value, 1,000,000 shares authorized, none issued	-	-
Common stock, $.01 par value, 20,000,000 shares authorized, 9,379,209 and 7,225,462 shares issued and outstanding, respectively	93,792	72,255
Paid-in capital	39,989,951	38,085,357
Deferred compensation	(136,304)	(512,132)
Accumulated deficit	(29,416,134)	(19,827,592)
Total stockholders' equity	10,531,305	17,817,888
	$13,501,161	$21,309,640

The accompanying notes are an integral part of these financial statements.

3DX TECHNOLOGIES INC.

STATEMENTS OF OPERATIONS

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
<S>	<C>	<C>	<C>
Revenues:			
Oil and gas	$ 4,544,690	$ 3,045,447	$ 851,827
Interest and other	53,984	585,154	247,960
Total revenues	4,598,674	3,630,601	1,099,787
Costs and expenses:			
Lease operating	411,875	257,291	49,016
Production taxes	319,874	178,952	58,660
Impairment of oil and gas properties	7,863,536	9,061,240	1,476,690
Depletion, depreciation, and amortization of oil and gas properties	3,545,328	2,636,305	422,839
Interest expense	12,847	483	-
General and administrative	2,033,756	2,532,474	1,827,946
Total costs and expenses	14,187,216	14,666,745	3,835,151
Net loss	(9,588,542)	(11,036,144)	(2,735,364)
Dividends on preferred stock	-	-	(520,393)
Redemption premium on Series B preferred stock	-	-	(365,810)
Accretion on preferred stock	-	-	(54,844)
Net loss applicable to common stockholders	$(9,588,542)	$(11,036,144)	$(3,676,411)
Basic and diluted net loss per common share	$(1.15)	$(1.53)	$(1.21)
Weighted average number of common shares outstanding	8,328,429	7,193,837	3,042,466

</TABLE>

The accompanying notes are an integral part of these financial statements.

3DX TECHNOLOGIES INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<TABLE>
<CAPTION>

	COMMON STOCK						
	SHARES	AMOUNT	PAID-IN CAPITAL	DEFERRED COMPENSATION	ACCUMULATED DEFICIT	STOCK SUBSCRIPTIONS RECEIVABLE	TOTAL
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at December 31, 1995...........	2,987,908	29,879	1,730,459	(837,864)	(5,115,037)	(47,756)	(4,240,319)
Principal collections.	-	-	-	-	-	47,756	47,756
Shares issued upon exercise of stock options............	3,124	31	573	-	-	-	604
Accrual of dividends..	-	-	-	-	(520,393)	-	(520,393)
Accretion on preferred stock...............	-	-	-	-	(54,844)	-	(54,844)
Deferred compensation related to certain stock options.......	-	-	922,806	(922,806)	-	-	-
Compensation expense related to certain stock options.......	-	-	-	867,630	-	-	867,630
Shares issued in Initial Public Offering (net of offering costs).....	2,400,000	24,000	23,539,064	-	-	-	23,563,064
Conversion of Series C preferred to common stock...............	1,450,145	14,502	7,996,798	-	-	-	8,011,300
Redemption of Series B preferred stock.....	-	-	-	-	(365,810)	-	(365,810)
Net loss.............	-	-	-	-	(2,735,364)	-	(2,735,364)
Balance at December 31, 1996...........	6,841,177	68,412	34,189,700	(893,040)	(8,791,448)	-	24,573,624
Shares issued for over-allotment......	375,000	3,750	3,796,396	-	-	-	3,800,146
Shares issued for exercise of stock options............	9,285	93	3,155		-	-	3,248
Deferred compensation related to certain stock options.......	-	-	96,106	(96,106)	-	-	-
Compensation expense related to certain stock options.......	-	-	-	477,014	-	-	477,014
Net loss.............	-	-	-	-	(11,036,144)		(11,036,144)
Balance at December 31, 1997...........	7,225,462	72,255	38,085,357	(512,132)	(19,827,592)	-	17,817,888
Shares issued for exercise of stock options............	401,703	4,017	127,226	-	-	-	131,243
Deferred compensation related to restricted stock award...............	50,000	500	97,938	(98,438)	-	-	-
Compensation expense related to restricted stock award...............	-	-	-	41,016	-	-	41,016
Compensation expense related to certain stock options.......	-	-	-	180,905	-	-	180,905
Reversal of compensation expense for former employees related to certain stock options	-	-	(628,488)	252,345	-	-	(376,143)

Shares issued (net of offering costs)	1,702,044	17,020	2,307,918	-	-	-	2,324,938
Net loss	-	-	-	-	(9,588,542)	-	(9,588,542)
Balance at December 31, 1998...........	9,379,209	$93,792	$39,989,951	$(136,304)	$(29,416,134)	$ -	$10,531,305

</TABLE>

The accompanying notes are an integral part of these financial statements.

3DX TECHNOLOGIES INC.

STATEMENTS OF CASH FLOWS

<TABLE>
<CAPTION>

	YEARS ENDED DECEMBER 31, 1998	1997	1996
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss................................	$(9,588,542)	$(11,036,144)	$(2,735,364)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depletion, depreciation and amortization......................	4,265,174	3,366,242	883,962
Compensation related to certain stock options....................	(154,222)	477,014	867,630
Impairment of oil and gas properties.	7,863,536	9,061,240	1,476,690
(Increase) decrease in accounts receivable.......................	141,752	(626,873)	(440,506)
(Increase) decrease in prepaid expenses.........................	26,789	54,414	(79,309)
Increase (decrease) in accounts payable..........................	(5,460)	(107,291)	388,767
Increase (decrease) in accrued liabilities......................	(65,516)	240,963	253,415
Net cash provided by operating activities...........................	2,483,511	1,429,565	615,285
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to oil and gas properties.....	(8,414,172)	(19,948,293)	(6,166,219)
Sales of oil and gas properties.........	2,568,585	-	-
Purchases of technical and other equipment..............................	(128,710)	(1,168,154)	(456,264)
Proceeds from securities held to maturity	-	-	1,595,167
Other assets	14,270	(70,166)	5,000
Net cash used in investing activities...	(5,960,027)	(21,186,613)	(5,022,316)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Borrowings on credit agreement	2,000,000	-	-

Payment on borrowings on credit agreement	(800,000)	-	-
Common stock proceeds, net of issuance costs	2,024,938	3,800,146	23,563,064
Proceeds from exercise of stock options	131,243	3,248	604
Series C preferred stock proceeds, net of issuance costs	-	-	143,843
Redemption of Series B preferred stock	-	-	(6,687,100)
Payment of Series C preferred stock dividends	-	-	(795,649)
Net cash provided by financing activities	3,356,181	3,803,394	16,224,762
Net change in cash and cash equivalents	(120,335)	(15,953,654)	11,817,731
Cash and cash equivalents at beginning of year	1,568,091	17,521,745	5,704,014
Cash and cash equivalents at end of the year	$ 1,447,756	$ 1,568,091	$17,521,745
SUPPLEMENTAL CASH FLOW INFORMATION			
NON-CASH TRANSACTIONS:			
Accretion on preferred stock	-	-	54,844
Redemption premium on Series B preferred stock	-	-	365,810
Issuance of common stock for reduction of accounts payable	300,000	-	-
Transfer of property interest for reduction of accounts payable	655,407	-	-

The accompanying notes are an integral part of these financial statements.

</TABLE>

3DX TECHNOLOGIES INC.

NOTES TO FINANCIAL STATEMENTS

1. ORGANIZATION AND BASIS OF PRESENTATION

3DX Technologies Inc. ("3DX" or the "Company") began operations in January 1993 to offer 3-D seismic imaging and computer-aided exploration capabilities as a partner to experienced oil and gas operators. The Company combines its 3-D imaging capabilities with the operator's local knowledge and infrastructure to evaluate and exploit drilling opportunities. The Company primarily invests in prospects in the Gulf Coast region of the U.S., where 3-D seismic evaluation and interpretation is expected to reduce drilling risk. Working interests in major prospects have ranged from 5% to 40% in property investments to date. The Company's interests in oil and gas ventures are proportionately consolidated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

OIL AND GAS PROPERTIES

3DX accounts for its oil and gas properties using the full-cost method. All costs associated with the acquisition, exploration and development of oil and gas properties, including such costs as leasehold acquisition costs, geological and geophysical expenditures, dry hole costs and tangible and intangible development costs, are capitalized as incurred. Included in capitalized costs for 1998, 1997 and 1996 are $1,253,906, $1,962,691, and $1,146,722, respectively of payroll and related costs of exploration department personnel which are directly attributable to the Company's current exploration and development activities. Other costs, such as office and facilities costs, technical equipment maintenance, depreciation and support, and communication costs are also capitalized to the extent they are attributed to the Company's oil and gas property acquisition and exploration activities and would not otherwise be incurred if such activities were not being undertaken. The internal costs capitalized do not include any costs related to production, general corporate overhead, or similar activities.

Dispositions of proved oil and gas properties are reported as adjustments to capitalized costs, with gains and losses not recognized unless such adjustments would significantly alter the relationship between capitalized costs and estimated proved oil and gas reserves. In 1998, the Company sold its interests in certain properties for total cash proceeds of $2,568,585. In March 1999. The Company sold its remaining interest in a property for proceeds of $450,000.

The evaluated costs of oil and gas properties plus estimated future development and dismantlement costs are charged to operations as depletion, depreciation and amortization using the unit-of-production method based on the ratio of current production to estimated proved recoverable oil and gas reserves. The Company excludes unevaluated property costs from the depletion, depreciation, and amortization calculations until proved reserves have been discovered or a determination of impairment has been made. Unevaluated properties are assessed for impairment on a property-by-property basis.

Impairment of capitalized costs of oil and gas properties is determined for each cost center on a country-by-country basis. For each cost center, to the extent that capitalized costs of oil and gas properties, net of related accumulated depreciation, depletion and amortization and any related deferred income taxes, exceed the future net revenues of estimated proved oil and gas reserves, discounted at 10% and net of any income tax effects, plus the lower of cost or fair value of unevaluated properties, such excess costs are charged to operations as an impairment of oil and gas properties. Oil and gas impairment charges recorded during 1998 were $7,863,536. The impairments recorded were principally the result of increased additions to evaluated property costs and the decline in oil and gas prices being received by the Company on December 31, 1998.

Oil and gas impairment charges recorded during 1997 were $9,061,240, all of which were attributable to the fourth quarter ended December 31, 1997. This writedown results principally from the significant decline in oil and gas prices being received by the Company on December 31, 1997 and a relatively large investment in three unsuccessful exploratory wells all of which were evaluated in the fourth quarter of 1997.

Technical interpretation equipment and related software and other property and equipment, consisting of office furniture, equipment and leasehold improvements are recorded at cost. Depreciation is determined on a straight-line basis over the estimated useful lives of the assets, which range from three to five years. Depreciation of other property and equipment totaled $719,846, $728,005, and $459,189 for 1998, 1997 and 1996, respectively, and is included in general and administrative expenses.

ACCOUNTING FOR INCOME TAXES

The Company provides deferred income taxes at the balance sheet date for the estimated tax effects of differences in the tax basis of assets and liabilities and their financial statement carrying amounts.

NATURAL GAS REVENUES

Natural gas revenues are recorded using the sales method, whereby the Company recognizes natural gas revenues based on the amount of gas sold to product purchasers on its behalf. The Company has no material gas imbalances.

RENTAL INCOME

The Company has an informal income-sharing arrangement with a seismic processing company whereby the Company receives a percentage of the seismic processing company's gross billings in exchange for office space and the use of technical equipment provided by the Company. The Company's share of billings under this arrangement amounted to $301,304, $264,651, and $229,556 in 1998, 1997 and 1996, respectively, and is reflected as a reduction of the Company's general and administrative expenses.

NET LOSS PER COMMON SHARE

In February 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share," which establishes new computation, presentation, and disclosure requirements for earnings per share for public companies. The statement is effective for financial statements issued for periods ending after December 15, 1997. In connection with this new statement, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 98, which prescribes a new accounting treatment for the impact on earnings per share of "nominal issuances" of common stock and common stock options issued within one year prior to the filing of a registration statement for an initial public offering of common stock. Under the prior rules, common stock options having a nominal exercise price issued within one year of an initial public offering were required to be reflected retroactively in the computation of earnings per share for all periods even if the effect was antidilutive. Under SAB No. 98, these common stock options are only required to be reflected in earnings per share if the effect is dilutive. The Company has restated all prior periods to reflect this change in accounting principle. The effect of this change is presented in the following table:

	YEARS ENDED DECEMBER 31,		
	1998	1997	1996
Basic and diluted net loss per common share, as previously reported	$(1.15)	$(1.53)	$(1.16)
Retroactive effect of change in accounting principle....................	-	-	(0.05)
Basic and diluted net loss per common share	$(1.15)	$(1.53)	$(1.21)

The computation of basic and diluted net loss per common share was based entirely on the weighted average common shares outstanding. Stock options which are potentially dilutive were excluded from the net loss per common share calculation in each of the years presented as the effect would have been antidilutive. See Note 9 for the number of stock options outstanding.

STATEMENTS OF CASH FLOWS

For the purposes of the statements of cash flows, the Company considers all highly liquid investments purchased with original maturities of three months or less to be cash equivalents.

CONCENTRATION OF CREDIT RISK

All of the Company's receivables are due from oil and gas producing companies located in the United States. The Company has not experienced any significant credit losses related to its receivables.

MAJOR CUSTOMERS

Operators for producing oil and gas wells in which the Company holds working interests sold the Company's share of gas production to four major customers during 1998 with one customer accounting for 31% of the Company's 1998 oil and gas revenues and the remaining three customers each accounting for 13% to 15% of 1998 oil and gas revenues. Sales to one customer represented 63% and 58% of oil and gas revenues in 1997 and 1996, respectively.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are short-term in nature and approximate fair value.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities, if any, 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. Oil and gas reserve estimates, which are the basis for units-of-production depletion and impairment of oil and gas properties, are inherently imprecise and are expected to change as future information becomes available.

PRIOR YEAR RECLASSIFICATIONS

Certain prior year amounts have been reclassified to conform with the current presentation.

ACCOUNTING PRONOUNCEMENTS

SFAS No. 130, "Reporting Comprehensive Income", was issued in June 1997, with the adoption required for fiscal years beginning after December 31, 1997. SFAS No. 130 requires the presentation of an additional income measure (termed "comprehensive income"), which adjusts traditional net income for certain items that previously were only reflected as direct charges to equity. For the years ended December 31, 1998, 1997 and 1996 there is not a difference between "traditional" net income and comprehensive net income.

SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information", was issued in June 1997, establishing standards for public business enterprises to report information about operating segments and related information in interim and annual financial statements. The Company has evaluated the applicability of SFAS No. 131 and has concluded that the Company does not meet the criteria which require segment reporting as the Company has only one operating segment.

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards requiring that every derivative instrument, including certain derivative instruments embedded in other contracts, be recorded in the balance sheet as either an asset or liability measured at its fair value. SFAS No. 133 requires that changes in the derivative's fair value be recognized currently in earnings unless specific hedge accounting criteria are met. Special accounting for qualifying hedges allows a derivative's gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate, and assess the effectiveness of transactions that receive hedge accounting.

SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. A company may also implement SFAS No. 133 as of the beginning of any fiscal quarter after issuance. SFAS No. 133 cannot be applied retroactively. SFAS No.

133 must be applied to (a) derivative instruments and (b) certain derivative instruments embedded in hybrid contracts that were issued, acquired, or substantively modified after December 31, 1997 and, at the company's election, before January 1, 1998. Based on the Company's current operations, SFAS No. 133 will not impact the Company's disclosure or reporting.

3. GOING CONCERN

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company expects that its projected net cash flows from currently producing properties will be sufficient to fund its projected minimum levels of general and administrative expenditures through December 31, 1999, including technical employee and related costs which are capitalized under full-cost accounting. However, these projections do not consider any cash expenditures which could be required by the Company's planned capital and exploration program discussed below. Available cash could also be limited by declines in oil and gas prices and unanticipated declines in oil and gas production from existing properties. These matters could adversely affect the Company's ability to pay its obligations as they become due.

The Company has made and will be required to make oil and gas capital expenditures substantially in excess of its net cash flow from operations in order to complete the exploration and development of its existing properties. The company will also need to acquire exploration prospects and find additional oil and gas reserves in order for its asset base not to be depleted by current oil and gas production. The level of capital spending in 1999 and thereafter will be highly dependent upon the Company's ability to obtain additional capital.

The Company will require additional sources of financing to fund drilling expenditures on properties currently owned by the Company and to fund leasehold costs and geological and geophysical costs on its active exploration projects. The Company's 1999 expenditure plans currently include up to eleven exploratory and development wells and various lease and seismic data acquisitions. The Company generally has the right, but not the obligation, to participate for its percentage interest in drilling wells and can decline to participate if it does not have sufficient capital resources at the time such drilling operations are proposed. The Company can also potentially transfer its right to participate in drilling wells in exchange for cash, a reversionary interest, or some combination thereof. To recover its investment in unevaluated properties, it is necessary for the Company to either participate in drilling which finds commercial oil and gas production and produce such reserves or receive sufficient value through the sale or transfer of all or a portion of its interests.

Management of the Company continues to seek financing for its capital program from a variety of sources. The Company is actively soliciting new common or preferred equity investors, which could lead to a sale of all or a substantial portion of the Company's equity interests to a merger partner. The Company could also seek additional debt financing, although it has no additional borrowings currently available under its credit agreement. The Company also recently sold interests in oil and gas properties to help fund its capital program, and will consider additional property sales, although no such sales are imminent. No assurance can be given that the Company will be able to obtain additional financing by these or other means on terms that would be acceptable to the Company. The Company's inability to obtain additional financing would have a material adverse effect on the Company. Without raising additional capital, the Company anticipates that it will be required to limit or defer its planned oil and gas exploration and development program, which could adversely affect the recoverability and ultimate value of the Company's oil and gas properties. The Company may also be required to pursue other financial alternatives, which could include a sale or merger of the Company.

Management intends to pursue exploration and development opportunities to the extent additional capital becomes available in the current oil and gas environment. However, the uncertainties about the Company's future cash flows and the lack of firm commitments to attract additional capital at this time raise substantial doubt about the ability of the Company to continue as a going concern. The accompanying financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount and classification of liabilities that might result should the Company be unable to continue as a going concern.

4. LISTING ON NASDAQ

In September 1998, the Company received a letter from The Nasdaq Stock Market, Inc. notifying the Company that it failed to maintain a closing bid price of greater than or equal to $1.00 and that the Company's common stock failed to maintain a market value of public float greater than or equal to $5 million, as required by Nasdaq rules. The Company met with officials from The Nasdaq Stock Market, Inc. on February 12, 1999, at which time the Company

presented several alternatives to regain compliance with the minimum bid price and market value of public float requirements. On March 22, 1999, The Nasdaq Stock Market Inc. responded to the meeting with the decision to transfer the listing of the Company's securities to The Nasdaq SmallCap Market, effective with the open of business on March 24, 1999, pursuant to the following exception. On or before April 5, 1999, the Company must evidence a minimum closing bid price of $1.00 per share for a minimum of ten consecutive trading days. In order to fully comply with the terms of this exception, the Company must be able to demonstrate compliance with all requirements for continued listing on The Nasdaq SmallCap Market. Accordingly, effective, March 24, 1999, the trading symbol of the Company's securities was changed from TDXT to TDXTC. The "C" will be removed from the symbol when The Nasdaq Stock Market Inc. has confirmed compliance with the terms of the exception and all other criteria necessary for continued listing. In the event the Company is unable to meet the terms of this exception, the Company's securities will be delisted from The Nasdaq Stock Market. If delisted, trading of the common stock would be conducted in the over-the-counter market or in what are commonly referred to as the "pink sheets". As a result, a holder of the common stock could find it more difficult to dispose of or to obtain accurate quotations of the price of the common stock. Such delisting could have an adverse effect on the market price and overall marketability of the common stock.

If the common stock is not listed on Nasdaq and has a market price of less than $5.00 per share, it may be classified as a "penny stock". SEC regulations define a "penny stock" to be any non-Nasdaq equity security that has a market price of less than $5.00 per share, subject to certain exceptions. For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the Securities and Exchange Commission ("SEC") relating to the penny stock market. Disclosure is also required to be made about commissions payable to both the broker-dealer and the registered representative and to provide current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stocks.

The foregoing required penny stock restrictions will not apply to the common stock if such securities are quoted on Nasdaq and have certain price and volume information provided on a current and continuing basis or meet certain minimum net tangible assets or average revenue criteria. There can be no assurance that the common stock will qualify for exemption from these restrictions. In any event, even if shares of the common stock were exempt from such restrictions, they would remain subject to Section 15(b)(6) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which gives the SEC the authority to prohibit any person that is engaged in unlawful conduct while participating in a distribution of a penny stock from associating with a broker-dealer or participating in a distribution of a penny stock, if the SEC finds that such a restriction would be in the public interest. If the common stock were subject to the rules on penny stocks, the market liquidity for the common stock could be severely adversely affected.

5. INCOME TAXES

Significant components of the Company's deferred tax liabilities and assets are as follows:

	DECEMBER 31, 1998	DECEMBER 31, 1997
Deferred tax liability:		
Exploration and development expenditures deducted for tax and capitalized for books......	$(2,016,743	$ (981,479)
Other items, net................................	(173,101)	(70,968)
Total deferred tax liability	(2,189,844)	(1,052,447)
Deferred tax assets:		
Net operating loss carryforwards	3,979,073	3,803,419
Other items, net................	2,330,587	836,151
Total deferred tax assets...	6,309,660	4,639,570
Less: Valuation allowance.......	(4,119,816)	(3,587,123)
Net deferred tax assets...........	2,189,844	1,052,447
Net deferred tax liability........	$ -	$ -

The Company did not record any current or deferred income tax provision or benefit in any of the periods presented. The Company's provision for income taxes differs from the amount computed by applying the statutory rate due principally to the valuation allowance recorded against its deferred tax asset account relating to net operating tax loss carryforwards. Management believes that such allowance is necessary until there is greater assurance that the net operating tax loss carryforwards can be utilized.

The Company has recorded a valuation allowance against its deferred tax assets in each year to reflect the estimated portion for which realization is uncertain. As of December 31, 1998, the Company had tax net operating loss carryforwards of approximately $11,703,000 which begin to expire in 2008. As a result of recent stock transactions, including the initial public offering, the Company's utilization of its net operating losses is limited under Section 382 of the Internal Revenue Code.

6. CREDIT AGREEMENT

On December 18, 1997, the Company executed a credit agreement with a commercial bank which provides for advances under a borrowing base periodically determined by the Bank and set initially at $5 million. The credit agreement expires on December 31, 2000. During April 1998, the bank redetermined the borrowing base and established an availability of $2 million which was reduced to $1.2 million in November 1998. The credit agreement is secured by substantially all of the Company's producing oil and gas properties. Advances carry an interest rate, at the Company's option, of either the London Interbank Offered Rate ("LIBOR") plus 2% or the lender's base rate. The credit agreement contains restrictions on dividends and additional liens and indebtedness and requires the maintenance of a minimum current ratio and net worth, each as defined in the credit agreement. At December 31, 1998, the outstanding balance under this credit agreement was $1.2 million at a weighted average interest rate of 7.3 percent. There were no borrowings under the credit agreement during the year ended December 31, 1997. In March 1999, the Company used the proceeds from a sale of an interest in oil and gas properties to pay down its outstanding balance to $750,000.

7. MANDATORILY REDEEMABLE PREFERRED STOCK

SERIES B

In November 1993, the Company issued 29,000 Series B equity units at $100 per unit, for total proceeds before offering costs of $2,900,000. In October 1994, the Company issued 25,000 additional Series B equity units at $100 per unit, for total proceeds before offering costs of $2,500,000. Each equity unit consisted of one share of redeemable Series B preferred stock, par value $.01 per share ("Series B Preferred Stock"), at $94.1558 per share and 30.215 shares of common stock, par value $.01 per share, at $0.19 per share. The Series B Preferred Stock carried a redemption value of $100 per share. The difference between the sales price and the redemption value was subject to pro-rata accretion which was charged to retained earnings, such that the book value of each share of Series B Preferred Stock would equal $100 at the required mandatory redemption in two installments commencing in November 2002. The Series B Preferred Stock also carried a cumulative annual dividend, payable on December 31 of each year, of $12.50 per share if paid in cash or .13276 shares of Series B Preferred Stock if paid in stock. All dividends were paid in additional shares of Series B Preferred Stock. Series B equity units totaling $1,025,000, or 19% of the total proceeds of the offering, were sold to related parties, consisting of officers of the Company, consultants and Landmark. Additionally, units totaling $3,032,000, or 56%, were sold to two investors and their affiliates, each of which required the right to designate one member of the Board of Directors of the Company.

In connection with the initial public offering which was completed on December 26, 1996 (see Note 8), all of the issued and outstanding shares of Series B Preferred Stock were redeemed. The unamortized redemption premium of $365,810 was charged to the Company's accumulated deficit.

SERIES C

During the period from July 26, 1995 through September 25, 1995, the Company sold a total of 2,662,241 shares of senior redeemable convertible Series C preferred stock, par value $.01 per share ("Series C Preferred Stock"), at $3.00 per share, for total proceeds before offering costs of $7,986,723. The Series C Preferred Stock carried a cumulative dividend at an annual rate of $.24 per share if paid in cash or .08 shares of Series C Preferred Stock if paid in stock, payable or accruing quarterly, commencing on December 31, 1995. Unpaid dividends earned interest at an annual interest rate of 8%. During the year ended December 31, 1996, the Company paid accrued dividends on Series C Preferred Stock of $795,649. Shares totaling $925,515, or 12% of the total proceeds, were sold to related parties, including consultants to and officers of the Company, as well as two directors and their affiliates. Additionally, one investor purchased shares totaling $3,999,999, or 50% of the offering, on the condition that it be given the right to designate one member of the Company's Board of Directors.

Each share of Series C Preferred Stock was convertible into one share of common stock. Subsequent to the reverse stock split in October 1996, each share was convertible into .517 shares of common stock. The Series C Preferred Stock could be automatically converted to common stock upon the occurrence of certain conversion events, including the successful completion of an initial public offering of the Company's common stock if certain pricing and other criteria were met. The Series C preferred stock also contained a mandatory-redemption feature under which the stock could be redeemed, at the option of at least 67% of the holders, at the $3.00 per share liquidation value in two installments commencing in November 2002.

In October 1995, the Board of Directors granted the holder of each share of Series C Preferred Stock a warrant to purchase additional shares equal to 10%

of the shares owned by such holder, at an exercise price of $3.00 per share. Such shares were exercisable at any time until the earlier of (a) five years from the date of issuance and (b) the effective date of an initial public offering of the Company's securities. No value was assigned to these warrants as the computed value of the warrants using the Black-Scholes model was zero.

In connection with the initial public offering which was completed on December 26, 1996, all of the issued and outstanding shares of Series C Preferred Stock, and all outstanding Series C Preferred Stock warrants were converted into common stock.

STOCK SUBSCRIPTIONS RECEIVABLE

Certain officers and directors of the Company purchased Series B equity units and Series C Preferred Stock for promissory notes, which are reflected as an offset to equity in the accompanying financial statements. The promissory notes were full recourse and carried interest at a fixed rate of 6% per annum. The notes from the Company's officers were collateralized by certain vested stock options the individuals held from their former employer. The principal and accrued interest on all notes for the purchase of equity securities of the Company were paid off as of December 31, 1996.

The following table summarizes the 1996 activity of Series B and Series C Preferred Stock:

	REDEEMABLE PREFERRED STOCK			
	SERIES B		SERIES C	
	SHARES	AMOUNT	SHARES	AMOUNT
Balance at December 31, 1995..	66,871	$6,277,826	2,662,241	$7,903,833
Accretion to redemption value.	-	43,464	-	11,380
Redemption premium............	-	365,810		
Redemption of Series B preferred..................	(66,871)	(6,687,100)	-	-
Exercise of outstanding warrants				
For cash..................	-	-	32,029	96,087
Under cashless tender.....	-	-	110,653	-
Conversion to common stock....	-	-	(2,804,923)	(8,011,300)
Balance at December 31, 1996..	-	$ -	-	$ -

8. STOCKHOLDERS' EQUITY

In May 1995, the stockholders approved a 10-for-1 stock split of the Company's common stock. In October 1996, the stockholders approved a reverse stock split whereby holders of common stock received .517 shares of common stock for every share previously owned. All references in this report to number of common shares outstanding reflect stock splits retroactively to inception of the Company.

On December 26, 1996, the Company completed an initial public offering for the sale of 2,400,000 shares of common stock at $11.00 per share, less offering costs. In January 1997, the Company's underwriters exercised their 30-day over-allotment option to purchase 375,000 additional shares of common stock at the offering price of $11.00 per share, less underwriting discounts and commissions. Total proceeds to the Company from the initial public offering, net of offering costs, were approximately $27.4 million.

On June 10, 1998, the Company entered into a common stock subscription agreement dated as of June 3, 1998, with certain purchasers that provides for, among other things, the purchase of an aggregate of 1,462,044 shares of the Company's common stock at $1.50 per share. Net proceeds from the issuance of shares on June 10, 1998 amounted to $2.1 million. The agreement, which was approved by the stockholders of the Company at a special meeting of stockholders held on August 7, 1998, also granted to the purchasers an option to purchase, subject to stockholder approval, up to an aggregate of 1,871,290 additional shares of common stock at a purchase price of $1.50 per share. On August 10, 1998, the option expired unexercised.

The agreement also grants the purchasers the right (1) to receive additional shares of common stock in the event of certain dilutive issuances at less than $1.50 per share which may be made by the Company (dilution shares) and (2) to receive additional shares in the event the Company fails to meet certain timing requirements with respect to the filing and effectiveness of a resale registration statement (penalty shares). A potentially dilutive issuance under this agreement occurred in the last quarter of 1998 which could result in an additional 292,408 shares of the Company's common stock being issued under the anti-dilution provisions of the agreement.

Under the terms of the June 3, 1998 agreement, the Company's stockholders approved a proposal for the adoption of a one-for-five reverse stock split with respect to all of the outstanding common stock of the Company. Such reverse stock split will not be effective until it is implemented by the Board of Directors of the Company.

In August 1998, the Company issued 240,000 shares of common stock to an operating partner in satisfaction of an account payable on the Company's books to that operating partner.

Included in accrued liabilities at December 31, 1998 is $137,880 due to a consultant to the Company. Under the terms of the consulting agreement, this amount is to be paid in the Company's common stock at the average closing price in effect when the services were performed. The amount of common shares to be issued to satisfy the liability at December 31, 1988 is 225,000 shares.

9. STOCK OPTIONS

In June 1994, the Board of Directors approved the 1994 Stock Option Plan (the "Plan") for employees, officers, directors and certain consultants of the Company. The ten-year options vest over four years for employees (25% at the end of each of the first two years and monthly over the last 24 months). For directors and consultants, the options vest 50% at the end of the first year and 25% at the end of the second and third years. Certain of these options are eligible for accelerated vesting upon a change of control of the Company. The Company has reserved a total of 1,700,783 shares of common stock for issuance under this Plan, of which 764,421 shares were available for grant as of December 31, 1998. The following table summarizes option balances and activity for the Plan:

	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE

Options outstanding, December 31, 1995	686,943	$0.34
Granted	267,806	1.52
Exercised	(3,124)	0.19
Canceled	(157,146)	0.57
Options outstanding, December 31, 1996	794,479	$0.70
Granted	628,656	10.33
Exercised	(9,285)	0.35
Canceled	(33,100)	5.03
Options outstanding, December 31, 1997	1,380,750	$4.98
Granted	1,598,251	2.00
Exercised	(401,703)	0.33
Canceled	(1,750,894)	4.97
Options outstanding, December 31, 1998	826,404	$1.27

Exercisable options -		
December 31, 1996	344,396	$ 0.28
December 31, 1997	554,183	0.56
December 31, 1998	210,844	0.40

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING AT 12/31/98	WEIGHTED AVERAGE REMAINING LIFE (YRS)	WEIGHTED AVERAGE EXERCISE PRICE	OPTIONS EXERCISABLE AT 12/31/98	WEIGHTED AVERAGE EXERCISE PRICE
$0.19 to $0.58	234,163	6.12	$0.36	210,844	$0.40
$1.62	592,241	9.30	$1.63		-
Total	826,404	8.40	$1.27	210,844	$0.40

In connection with stock options granted within one year of the initial public offering, the Company recorded deferred compensation as paid-in capital with a corresponding offset to stockholders' equity. The amount of deferred compensation is based on the difference between the option exercise price and the $11.00 per share initial public offering common stock price for those options. Deferred compensation is being amortized as compensation expense over the option vesting period, and totaled $180,905, $477,014 and $867,630 during the years ended December 31, 1998, 1997 and 1996, respectively. During the third quarter of 1998, the Company reversed approximately $376,000 of stock option expense previously recorded for employees who were terminated as of September 30, 1998 and whose stock options were cancelled. Unamortized deferred compensation as of December 31, 1998 amounted to $136,304.

In October 1995, the FASB issued SFAS No. 123 "Accounting for Stock-Based Compensation". SFAS No. 123 is a new standard of accounting for stock-based compensation and establishes a fair value method of accounting for awards granted after December 31, 1995 under stock compensation plans. The Company has elected to continue accounting for employee stock options under Accounting Principles Board Opinion No. 25 "Accounting For Stock Issued to Employees". Had the Company elected to apply SFAS No. 123, the estimated effects on net income and earnings per share resulting from grants made after December 31, 1994 would have been as follows:

	1998	1997	1996
Net loss attributable to common stock:			
As reported	$(9,588,542)	$(11,036,144)	$(3,676,411)
Pro forma	(9,797,089)	(11,587,856)	(3,391,345)
Basic and diluted earnings per share:			
As reported	$ (1.15)	$ (1.53)	$ (1.21)
Pro forma	(1.18)	(1.61)	(1.11)
Pro forma assumptions:			
Risk free interest rate:			
Maximum	5.63%	6.72%	6.68%
Minimum	4.18%	5.91%	5.35%
Expected option life:			
Maximum	4.5 years	4.5 years	4.5 years
Minimum	3.7 years	3.7 years	3.7 years
Weighted average fair value of options granted during the year	$1.51	$6.39	$8.95
Volatility factor	1.02	.703	-

Volatility was not considered in the calculation of option values prior to December 26, 1996, as the Company's common stock was not publicly traded.

10. GENERAL AND ADMINISTRATIVE EXPENSES

During the second quarter of 1998, the Company experienced a downsizing of its work force. All severence pay, approximately $86,000, associated with this downsizing was recorded as of June 30, 1998. In addition, stock option expense was decreased by approximately $376,000 to reverse the amortization of deferred compensation previously recorded for these employees relating to stock options issued within one year of the initial public offering.

11. COMMITMENTS

In March 1995, the Company entered into a 5-year office lease agreement. Future minimum payments under this non-cancelable office lease are as follows at December 31, 1998:

1999	$94,633
2000	15,772
Total minimum lease payments	$110,405

Rental expense under this office lease amounted to $99,206, $94,633, and $94,633 during the years ended December 31, 1998, 1997 and 1996, respectively.

3DX TECHNOLOGIES INC.

SUPPLEMENTARY INFORMATION - UNAUDITED

QUARTERLY FINANCIAL DATA (UNAUDITED)

The table below sets forth selected unaudited quarterly financial information for 1998 and 1997:

	QUARTER ENDED:			
	MARCH 31	JUNE 30	SEPTEMBER	DECEMBER 31
1998:				
Revenues (a)..........	$ 871,839	$ 1,218,533	$ 1,442,430	$ 1,065,872
Net loss (b)..........	(1,536,761)	(4,854,001)	(2,495,375)	(702,405)
Net loss applicable to common stockholders..	(1,536,761)	(4,854,001)	(2,495,375)	(702,405)
Basic and diluted net loss per common share(c)...........	(0.21)	(0.63)	(0.28)	(0.08)
1997:				
Revenues (a)..........	$ 839,273	$ 890,846	$ 840,705	$ 1,059,777
Net loss (b)..........	(40,458)	(460,474)	(590,225)	(9,944,987)
Net loss applicable to common stockholders.	(40,458)	(460,474)	(590,225)	(9,944,987)
Basic and diluted net loss per common share(c)	(0.01)	(0.06)	(0.08)	(1.38)

(a) As discussed in Note 2, rental income has been reflected as a reduction of general and administrative expense in all periods presented.

(b) As discussed in Note 2, the Company recorded a writedown of oil and gas properties totaling $7,863,536 in 1998, including $4,329,687 and $2,157,003 in the second and third quarters of 1998, respectively, and $9,061,240 in the fourth quarter of 1997.

(c) Net loss per common share are computed independently for each of the quarters presented and therefore may not sum to the totals for the year.

CAPITALIZED COSTS RELATING TO OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

The aggregate amounts of capitalized costs relating to the Company's oil and gas producing activities and the related accumulated depletion, depreciation, and amortization and impairment at December 31, 1998, 1997 and 1996 were as follows:

	1998	1997	1996
Evaluated oil and gas properties.......	$32,664,307	$22,521,673	$7,164,397
Unevaluated oil and gas properties....	4,450,731	10,098,698	4,403,165
Total capitalized costs...............	37,115,038	32,620,371	11,567,562
Less-accumulated depletion, depreciation and amortization and impairments.......................	(26,882,267)	(15,473,403)	(3,775,858)

	$10,232,771	$17,146,968	$7,791,704

The costs of unevaluated oil and gas properties consists of projects which at each date were undergoing exploration or development activities or were projects on which the Company planned to commence such exploration activities in the future. The Company will begin to amortize these costs when proved reserves are established or impairment is determined. The Company believes that substantially all of the unevaluated properties at December 31, 1998 will be fully evaluated within the succeeding two-year period.

The following table represents an analysis of remaining unevaluated oil and gas property costs at December 31, 1998 according to the years in which they were incurred:

	YEARS ENDED DECEMBER 31, 1998	1997	1996
Acquisition costs................	$ 573,841	$1,250,392	$14,161
Exploration costs................	1,038,090	460,105	107,636
Capitalized Interest.............	78,957	-	-
Capitalized Overhead.............	837,278	90,271	-
Total......................	$2,528,166	$1,800,768	$121,797

The following table sets forth the costs incurred in the Company's oil and gas property acquisition, exploration and development activities for the years presented:

	YEARS ENDED DECEMBER 31, 1998	1997	1996
Property acquisition costs-			
Proved........................	$ 25,000	$ 70,000	$ -
Unproved......................	633,112	4,794,238	1,171,217
Exploration costs................	5,137,353	15,654,152	6,269,266
Development costs................	1,923,195	534,419	103,210
	$ 7,718,660	$21,052,809	$7,543,693

3DX TECHNOLOGIES INC.

SUPPLEMENTARY INFORMATION - UNAUDITED

OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

RESERVES

The process of estimating proved developed and proved undeveloped oil and gas reserves is very complex, requiring significant subjective decisions in the evaluation of available geologic, engineering and economic data for each reservoir. The data for a given reservoir may change over time as a result of, among other things, additional development activity, production history and viability of production under varying economic conditions. Consequently, material revisions to existing reserve estimates may occur in the future. Although every reasonable effort is made to ensure that reserve estimates are based on the most accurate and complete information possible, the significance of the subjective decisions required and variances in available data for various reservoirs make these estimates generally less precise than other estimates presented in connection with financial statement disclosures.

The following information regarding estimates of the Company's proved oil and gas reserves, all located in the United States, is based on reports prepared on behalf of the Company by the Company's independent petroleum engineers. The following table sets forth the changes in the Company's total proved reserves for the years ended December 31, 1998, 1997 and 1996. All of the reserve quantities reflected in the table below are proved developed reserves.

	YEAR ENDED DECEMBER 31,		
	1998	1997	1996
	OIL (BBLS)		
Proved reserves at the beginning of the year............................	88,751	32,428	41,193
Extensions, discoveries, and other additions...........................	36,887	43,497	9,797
Revisions of previous estimates........	(16,530)	5,489	(10,079)
Purchases of reserves in place.........	-	21,405	-
Sales of reserves in place	(9,492)	-	-
Production............................	(37,802)	(14,068)	(8,483)
Proved reserves at the end of the year	61,814	88,751	32,428
	GAS (MCF)		
Proved reserves at the beginning of the year...........................	3,932,109	2,463,736	442,795
Extensions, discoveries, and other additions...........................	2,238,515	2,546,337	2,284,482
Revisions of previous estimates........	463,552	53,855	7,661
Purchases of reserves in place.........	-	-	-
Sales of reserves in place............	(870,789)	-	-
Production............................	(1,877,938)	(1,131,819)	(271,202)
Proved reserves at the end of the year.	3,885,449	3,932,109	2,463,736

3DX TECHNOLOGIES INC.

SUPPLEMENTARY INFORMATION - UNAUDITED

STANDARDIZED MEASURES OF DISCOUNTED FUTURE NET CASH FLOWS

The Company's standardized measure of discounted future net cash flows, and changes therein, related to proved oil and gas reserves are as follows (in thousands):

	DECEMBER 31,		
	1998	1997	1996
Future cash inflow.......................	$ 9,000	$10,427	$ 9,354
Future production, development and abandonment costs.....................	(1,781)	(2,195)	(1,430)
Future cash flows before income taxes.....	7,219	8,232	7,924
Future income taxes......................	-	-	-
Future net cash flows....................	7,219	8,232	7,924
10% Discount factor......................	(1,437)	(1,184)	(1,301)
Standardized measure of discounted future net cash flow.........................	$ 5,782	$ 7,048	$ 6,623
CHANGES IN STANDARDIZED MEASURE OF DISCOUNTED FUTURE NET CASH FLOWS:			
Sales of oil, gas and natural gas liquids, net of production costs.................	$(3,813)	$(2,609)	$ (744)
Extensions, discoveries and other additions	3,113	4,737	6,594

Revisions of previous quantity estimates...	621	124	(200)
Net changes in prices and production costs.	(469)	(2,468)	173
Accretion of discount.....................	705	662	77
Changes in future development costs........	(24)	60	(82)
Purchases of reserves in place............	-	109	-
Sales of reserves in place................	(1,499)	-	-
Changes in production rates (timing) and other..................................	100	(190)	34
Net change................................	$(1,266)	$ 425	$ 5,852

Estimated future cash inflows are computed by applying year-end prices of oil and gas to year-end quantities of proved reserves. Future price changes are considered only to the extent provided by contractual arrangements. Estimated future development and production costs are determined by estimating the expenditures to be incurred in developing and producing the proved oil and gas reserves at the end of the year, based on year-end costs and assuming continuation of existing economic conditions. Estimated future income tax expense is calculated by applying year-end statutory tax rates to estimated future pretax net cash flows related to proved oil and gas reserves, less the tax basis (including net operating loss carryforwards projected to be usable) of the properties involved.

These estimates were determined in accordance with SFAS No. 69 "Disclosures About Oil and Gas Producing Activities". Because of unpredictable variances in expenses and capital forecasts, crude oil and gas prices and oil and gas reserve volume estimates, as well as the statutory pricing and discounting assumptions used in these cash flow estimates, management believes the usefulness of this data is limited. These estimates of future net cash flows do not necessarily represent management's assessment of estimated fair market value, future profitability or future cash flow to the Company. Management's investment and operating decisions are based upon reserve estimates that include proved as well as probable reserves and upon different price and cost assumptions from those used herein.

The future cash flows presented in the "Standardized Measures of Discounted Future Net Cash Flows" are based on year-end oil and gas prices for oil and gas reserves which as of December 31, 1998 were approximately $9.65 per barrel of oil and approximately $2.16 per Mcf of gas. The Company does not have oil and gas reserves which are committed under long-term oil and gas sales or hedging contracts.

3DX TECHNOLOGIES INC.

SUPPLEMENTARY INFORMATION - UNAUDITED

The standardized measure table as of December 31, 1998 reflects zero future income taxes because the existing tax basis in evaluated properties (which approximates $10.7 million) as of that date offsets the entire $7.2 million estimate of undiscounted future net cash inflows before income taxes. As of December 31, 1998, the Company also had tax net operating loss carryforwards (which represent additional tax deductions against future cash flows) of approximately $11.7 million. Accordingly, in total there were more than enough tax basis and tax loss carryforwards to offset any potential future income taxes in the standardized measure calculation.

INDEX TO EXHIBITS

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT
11.1	Computation of Earnings per Share

23.1 Consent of Arthur Andersen LLP

23.2 Consent of Ryder Scott Company

24.1 Power of Attorney (included on signature page)

27.1 Financial Data Schedule for December 31, 1998 (for SEC use only)

27.2 Financial Data Schedule for December 31, 1997 (restated) (for SEC use only)

27.3 Financial Data Schedule for December 31, 1996 (restated) (for SEC use only)

EXHIBIT 11.1

COMPUTATION OF NET LOSS PER COMMON SHARE

	1998	1997	1996	1995	1994
Net Loss....................	$(9,588,542)	$(11,036,144)	$(2,735,364)	$(2,488,375)	$(385,013)
Preferred B dividend.......	-	-	-	(783,700)	(421,696)
Preferred B accretion......	-	-	(43,464)	(43,464)	(30,367)
Preferred B redemption premium..................	-	-	(365,810)	-	-
Preferred C dividend.......	-	-	(520,393)	(275,256)	-
Preferred C accretion......	-	-	(11,380)	(4,944)	-
Net loss attributable to common stock.............	$(9,588,542)	$(11,036,144)	$(3,676,411)	$(3,595,739)	$(837,076)
Avg. weighted shares.......	8,328,429	7,193,837	3,042,466	2,987,908	2,373,258
Basic and diluted net loss per common share as reported.................	$(1.15)	$(1.53)	$(1.16)	$(1.14)	$(0.33)
Retroactive effect of change in accounting principle................	-	-	(0.05)	(0.06)	(0.02)
Basic and diluted net loss per common share.........	$(1.15)	$(1.53)	$(1.21)	$(1.20)	$(0.35)

COMPUTATION OF ACTUAL WEIGHTED AVERAGE SHARES OUTSTANDING

	ISSUE DATE	ACTUAL SHARES	ANNUAL WEIGHTED AVERAGE
1994 Beginning Balance...........		2,232,530	2,232,530
Common Stock Sales...............	10/24/94	755,378	140,728
1994 Ending Balance...........	12/31/94	2,987,908	2,373,258
1995 Beginning Balance...........		2,987,908	2,987,908
Common Stock Sales...............		-	-
1995 Ending Balance...........	12/31/95	2,987,908	2,987,908
1996 Beginning Balance...........		2,987,908	2,987,908
Option Exercise..................	5/15/96	3,124	1,960
Conversion of Series C...........	12/26/96	1,376,379	18,803

Conversion of Series C Warrants..	12/26/96	73,766	1,008
Shares issued in IPO............	12/26/96	2,400,000	32,787
		---------	---------
1996 Ending Balance...........	12/31/96	6,841,177	3,042,466
		=========	=========
1997 Beginning Balance...........		6,841,177	6,841,177
Shares issued for over-allotment.	1/25/97	375,000	350,342
Option Exercise..................	6/27/97	2,000	1,030
Option Exercise..................	10/13/97	2,585	567
Option Exercise..................	11/6/97	4,700	721
		---------	---------
1997 Ending Balance...........	12/31/97	7,225,462	7,193,837
		=========	=========
1998 Beginning Balance...........		7,225,462	7,225,462
Option Exercise	01/09/98	31,655	30,961
Option Exercise..................	01/13/98	3,876	3,749
Restricted Stock Award	03/06/98	50,000	41,233
Option Exercise..................	04/09/98	35,966	26,309
Option Exercise..................	05/13/98	1,938	1,237
Sale of Shares for Cash	06/10/98	1,462,044	821,148
Option Exercise..................	06/11/98	96,506	53,938
Option Exercise..................	06/12/98	6,462	3,594
Issuance of Shares	08/21/98	240,000	87,452
Option Exercise..................	10/28/98	20,144	3,587
Option Exercise..................	11/05/98	38,775	6,055
Option Exercise..................	11/10/98	166,381	23,704
		---------	---------
1998 Ending Balance...........	12/31/98	9,379,209	8,328,429
		=========	=========

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation by reference of our report included in this Form 10-K into the Company's previously filed registration statements on Form S-3 (File No. 333-63119) and Form S-8 (File No. 333-30187).

ARTHUR ANDERSEN LLP

Houston, Texas
March 24, 1999

EXHIBIT 23.2

(LETTERHEAD OF RYDER SCOTT COMPANY)

CONSENT OF INDEPENDENT PETROLEUM ENGINEERS

As independent petroleum engineers, we hereby consent to (a) the use of our name and references to our firm in the Annual Report on Form 10-K of 3DX Technologies Inc. for the year ended December 31, 1998 and (b) to the inclusion of the estimate of proved reserves and present value of the future net revenues included in our report dated January 27, 1999 in such Annual Report.

RYDER SCOTT COMPANY
PETROLEUM ENGINEERS

Houston, Texas
March 24, 1999

<TABLE> <S> <C>

<ARTICLE>5
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THIS SCHEDULE CONTAINS SUMMARY CONSOLIDATED FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED FINANCIAL STATEMENTS OF 3DX TECHNOLOGIES INC., INCLUDED IN ITS ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH CONSOLIDATED FINANCIAL STATEMENTS.
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<PERIOD-TYPE>	12-MOS
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<ARTICLE>5
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RESTATED FINANCIAL DATA SCHEDULE FOR THE FISCAL YEARS ENDED DECEMBER 31, 1997
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<ARTICLE>5
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RESTATED FINANCIAL DATA SCHEDULE FOR THE FISCAL YEARS ENDED DECEMBER 31, 1996
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