

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TRANS ENERGY INC
Form 10QSB
November 29, 2005

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

FORM 10-QSB

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

For the Quarter Ended September 30, 2005

OR

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

For the transition period from to

Commission File Number 0-23530

TRANS ENERGY, INC.

(Exact name of small business issuer as specified in its charter)

Nevada

93-0997412

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

210 Second Street, P.O. Box 393, St. Marys, West Virginia 26170
(Address of principal executive offices)

Registrant's telephone no., including area code: (304) 684-7053

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Class	Outstanding as of October 31, 2005
-----	-----
Common Stock, \$.001 par value	4,976,766

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TABLE OF CONTENTS

Heading

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.....

Item 2. Management's Discussion and Analysis and Results of Operations.....

Item 3. Controls and Procedures.....

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.....

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.....

Item 3. Defaults Upon Senior Securities.....

Item 4. Submission of Matters to a Vote of Securities Holders.....

Item 5. Other Information.....

Item 6. Exhibits and Reports on Form 8-K.....

Signatures.....

-2-

PART I

Item 1. Financial Statements

The accompanying consolidated balance sheet of Trans Energy, Inc. at September 30, 2005 (unaudited) and December 31, 2004, related unaudited consolidated statements of operations for the three and nine months ended September 30, 2005 and 2004, stockholders' equity (deficit) and cash flows for the nine months ended September 30, 2005 and 2004, have been prepared by our management in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the consolidated results of operations and consolidated financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the quarter ended September 30, 2005, are not necessarily indicative of the results that can be expected for the fiscal year ending December 31, 2005.

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TRANS ENERGY, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005 and December 31, 2004

-3-

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	September 30, 2005	December 31, 2004
	----- (Unaudited)	-----
ASSETS		
CURRENT ASSETS		
Cash	\$ 239,010	\$ 79,662
Accounts receivable, net	2,349,150	653,917
Other receivables	4,222	8,825
Prepaid expenses	84,799	1,223
	-----	-----
Total Current Assets	2,677,181	743,627
	-----	-----
PROPERTY AND EQUIPMENT, NET	7,099,209	3,372,599
	-----	-----
OTHER ASSETS		
Bonds	--	50,159
Deposits	29,574	1,400
Investment in Texas Keystone Wells	175,000	--
Customer lists, net	557,563	--
Life insurance, cash surrender value	67,726	66,326
	-----	-----
Total Other Assets	829,863	117,885
	-----	-----
TOTAL ASSETS	\$10,606,253	\$ 4,234,111
	=====	=====

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

-4-

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	September 30, 2005	December 31, 2004
	-----	-----
	(Unaudited)	
CURRENT LIABILITIES		
Accounts payable - trade	\$ 2,120,291	\$ 1,277,375
Related party payables (Note 5)	1,142,012	719,199
Accrued expenses	1,089,764	844,858
Judgments payable (Note 3)	70,379	70,379
Debentures payable	50,000	50,000
Notes payable - current portion	713,004	762,247
	-----	-----
Total Current Liabilities	5,185,450	3,724,058
	-----	-----
LONG-TERM LIABILITIES		
Notes payable	4,074,786	108,190
Asset retirement obligation	962,877	1,571,749
	-----	-----
Total Long-Term Liabilities	5,037,663	1,679,939
	-----	-----
Total Liabilities	10,223,113	5,403,997
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT) (Note 7)		
Preferred stock; 10,000,000 shares authorized at \$0.001 par value; -0- shares issued and outstanding	--	--
Common stock; 500,000,000 shares authorized at \$0.001 par value; 4,956,765 and 3,555,074 shares issued and outstanding, respectively	4,957	3,555
Treasury stock, 244,633 shares held at cost	(286,467)	--
Capital in excess of par value	30,795,793	27,854,647
Comprehensive Income	(1,808)	--
Deferred expenses	(74,000)	--
Accumulated deficit	(30,055,335)	(29,028,088)
	-----	-----
Total Stockholders' Equity (Deficit)	383,140	(1,169,886)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 10,606,253	\$ 4,234,111
	=====	=====

Edgar Filing: TRANS ENERGY INC - Form 10QSB

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

-5-

TRANS ENERGY, INC. AND SUBSIDIARIES				
Consolidated Statements of Operations and Other Comprehensive Loss (Unaudited)				
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
REVENUES	\$ 3,958,510	\$ 325,652	\$ 9,847,711	\$ 1,460,627
COSTS AND EXPENSES				
Cost of oil and gas	3,081,216	319,548	7,416,403	1,387,919
Salaries and wages	45,540	107,230	162,219	287,252
Depreciation, depletion amortization and accretion	443,529	89,574	1,164,307	230,414
Selling, general and administrative	702,445	17,986	1,818,062	125,645
Total Costs and Expenses	4,272,730	534,338	10,560,991	2,031,230
LOSS FROM OPERATIONS	(314,220)	(208,686)	(713,280)	(570,603)
OTHER INCOME (EXPENSE)				
Gain (loss) on extinguishment of debt	(2,306)	288,398	--	41,562
Net gain (loss) on sale of assets	(152,411)	--	(160,275)	175,910
Other income	116,064	225	124,357	9,353
Tax assessment	--	(18,102)	--	(18,102)
Interest expense	(82,029)	(52,559)	(278,049)	(161,759)
Total Other Income (Expense)	(120,682)	217,962	(313,967)	46,964
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	(434,902)	9,276	(1,027,247)	(523,639)
INCOME TAXES	--	--	--	--

Edgar Filing: TRANS ENERGY INC - Form 10QSB

NET INCOME (LOSS)	\$ (434,902)	\$ 9,276	\$ (1,027,247)	\$ (523,639)
	-----	-----	-----	-----

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

-6-

TRANS ENERGY, INC. AND SUBSIDIARIES
 Consolidated Statements of Operations and Other Comprehensive Loss (continued)
 (Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ (434,902)	\$ 9,276	\$ (1,027,247)	\$ (523,639)
OTHER COMPREHENSIVE LOSS				
Changes due to hedging activities	--	--	(1,808)	--
	-----	-----	-----	-----
NET COMPREHENSIVE INCOME (LOSS)	\$ (434,902)	\$ 9,276	\$ (1,029,055)	\$ (523,639)
	=====	=====	=====	=====
BASIC LOSS PER SHARE	\$ (0.09)	\$ 0.00	\$ (0.22)	\$ (0.27)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	4,876,118	1,957,108	4,692,358	1,950,411
	=====	=====	=====	=====

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

-7-

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TRANS ENERGY, INC. AND SUBSIDIARIES
 Consolidated Statement of Stockholders' Equity (Deficit)
 (split table)

	Preferred Stock		Common Stock	
	Shares	Amount	Accumulated Shares	Amount
Balance, December 31, 2004	--	\$ --	3,555,074	\$ 3,555
Common stock issued for services to be rendered (unaudited)	--	--	50,000	50
Common stock issued for the conversion of debt (unaudited)	--	--	25,000	25
Common stock issued for the conversion of debt (unaudited)	--	--	141,667	142
Common stock issued for purchase of Arvilla (unaudited)	--	--	1,185,024	1,185
Changes due to hedging activities (unaudited)	--	--	--	--
Contributed services (unaudited)	--	--	--	--
Stock exchanged for the sale of Cobham (unaudited)	--	--	--	--
Net loss for the nine months ended September 30, 2005 (unaudited)	--	--	--	--
Balance, September 30, 2005 (unaudited)	--	\$ --	4,956,765	\$ 4,957

(continued)

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

Edgar Filing: TRANS ENERGY INC - Form 10QSB

(continued)

	Capital In Excess of Par Value	Comprehensive Income	Deficit
	-----	-----	-----
Balance, December 31, 2004	\$ 27,854,647	\$ --	\$(29,028,088)
Common stock issued for services to be rendered (unaudited)	92,450	--	--
Common stock issued for the conversion of debt (unaudited)	49,975	--	--
Common stock issued for the conversion of debt (unaudited)	254,858	--	--
Common stock issued for purchase of Arvilla (unaudited)	2,368,863	--	--
Changes due to hedging activities (unaudited)	--	(1,808)	--
Contributed services (unaudited)	175,000	--	--
Stock exchanged for the sale of Cobham (unaudited)	--	--	--
Net loss for the nine months ended September 30, 2005 (unaudited)	--	--	(1,027,247)
	-----	-----	-----
Balance, September 30, 2005 (unaudited)	\$ 30,795,793	\$ (1,808)	\$(30,055,335)
	=====	=====	=====

-8B-

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

For the Nine Months Ended
September 30,
2005 2004
----- -----

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (1,027,247)	\$ (523,639)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	1,164,307	230,414
Amortization of deferred expenses	18,500	--
Net loss (gain) from sale of assets	160,275	(175,910)

Edgar Filing: TRANS ENERGY INC - Form 10QSB

(Gain) loss on extinguishment of debt	--	(41,563)
Contributed services	175,000	--
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(564,511)	(38,595)
Decrease in prepaids	(83,576)	--
Decrease in other current assets	7,833	--
Decrease in other assets	(1,400)	--
Increase in accounts payable and current liabilities	384,160	670,681
Increase in accrued expenses	53,123	--
	-----	-----
Net Cash Provided by Operating Activities	286,464	121,388
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for other assets	(236,791)	--
Proceeds from sale of assets	76,575	201,000
Borrowings from life insurance policy	--	1,708
Cash acquired from subsidiary	408,333	--
Expenditures for property and equipment	(556,155)	(440)
	-----	-----
Net Cash Provided (Used) by Investing Activities	(308,038)	202,268
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in bank overdraft	--	(49,120)
Payments on related party payables	(67,765)	(141,757)
Proceeds from related party notes	637,088	--
Principal payments on notes payable	(378,401)	(119,993)
	-----	-----
Net Cash Provided (Used) by Financing Activities	190,922	(310,870)
	-----	-----
NET INCREASE IN CASH	159,348	12,786
CASH, BEGINNING OF PERIOD	79,662	183
	-----	-----
CASH, END OF PERIOD	\$ 239,010	\$ 12,969
	=====	=====

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

-9-

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Continued)
(Unaudited)

For the Nine Months Ended
September 30,
2005 2004

Edgar Filing: TRANS ENERGY INC - Form 10QSB

CASH PAID FOR:

Interest	\$	--	\$	44,057
Income taxes	\$	--	\$	--

NON-CASH FINANCING ACTIVITIES:

Common stock issued for debt relief	\$	305,000	\$	47,856
Common stock issued for services to be rendered	\$	92,500	\$	26,000
Common stock issued for the net assets over liabilities in the purchase of Arvilla Inc. and subsidiary	\$	2,370,048	\$	--
Contributed services	\$	175,000	\$	--

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

-10-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2005 and December 31, 2004

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto included in its December 31, 2004 Annual Report on Form 10-KSB. Operating results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

NOTE 2 - GOING CONCERN

The Company's condensed consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred cumulative operating losses through September 30, 2005 of

Edgar Filing: TRANS ENERGY INC - Form 10QSB

\$30,055,335 and has a working capital deficit at September 30, 2005 of \$2,526,769. Revenues have not been sufficient to cover its operating costs and to allow it to continue as a going concern. The potential proceeds from the sale of common stock, other contemplated debt and equity financing, and increases in operating revenues from new development would enable the Company to continue as a going concern. There can be no assurance that the Company can or will be able to complete any debt or equity financing. If these are not successful, management is committed to meeting the operational cash flow needs of the Company.

NOTE 3 - CONTINGENCIES AND COMMITMENTS

Core Laboratories, Inc.

On July 28, 1999, Core Laboratories, Inc. (Core) obtained a judgment against the Company for non-payment of an accounts payable. The judgment calls for monthly payments of \$351 and is bearing interest at 10.00% per annum. At September 30, 2005 the Company had accrued a balance including interest of \$13,587 which is included in judgments payable. The Company is currently in default on this judgment.

-11-

TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Unaudited Condensed Consolidated Financial Statements September 30, 2005 and December 31, 2004

NOTE 3 - CONTINGENCIES AND COMMITMENTS (continued)

RR Donnelly

On July 1, 1998, RR Donnelly (RR) obtained a judgment against the Company for non-payment of accounts payable. The judgment calls for monthly payments of \$3,244 and is bearing interest at 10.00% per annum. At September 30, 2005, the Company has accrued a balance including interest of \$56,792 which is included in judgment payable as a current liability. The Company is currently in default on this judgment.

Tioga Lumber Company

On September 22, 2000, Tioga Lumber Company obtained a judgment of \$43,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler Construction Company for breach of contract. On February 28, 2002, we reached a negotiated payment schedule with Tioga and made the initial payment. We believe that we have satisfied the balance owed to Tioga of \$26,233.58, although the judgment has not yet been released. We are proceeding to secure the release of the judgment.

Arvilla Oilfield Services is required under a certain loan agreement to maintain specific financial ratios under covenants contained in the loan agreement. At September 30, 2005 and December 31, 2004 Arvilla was in compliance with those covenants.

NOTE 4 - BUSINESS SEGMENTS

The Company adopted SFAS No. 131, "Disclosure about Segments of an

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Enterprise and Related Information." Prior period amounts have been restated to conform to the requirements of this statement. The Company conducts its operations principally as oil and gas sales with Trans Energy and Prima Oil and pipeline transmission with Ritchie County and Tyler Construction.

Certain financial information concerning the Company's operations in different industries is as follows:

	For the Nine Months Ended September 30		Oil and Gas Sales	Pipeline Transmission	Well Servicing
Oil and gas revenue	2005	\$	833,933	\$ 1,880,110	\$ 7,133,668
	2004		295,963	1,164,664	--
Operating loss applicable to industry segment	2005		(518,151)	(37,305)	(157,824)
	2004		(473,915)	(96,688)	--
General corporate expenses not allocated to industry segments	2005		--	--	--
	2004		--	--	--

-12-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2005 and December 31, 2004

NOTE 4 - BUSINESS SEGMENTS (Continued)

	For the Nine Months Ended September 30		Oil and Gas Sales	Pipeline Transmission	Well Servicing
Interest expense	2005		(59,090)	(25,345)	(193,614)
	2004		(140,275)	(21,484)	--
Other income (expenses)	2005		(157,760)	3,609	118,233
	2004		163,812	44,911	--
Assets (net of intercompany accounts)	2005		2,317,856	813,396	7,475,001
	2004		756,602	335,380	--
Depreciation, depletion, Amortization and accretion	2005		260,205	55,321	848,781

Edgar Filing: TRANS ENERGY INC - Form 10QSB

	2004	169,341	61,073	--
Property and equipment				
Acquisitions (Deletions)	2005	187,875	36,881	254,824
	2004	440	--	--

NOTE 5 - RELATED PARTIES

Marketing Agreement - Sancho

Natural gas delivered through the Company's pipeline network is sold either to Sancho Oil and Gas Corporation ("Sancho"); a company controlled by the Vice President of the Company, to Dominion Gas, a local utility, on an on-going basis at a variable price per month per Mcf.

Under its contract with Sancho, the Company has the right to sell natural gas subject to the terms and conditions of a 20-year contract, as amended, that Sancho entered into with Dominion Gas in 1988. This agreement is a flexible volume supply agreement whereby the Company receives the full price which Sancho charges the end user less a \$0.05 per Mcf marketing fee paid to Sancho.

Certain officers and directors of the Company have personally guaranteed specific notes payable.

-13-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2005 and December 31, 2004

NOTE 6 - OTHER COMPREHENSIVE INCOME

The Company has entered into a loan arrangement containing an interest rate hedge. The hedge is based on the difference between the lending institutions floating rate index plus 280 basis points and the existing LIBOR rate. At September 30, 2005, the difference in rates resulted in additional interest of \$1,808 that was recorded as other comprehensive income.

NOTE 7 - EQUITY

In January 2005, the Company issued 50,000 shares of common stock for services to be rendered valued at \$92,500.

In January 2005, the Company issued 25,000 shares of common stock for debt relief of \$50,000.

In January 2005, the Company issued 1,185,024 shares of common stock for the acquisition of Arvilla, Inc.

In July 2005, the Company issued 141,667 shares of common stock for debt relief of \$255,000.

Through September 30, 2005, certain officers and directors have contributed services valued at \$175,000.

On August 31, 2005, the Company sold its wholly owned subsidiary,

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Cobham Oil & Gas Industries, Inc. along with certain assets and liabilities of that entity to its previous owner in exchange for the return of 244,633 shares of the Company's common stock. These shares remain outstanding and are being held by the Company as Treasury Stock and have been valued at \$286,467 representing the fair value of the stock on the date of the Cobham transaction. (See Note 8)

Under FASB Statement 123, the Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model with the following weighted average assumptions used for grants, respectively; dividend yield of zero percent for all years; expected volatility of 68.72%; risk-free interest rate of 4.08 and expected lives of 10 years for the nine months ended September 30, 2005.

Had compensation cost for the Company's stock options granted to directors and employees been based on the fair value as determined by the Black-Scholes option pricing model at the grant date under the accounting provisions of SFAS No. 123, the Company would have recorded an additional expense of \$837,416 for the nine months ended September 30, 2005. Also under these same provisions, the Company's net loss would have been changed by the pro forma amounts indicated below:

-14-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2005 and December 31, 2004

NOTE 7 - EQUITY (continued)

	For the Three Months Ended September 30,			For Nine Months September	
	2005	2004		2005	
Net loss:					
As reported	\$ (434,902)	\$ 9,276		\$ (1,027,247)	
Pro forma	\$ (434,902)	\$ 9,276		\$ (1,864,663)	
Basic loss per share:					
As reported	\$ (0.09)	\$ 0.00		\$ (0.22)	
Pro forma	\$ (0.09)	\$ 0.00		\$ (0.40)	

Stock Options - A summary of the status of the warrants granted under various agreements at September 30, 2005 and 2004, and changes during the periods then ended is presented below:

September 30, 2005	September 30, 2004
--------------------	--------------------

Edgar Filing: TRANS ENERGY INC - Form 10QSB

	Weighted Average Shares	Exercise Price	Weighted Average Shares	Exercise Price
Outstanding at beginning of period	--	\$ --	--	\$ --
Granted	553,324	1.95	--	--
Exercised	--	--	--	--
Forfeited	--	--	--	--
Expired	--	--	--	--
Outstanding at end of Period	553,324	\$ 1.95	--	\$ --
Weighted average fair value of options granted during the year	553,324	\$ 1.95	\$ --	\$ --

A summary of the status of the warrants granted under the various agreements at September 30, 2005, are presented in the table below:

Range of Exercise Prices	Number Outstanding	Warrants Outstanding		Warrant Number Exercisable
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	
\$1.95	553,324	9.25 years	\$ 1.95	553,324
	553,324			553,324

-15-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2005 and December 31, 2004

NOTE 8 - SIGNIFICANT EVENTS

On November 5, 2004, the Company acquired Cobham Gas Industries, Inc. and certain wells, leases, pipelines, gas purchase agreements, oil hauling agreements, equipment, right of ways and other miscellaneous items related to the leases located in West Virginia. On September 1, 2005, the Company sold a portion of these acquired assets to the previous owner. These assets include the following:

- Certain leases for the production of oil and natural gas located in Marion County, West Virginia;
- Certain oil or natural gas wells located on the Marion County Leases, together with all equipment and other tangible personal property attached to the wells;

Edgar Filing: TRANS ENERGY INC - Form 10QSB

- Certain vehicles and other equipment, parts, inventories and hand tools;
- Miscellaneous well logs, maps, production data, sales records and histories, royalty payment records and other information concerning the Marion County Leases and Marion County Wells;
- A \$50,000 reclamation bond pursuant to which all of the Marion County Wells, and others, are permitted;
- Certain cash and trade accounts receivable generated by the operations and results of operations of the Marion County Leases and Marion County Wells, realized on or after August 1, 2005; and
- All outstanding capital common stock of Cobham Gas Industries held by Trans Energy, Inc. or any affiliate.

In consideration for the above referenced assets, the buyer will provide to us:

- The return to us of 244,633 shares of Trans Energy, Inc. common stock initially issued to acquire Cobham, to be valued at the closing price per share of our common stock on the closing date;
- The return to us of all of buyer's options, warrants and future rights to acquire any securities of Trans Energy or any of our affiliates;
- The Company retain the right to use through December 31, 2005 the \$50,000 reclamation bond in order to comply with certain West Virginia bonding requirements; and
- Buyer will assume responsibility for the payment of certain loans in the amount of \$96,839, liabilities related to the plugging of certain of the Marion County Wells, all expenses related to operation, maintenance and ownership of the Marion County Leases and the Marion County Wells incurred on or after August 1, 2005.

In addition to the above, we have agreed to fulfill the remaining payment obligations to the buyer under that certain agreement dated November 5, 2004, and we will retain responsibility for the payment of certain debts related to Cobham.

-16-

Item 2. Management's Discussion and Analysis or Plan of Operations

Recent Developments

Arvilla, Inc.

On January 31, 2005, we acquired Arvilla, Inc., a provider of well servicing, workover and related transportation services to independent oil and natural gas producers in northeast United States. It also performs ongoing maintenance and major overhauls necessary to optimize the level of production from existing oil and natural gas wells and provides certain ancillary services

Edgar Filing: TRANS ENERGY INC - Form 10QSB

during the drilling and completion of new wells. Arvilla offers its services in Ohio, Pennsylvania, New York, Virginia, Kentucky and West Virginia.

Cobham Gas Industries, Inc.

On November 5, 2004, we acquired Cobham Gas Industries, Inc. and certain wells, leases, pipelines, gas purchase agreements, oil hauling agreements, equipment, right of ways and other miscellaneous items related to the leases located in West Virginia. On September 1, 2005, we sold a portion of these acquired assets to Texas Energy Trust Company and its trustee, George Hillyer. These assets include the following:

- o Certain leases for the production of oil and natural gas located in Marion County, West Virginia;
- o Certain oil or natural gas wells located on the Marion County Leases, together with all equipment and other tangible personal property attached to the wells;
- o Certain vehicles and other equipment, parts, inventories and hand tools;
- o Miscellaneous well logs, maps, production data, sales records and histories, royalty payment records and other information concerning the Marion County Leases and Marion County Wells;
- o A \$50,000 reclamation bond pursuant to which all of the Marion County Wells, and others, are permitted;
- o Certain cash and trade accounts receivable generated by the operations and results of operations of the Marion County Leases and Marion County Wells, realized on or after August 1, 2005; and
- o All outstanding capital common stock of Cobham Gas Industries held by Trans Energy, Inc. or any affiliate.

In consideration for the above referenced assets, the buyer will provide to us:

- o The return to us of 244,633 shares of Trans Energy, Inc. common stock initially issued to acquire Cobham, to be valued at the closing price per share of our common stock on the closing date;
- o The return to us of all of buyer's options, warrants and future rights to acquire any securities of Trans Energy or any of our affiliates;
- o We retain the right to use through December 31, 2005 the \$50,000 reclamation bond in order to comply with certain West Virginia bonding requirements; and
- o Buyer will assume responsibility for the payment of certain loans in the amount of \$96,839, liabilities related to the plugging of certain of the Marion County Wells, all expenses related to operation, maintenance and ownership of the Marion County Leases and the Marion County Wells incurred on or after August 1, 2005.

-17-

In addition to the above, we have agreed to fulfill the remaining payment obligations to the buyer under that certain agreement dated November 5, 2004, and we will retain responsibility for the payment of certain debts related to

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Cobham.

Stock Split

On November 29, 2004, our board of directors and stockholders holding a majority of our outstanding common stock approved a one share for 150 shares reverse split of our common stock. The reverse split was effected on January 28, 2005. All references to per share data and common stock have been restated to reflect the effect of this reverse split.

Results of Operations

The following table sets forth the percentage relationship to total revenues of principal items contained in the our unaudited consolidated statements of operations for the three and nine month periods ended September 30, 2005 and 2004. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended September 30,		Nine months End June 30,
	2005	2004	2005
	(Unaudited)		(Unaudited)
Total Revenues.....	100%	100%	100%
Total costs and expenses.....	108	164	107
Loss from operations.....	(8)	(64)	(7)
Other income (expense).....	(3)	67	(3)
Net income (loss).....	(11)	3	(10)

Revenues for the three months ("third quarter") and nine months ("first nine months") ended September 30, 2005 increased 1116% and 574%, respectively, compared to the 2004 periods, primarily due to the acquisition of Arvilla and inclusion of its revenues for the 2005 periods. Increased consolidated revenues also reflect increased oil and gas prices and volume. Our cost of oil and gas for the third quarter and first nine months of 2005 increased 864% and 434%, respectively, compared to the 2004 periods, also due to price and volume increases.

Selling, general and administrative expenses increased from \$17,986 in the third quarter of 2004 to \$702,445 for the third quarter of 2005, and from \$125,645 for the first nine months of 2004 to \$1,818,062 for the first nine months of 2005. These increases are attributed to the acquisition of Arvilla and the associated expenses of our expanded operations. Salaries and wages decreased 58% and 44% for the third quarter and first nine months of 2005, respectively, when compared to the 2004 periods primarily due to a reduction in accrued wages. Depreciation, depletion, amortization and accretion expense increased 395% and 405% for the third quarter and first nine months of 2005, respectively, due to the addition of Arvilla Assets.

Loss from operations for the third quarter and first nine months of 2005 was \$314,220 and \$713,280, respectively, compared to a loss of \$208,686 and \$570,603 for the like periods of 2004. The improvement for the first nine

Edgar Filing: TRANS ENERGY INC - Form 10QSB

months of 2005 is related to the acquisition of Arvilla and its increased contribution to revenues, price and volume increases, although the loss for the third quarter increased from the 2004 period due to a decrease in April revenues in Arvilla related to poor weather conditions. We realized total other expenses of \$120,682 and \$313,967 during the third quarter and first nine months of 2005, respectively, compared to total other income of \$217,962 and \$46,964 for the 2004 periods. The 2005 results were primarily attributed to the net loss on the sale of assets and increase in interest expense in 2005, and was partially offset the increase in other income in 2005.

As a percentage of total revenues, total costs and expenses decreased from 164% in the third quarter of 2004 to 108% for the third quarter of 2005, and also decreased from 139% for the first nine months of 2004 to 107% for the first nine months of 2005. This improvement is also attributed to the acquisition of Arvilla and cost reductions in servicing of the Cobham wells.

Our net loss for the third quarter and first nine months of 2005 was \$434,902 and \$1,029,055 (after a \$1,808 adjustment due to hedging activities), respectively, compared to a net income of \$9,276 for the third quarter of 2004 and a net loss of \$523,639 for the first nine months of 2004.

For the remainder of fiscal year 2005, management expects selling, general and administrative expenses to remain at approximately the same rate as the first nine months of 2005 and significantly higher than the prior year, reflecting the Arvilla acquisition. The cost of oil and gas produced is expected to fluctuate with the amount produced and with prices of oil and gas, and management anticipates that revenues are likely to increase during the remainder of 2005.

Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At September 30, 2005, we had a working capital deficit of \$2,508,269 compared to a deficit of \$2,980,431 at December 31, 2004. This 16% decrease in working capital deficit is primarily attributed to the acquisition of Arvilla and the reduction of current liabilities and debt.

During the first nine months of 2005, operating activities provided net cash of \$286,464 compared to net cash provided of \$121,388 for the first nine months of 2004. These results are primarily attributed to increases in depreciation and accounts payable. Also during the first nine months of 2005, net cash used by investing activities was \$308,038, compared to net cash provided of \$202,268 for the first nine months of 2004. This result is primarily attributed to payment for other assets and expenditures for property and equipment.

During the first nine months of 2005, we realized net cash from financing activities of \$190,922 compared to \$310,870 in the first nine months of 2004. These results are attributed to the increase in proceeds from related party notes.

We anticipate meeting our working capital needs during the remainder of the current fiscal year with revenues from our newly acquired subsidiaries and from our ongoing operations, particularly from our Powder River Basin interests in Wyoming and New Benson gas wells drilled in West Virginia, which gas goes into our 6-inch pipeline. In the event revenues are not sufficient to meet our working capital needs, we will explore the possibility of additional funding from either the sale of debt or equity securities. There can be no assurance such funding will be available to us or, if available, it will be on acceptable or favorable terms.

As of September 30, 2005, we had total assets of \$10,606,253 and total

Edgar Filing: TRANS ENERGY INC - Form 10QSB

stockholders' equity of \$383,140, compared to total assets of \$4,234,111 and total stockholders' deficit of \$1,169,886 at December 31, 2004.

-19-

In 1998, we issued \$4,625,400 face value of 8% Secured Convertible Debentures Due June 30, 1999. A portion of the proceeds were used to acquire the GCRL properties and interest in Wyoming. During 2000, all but one of the remaining outstanding debentures were converted into commons stock. At September 30, 2005, we owed \$50,000 for a debenture plus approximately \$25,000 in interest.

Because we have incurred significant cumulative operating losses through September 30, 2005 and have a working capital deficit at September 30, 2005 of \$2,526,769, there exists substantial doubt about our ability to continue as a going concern. Historically, our revenues have not been sufficient to cover operating costs and we may potentially need to rely on proceeds from sale of common stock, debt or equity financing, and increased operating revenues from new developments to allow us to continue as a going concern. There can be no assurance that we can or will be able to complete any debt or equity financing.

We have included a footnote to our financial statements for the periods ended September 30, 2005 stating that because of our continued losses, working capital deficit and need for additional funding, there is substantial doubt as to whether we can continue as a going concern. See Note 2 to the consolidated financial statements.

Inflation

In the opinion of our management, inflation has not had a material effect on our operations.

Forward-looking and Cautionary Statements

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products and services, anticipated market performance and similar matters. When used in this report, the words "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend," and similar expressions are intended to identify forward-looking statements regarding events, conditions, and financial trends that may affect our future plans of operations, business strategy, operating results, and financial position. We caution readers that a variety of factors could cause our actual results to differ materially from the anticipated results or other matters expressed in forward-looking statements. These risks and uncertainties, many of which are beyond our control, include:

- o the sufficiency of existing capital resources and our ability to raise additional capital to fund cash requirements for future operations;
- o uncertainties involved in the rate of growth of our business and acceptance of any products or services;
- o volatility of the stock market, particularly within the technology sector; and
- o general economic conditions.

Although we believe the expectations reflected in these forward-looking

Edgar Filing: TRANS ENERGY INC - Form 10QSB

statements are reasonable, such expectations cannot guarantee future results, levels of activity, performance or achievements.

-20-

Item 3. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon that evaluation, our chief executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to cause the material information required to be disclosed by us in the reports that we file or submit under the Exchange Act to be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date we carried out our evaluation.

PART II

Item 1. Legal Proceedings

Information concerning certain material pending legal proceedings to which we are a party, or to which any of our property is subject, is set forth below:

o On September 22, 2000, Tioga Lumber Company obtained a judgment of \$43,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler Construction Company for breach of contract. On February 28, 2002, we reached a negotiated payment schedule with Tioga and made the initial payment. We believe that we have satisfied the balance owed to Tioga of \$26,233.58, although the judgment has not yet been released. We are proceeding to secure the release of the judgment.

o On July 1, 1998, RR Donnelly (RR) obtained a judgment against us for non-payment of accounts payable. The judgment calls for monthly payments of \$3,244 and is bearing interest at 10.00% per annum. At September 30, 2005, we had accrued a balance including interest of \$56,792 as a current liability. We are currently in default on this judgment.

We may be engaged in various other lawsuits and claims, either as plaintiff or defendant, in the normal course of business. In the opinion of management, based upon advice of counsel, the ultimate outcome of these lawsuits will not have a material impact on our financial position or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On July 1, 2005, we issued 141,668 shares to our Chief Executive Officer, Clarence Smith, in exchange for his forgiving a debt of \$255,000. On October 19, 2005, we issued 20,000 shares to John Corp as a signing bonus for becoming a director and officer of Trans Energy. The issuances were made in isolated, private transactions to affiliates and executive officers and were, therefore, exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2) of that Act.

Item 3. Defaults Upon Senior Securities

In 1998, we issued \$4,625,400 face value of 8% secured convertible debentures due September 30, 1999. Interest on the debentures accrued upon the

Edgar Filing: TRANS ENERGY INC - Form 10QSB

date of issuance until payment in full of the principal sum was been made or duly provided for. Holders of the debentures have the option, at any time, until maturity, to convert the principal amount of their debenture, or any portion of the principal amount which is at least \$10,000 into shares of the our common stock at a conversion price for each share equal to the lower of (a) seventy percent (70%) of the market price of the our stock averaged over the five

-21-

trading days prior to the date of conversion, or (b) the market price on the issuance date of the debentures. Any accrued and unpaid interest shall be payable, at our option, in cash or in shares of our common stock valued at the then effective conversion price. During 2000, all but one of the remaining outstanding debentures were converted into commons stock. At September 30, 2005, we owed \$50,000 to one debenture holder plus approximately \$25,000 in interest.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

Item 5. Other Information

The following reports were filed with the SEC on Form 8-K during the three month period ended September 30, 2005.

September 16, 2005 - reporting under Item 2.01 the sale of certain assets previously acquired upon the acquisition of Cobham Gas Industries, Inc.

The September 16, 2005 report also reported under Item 5.01 the resignation John G. Corp as a director and Vice President. However, the report inadvertently stated that Mr. Corp resigned as a director, although his resignation was only as an officer and he remains as a director.

Item 6. Exhibits

- | | |
|--------------|---|
| Exhibit 31.1 | Certification of C.E.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 | Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.1 | Certification of C.E.O. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.2 | Certification of Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

-22-

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned,

Edgar Filing: TRANS ENERGY INC - Form 10QSB

thereunto duly authorized.

TRANS ENERGY, INC.

Date: November 25, 2005

By /S/ Clarence E. Smith

Clarence E. Smith
Chief Executive Officer and Director

Date: November 25, 2005

By /S/ William F. Woodburn

WILLIAM F. WOODBURN
Secretary / Treasurer
(Principal Accounting Officer)

-23-