

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TRANS ENERGY INC  
Form 10QSB  
November 15, 2004

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, 2004

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

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 September 30, 2004
Common Stock, \$.001 par value	293,566,131

Edgar Filing: TRANS ENERGY INC - Form 10QSB

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.....  
Consolidated Balance Sheets - September 30, 2004 (Unaudited) and  
December 31, 2003.....  
Consolidated Statements of Operations - three and nine months ended  
September 30, 2004 and 2003 (Unaudited).....  
Consolidated Statements of Stockholders' Equity (Deficit).....  
Consolidated Statements of Cash Flows - three and nine months ended  
September 30, 2004 and 2003 (Unaudited).....  
Notes to Consolidated 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. Changes In 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.....

PART I

Item 1. Financial Statements

The accompanying consolidated balance sheet of Trans Energy, Inc. at September 30, 2004 (unaudited) and December 31, 2003, related unaudited statements of operations, stockholders' equity (deficit) and cash flows for the three and nine months ended September 30, 2004 and 2003, 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, 2004, are not necessarily indicative of the results that can be expected for the fiscal year ending December 31, 2004.

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TRANS ENERGY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2004 and December 31, 2003

-3-

TRANS ENERGY, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets

ASSETS

	September 30, 2004	December 31, 2003
	----- (Unaudited)	-----
CURRENT ASSETS		
Cash	\$ 12,969	\$ 183
Accounts receivable, net	283,980	198,691
Other receivables	11,758	58,452
Prepaid expenses	990	990
	-----	-----
Total Current Assets	309,697	258,316
	-----	-----
PROPERTY AND EQUIPMENT		
Vehicles	67,257	77,118
Machinery and equipment	10,532	10,092
Pipelines	1,592,675	1,739,287
Well equipment	49,155	49,155
Wells	3,079,481	3,079,481
Leasehold acreage	95,945	95,945
Accumulated depreciation	(4,116,138)	(4,021,605)
	-----	-----
Total Fixed Assets	778,907	1,029,473
	-----	-----
OTHER ASSETS		
Cash surrender value - life insurance (net)	3,378	5,086
	-----	-----

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Total Other Assets	3,378	5,086
	-----	-----
TOTAL ASSETS	\$ 1,091,982	\$ 1,292,875
	=====	=====

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

-4-

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	September 30, 2004	December 31, 2003
	-----	-----
	(Unaudited)	
CURRENT LIABILITIES		
Bank overdraft	\$ --	\$ 49,120
Accounts payable - trade	986,115	786,191
Notes payable - convertible	--	36,325
Accrued expenses	1,286,084	954,749
Salaries payable	1,506,629	1,266,479
Notes payable - current portion	1,169,674	1,221,083
Judgments payable (Note 3)	86,481	500,397
Related party payables	1,103,924	1,271,681
Debentures payable	344,720	331,462
Environmental remediation	204,500	200,000
	-----	-----
Total Current Liabilities	6,688,127	6,617,487
	-----	-----
LONG-TERM LIABILITIES		
Notes payable, less current portion	36,836	105,421
	-----	-----
Total Long-Term Liabilities	36,836	105,421
	-----	-----
Total Liabilities	6,724,963	6,722,908
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock; 10,000,000 shares authorized at \$0.001		

Edgar Filing: TRANS ENERGY INC - Form 10QSB

par value; -0- shares issued and outstanding	--	--
Common stock; 500,000,000 shares authorized at \$0.001 par value; 293,566,131 and 269,010,438 shares issued and outstanding, respectively	293,565	269,010
Capital in excess of par value	23,401,295	23,105,159
Accumulated deficit	(29,327,841)	(28,804,202)
	-----	-----
Total Stockholders' Equity (Deficit)	(5,632,981)	(5,430,033)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 1,091,982	\$ 1,292,875
	=====	=====

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

-5-

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
	-----	-----	-----	-----
REVENUES	\$ 325,652	\$ 494,611	\$ 1,460,627	\$ 1,571,528
	-----	-----	-----	-----
COSTS AND EXPENSES				
Cost of oil and gas	319,548	437,642	1,387,919	1,336,614
Salaries and wages	107,230	95,913	287,252	288,059
Depreciation, depletion and amortization	89,574	262,629	225,914	717,614
Selling, general and administrative	17,986	35,801	130,145	204,985
	-----	-----	-----	-----
Total Costs and Expenses	534,338	831,985	2,031,230	2,547,272
	-----	-----	-----	-----
LOSS FROM OPERATIONS	(208,686)	(337,374)	(570,603)	(975,744)
	-----	-----	-----	-----
OTHER INCOME (EXPENSE)				
Gain on disposal of assets	--	--	175,910	112,235
Loss on sale of assets	--	--	--	(5,807)
Gain on settlement of debt	288,398	--	41,562	--
Other income	225	10,903	9,353	17,401
Interest expense	(52,559)	(98,958)	(161,759)	(303,334)
Tax assessment	(18,102)	--	(18,102)	--
	-----	-----	-----	-----

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Total Other Income (Expense)	217,962	(88,055)	46,964	(179,505)
	-----	-----	-----	-----
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	9,276	(425,429)	(523,639)	(1,155,249)
INCOME TAXES	--	--	--	--
	-----	-----	-----	-----
INCOME (LOSS) BEFORE MINORITY INTERESTS	9,276	(425,429)	(523,639)	(1,155,249)
MINORITY INTERESTS	--	--	--	--
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 9,276	\$ (425,429)	\$ (523,639)	\$A(1,155,249)
	=====	=====	=====	=====
BASIC INCOME (LOSS) PER SHARE	\$ 0.00	\$ (0.00)	\$ (0.00)	\$ (0.01)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	293,566,131	264,002,290	292,561,613	249,441,810
	=====	=====	=====	=====

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

-6-

TRANS ENERGY, INC. AND SUBSIDIARIES  
Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Balance, December 31, 2003	\$ --	\$ --	269,010,438	\$ 269,010
Common stock issued for conversion of convertible debt (unaudited)	--	--	3,190,396	3,190
Common stock issued for extinguishment of related party debt (unaudited)	--	--	21,365,297	21,365
Net loss for the nine months ended September 30, 2004 (unaudited)	--	--	--	--
	-----	-----	-----	-----
Balance, September 30, 2004				

Edgar Filing: TRANS ENERGY INC - Form 10QSB

(unaudited)	\$	--	\$	--	293,566,131	\$	293,565
	=====		=====		=====	=====	=====

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

-7-

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

	For the Nine Months Ended September 30,	
	2004	2003
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (523,639)	\$ (1,155,249)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation, depletion and amortization	225,914	717,614
Net gain from sale of assets	(175,910)	(106,428)
Net gain from settlement of debt	(41,563)	--
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(38,595)	(140,080)
Decrease (increase) in prepaid and other current assets	--	(630)
Increase in accounts payable and current liabilities	670,681	609,649
Accretion of environmental remediation liability	4,500	--
	-----	-----
Net Cash Provided (Used) by Operating Activities	121,388	(75,124)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	201,000	240,000
Borrowings against cash surrender value of life insurance policy	1,708	--
Purchase of property plant and equipment	(440)	--
	-----	-----
Net Cash Provided by Investing Activities	202,268	240,000
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Decrease in cash overdraft	(49,120)	--
Proceeds from related party parties	--	233,650
Payments on related party payables	(141,757)	(204,480)
Payments on notes payable	(119,993)	(206,273)
	-----	-----
Net Cash Used by Financing Activities	(310,870)	(177,103)
	-----	-----
NET INCREASE (DECREASE) IN CASH	12,786	(12,227)
CASH, BEGINNING OF PERIOD	183	12,227
	-----	-----
CASH, END OF PERIOD	\$ 12,969	\$ --
	=====	=====
CASH PAID FOR:		
Interest	\$ 44,057	\$ 91,074

## Edgar Filing: TRANS ENERGY INC - Form 10QSB

Income taxes	\$	--	\$	--
NON-CASH FINANCING ACTIVITIES:				
Common stock issued for debt and related interest	\$	47,856	\$	45,793
Common stock issued for related party debt	\$	26,000	\$	--

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

-8-

TRANS ENERGY, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
September 30, 2004 and December 31, 2003  
(Unaudited)

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 include 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, 2003 Annual Report on Form 10-KSB. Operating results for the nine months ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004.

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, 2004 of \$29,327,841, and has a working capital deficit at September 30, 2004 of \$6,378,430. 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 - JUDGMENTS PAYABLE



## Edgar Filing: TRANS ENERGY INC - Form 10QSB

Dennis L. Spencer

In January 2002, Dennis L. Spencer filed suit against the Company and William F. Woodburn and Loren E. Bagley in the Circuit Court of Ritchie County, West Virginia (Civil Action No. 02-C-02). The complaint alleged that the Company sold certain assets of which Mr. Spencer was the beneficial owner. The complaint sought \$1,000,000 in damages. The Company filed its answer to the allegations and on July 7, 2004, the circuit court of Ritchie County signed an order to dismiss the action without prejudice.

-9-

TRANS ENERGY, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
September 30, 2004 and December 31, 2003  
(Unaudited)

NOTE 3 - JUDGMENTS PAYABLE

Ross O. Forbus

On April 16, 2001, Ross O. Forbus obtained a judgment against the Company for \$428,018 plus post judgment interest at 10.00% per annum. The judgment was obtained to satisfy a previous note payable. At August 3, 2004, the total amount including interest was \$498,379. The Company settled its debt to Mr. Forbus on this day with a cash payment of \$210,000 and recorded a gain of \$288,398.

Core Laboratories, Inc.

On July 28, 1999, Core Laboratories, Inc. (Core) obtained a judgment against the Company for non-payment of an account payable. The judgment calls for monthly payments of \$351 and bears interest at 10.00% per annum. At September 30, 2004, the Company had accrued a balance including interest of \$17,047, \$13,587 of which is included in judgments payable.

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 bears interest at 10.00% per annum. At September 30, 2004, the Company has accrued a balance including interest of \$72,819, \$56,792 of which is included in judgment payable as a current liability.

Lario Oil & Gas Company

On January 15, 2003, Lario Oil & Gas Company ("Lario") filed a suit against the Company in the Sixth District Court of Campbell County, Wyoming (Civil Action No. 24575). Lario asks for \$50,692, which it claims the Company owes for operating fees on the Pinion Fee #1, Sagebrush #1 and Sagebrush #2 wells, operated by Lario and in which the Company has working interests. On September 23, 2004 Lario released the Company from the liens that it (Lario) had obtained. Lario had been retaining a portion of the Company's share of the monthly oil production monies and applying them to the amount owed. At September 30, 2004, the Company has a

## Edgar Filing: TRANS ENERGY INC - Form 10QSB

liability of accrued \$36,508, which is included in accounts payable as a current liability.

### I.R.S. Assessment

On July 9, 2004 the I.R.S. assessed a Notice of Federal Tax Lien in the amount of \$18,102 against the Company. The I.R.S. did not specify the amount and/or rate of applicable interest and penalties. The Company agreed to make monthly payments of at least \$500 beginning July 2004 until the balance is fully satisfied. As of September 30, 2004 officers of the Company had paid a total of \$2,000 towards the lien on the Company's behalf; \$16,102 is owed to the I.R.S. as of this date, which is included in judgments payable. The Company has also increased its related parties payables by \$2,000 as of September 30, 2004 for the amounts paid by its officers on its behalf.

-10-

TRANS ENERGY, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
September 30, 2004 and December 31, 2003  
(Unaudited)

NOTE 4 - BUSINESS SEGMENTS

The Company adopted SFAS No. 131, "Disclosure about Segments of an 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 Sept. 30,	Oil and Gas Sales	Pipeline Transmissio
	-----	-----	-----
Oil and gas revenue	2004 2003	\$ 295,963 392,589	\$ 1,164, 1,178,
Operating loss applicable to industry segment	2004 2003	(473,916) (803,184)	(96, (172,
Interest expense	2004 2003	(140,275) (281,512)	(21, (21,
Other income (expenses)	2004 2003	163,812 15,001	44, 126,
Assets (net of intercompany accounts)	2004 2003	756,602 1,438,487	335, 530,
Depreciation and amortization	2004	164,841	61,

## Edgar Filing: TRANS ENERGY INC - Form 10QSB

	2003	639,350	78,
Property and equipment	2004	440	-
Acquisitions	2003	-- -	240,

### NOTE 5 - SIGNIFICANT EVENTS

On March 17, 2004, the Company's subsidiary Tyler Construction sold approximately 47,000 feet of pipeline to Triad Energy Corporation for \$200,000. The Company recognized a gain of \$175,910 on the sale. The Company used \$161,391 of the proceeds to pay off the loan to the First National Bank of St. Mary's.

On January 26, 2004, the Company issued 3,190,396 shares of common stock valued at \$64,308 for the conversion of all convertible debentures and the associated accrued interest valued at \$47,855 resulting in a loss on extinguishment of \$16,453.

On January 9, 2004, the Company issued 21,365,297 shares of unrestricted common stock valued at \$256,383 as payment for related party debt of \$26,000 resulting in a loss on extinguishments of debt of \$230,383.

-11-

TRANS ENERGY, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
September 30, 2004 and December 31, 2003  
(Unaudited)

### NOTE 6 - PRIOR PERIOD ADJUSTMENT

During the three months ended March 31, 2004, a change was made to The Company's retained earnings. The change was made to reflect properly the ending balance of trade accounts receivable. As of December 31, 2003, the accounts receivable balance previously reported included amounts that had been collected during 2003. This overstatement of accounts receivable also resulted in the overstatement of revenues.

The adjustment decreased retained earnings by \$112,176 and decreased accounts receivable by \$112,176. The net loss was increased by \$112,176 and there was no change in the calculated net loss per share.

### NOTE 7 - SUBSEQUENT EVENTS

#### Equity Transactions

On October 4, 2004 the Company issued 203 million shares of its common stock at a price of \$0.012 per share to settle \$2,401,424 of related party debt. The Company incurred a non-cash loss of \$34,576 on the debt settlement.

Also on October 4, 2004 the Company's board of directors authorized a 1-for-150 reverse split of all shares of common stock issued an outstanding. The action is contingent upon shareholder approval.

## Edgar Filing: TRANS ENERGY INC - Form 10QSB

Acquisition of Cobham Gas Industries, Inc.

Effective November 5, 2004, the Company acquired 100% of the issued and outstanding common stock of Cobham Gas Industries, Inc. (Cobham). As consideration for the stock of Cobham, the Company issued 244,633 restricted shares of its common stock, paid \$250,000 cash and agreed to pay an additional \$289,264 in four quarterly installments of \$59,816 beginning on January 1, 2005.

The cash of \$250,000 paid at closing was borrowed from an unrelated third party and is due to be repaid within sixty days of closing.

-12-

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

The following table sets forth the percentage relationship to total revenues of principal items contained in the our consolidated statements of operations for the three and nine month periods ended September 30, 2004 and 2003. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(Unaudited)		(Unaudited)	
Revenues.....	100%	100%	100%	100%
Total costs and expenses.....	164	168	139	162
Loss from operations.....	(64)	(68)	(39)	(62)
Other income (expense).....	67	(18)	3	(11)
Net income (loss).....	3	(86)	(36)	(73)

Revenues for the three months ("third quarter") ended September 30, 2004 decreased 34% compared to the third quarter of 2003, and decreased 7% for the nine months ended September 30, 2004 versus the comparable 2003 period. These results are primarily attributed to lower gas sales during the third quarter of 2004. Our cost of oil and gas for the third quarter of 2004 decreased 27% due to lower gas sales, and increased 4% for the first nine months of 2004 due to overall higher prices.

Salaries and wages increased 12% for the third quarter of 2004 and relatively unchanged for the first nine months of 2004 when compared to the 2003 periods. The increase during the third quarter was due primarily to additional part-time employees. Selling, general and administrative expenses decreased 50% and 36% in the third quarter and first nine months of 2004, respectively, attributed to lower travel related expenses. Depreciation, depletion and amortization decreased 66% in the third quarter of 2004 and 69% in the first nine months of 2004, respectively, due to the sale of assets.

Our loss from operations for the third quarter of 2004 was \$208,686 compared to \$337,374 for the third quarter of 2003, and was \$570,603 for the first nine months of 2004 compared to \$975,744 for the first nine months of 2003. The decrease in loss for the third quarter of 2004 is primarily attributed

## Edgar Filing: TRANS ENERGY INC - Form 10QSB

to the sale of assets. We realized total other income of \$217,962 during the third quarter of 2004 compared to total other expenses of \$88,055 for the third quarter of 2003. The 2004 results are due primarily to a \$288,398 gain on the settlement of debt. For the first nine months of 2004, total other income was \$46,964 compared to total other expenses of \$179,505 for the 2003 period. The 2004 results are attributed to the settlement of debt and an increase in the gain on the disposal of assets together with a decrease in interest expense in the 2004 period.

As a percentage of total revenues, total costs and expenses decreased from 168% in the third quarter of 2003 to 164% for the third quarter of 2004, and decreased from 162% for the first nine months of 2003 to 139% for the comparable 2004 period. The 2004 decreases are primarily attributed to the decrease in depreciation, depletion and amortization during the 2004 periods.

-13-

We realized net income of \$9,276 for the third quarter of 2004 compared to a net loss of \$425,429 for the third quarter of 2003. For the first nine months of 2004 we had a net loss of \$523,639 compared to a net loss of \$1,155,249 for the 2003 period.

For the remainder of fiscal year 2004, management expects selling, general and administrative expenses to remain at approximately the same rate as the first nine months of 2004. 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 2004.

We have included a footnote to our financial statements for the periods ended September 30, 2004 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.

### Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At September 30, 2004, we had a working capital deficit of \$6,378,430 compared to a deficit of \$6,359,171 at December 31, 2003.

During the first nine months of 2004, we realized net cash from operating activities of \$121,388 compared to net cash used of \$75,124 for the first nine months of 2003. These results are primarily attributed to the decrease in net loss in 2004. Net cash provided by investing activities during the first nine months of 2004 was \$202,268, compared to \$240,000 during the 2003 period, primarily due to a decrease in proceeds from the sale of assets in 2004.

During the first nine months of 2004, net cash used by financing activities was \$310,870 compared to \$177,103 during the 2003 period, primarily due to repayment of loan principal.

We anticipate meeting our working capital needs during the remainder of the current fiscal year with revenues from operations, particularly from our Powder River Basin interests in Wyoming and New Benson gas wells drilled in West Virginia. 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

## Edgar Filing: TRANS ENERGY INC - Form 10QSB

terms.

As of September 30, 2004, we had total assets of \$1,091,982 and total stockholders' deficit of \$5,632,981, compared to total assets of \$1,292,875 and total stockholders' deficit of \$5,430,033 at December 31, 2003.

In 1998, we issued \$4,625,400 face value of 8% secured convertible debentures due September 30, 1999. A portion of the proceeds were used to acquire the oil and gas properties and interest in Wyoming. During 2000, all but one of the remaining outstanding debentures were converted into common stock. At September 30, 2004, we owed \$344,720 in connection with the debentures consisting of \$50,000 for one debenture holder that we have been unable to contact, and the balance in penalties.

### Inflation

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

-14-

### 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. Words such as "may," "will," "expect," "anticipate," "continue," "estimate," "project," "intend" and similar expressions are intended as predictions 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 our products and services;
- o volatility of the stock market, particularly within the energy sector; and

-15-

- o general economic conditions.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements.

Item 3. Controls and Procedures

## Edgar Filing: TRANS ENERGY INC - Form 10QSB

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

Certain material pending legal proceedings to which we are a party or to which any of our property is subject is set forth below.

(a) 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.

(b) On January 15, 2003, a suit against us entitled Lario Oil & Gas Company vs. Trans Energy, Inc. (Civil Action No. 24575) was initiated in the Sixth District Court of Campbell County, Wyoming. Lario's suit asks for \$50,692.10 which it claims we owe for operating fees on the Sagebrush #1 and #2 and the Pinon Fee #1 wells, operated by Lario and in which we have working interests. We asked for a complete accounting of all monies owed. Lario retained our share of monthly oil production monies and applied them to the amount owed. On August 23, 2004, the court dismissed the action with prejudice.

#### Item 2. Changes In Securities and Use of Proceeds

This Item is not applicable.

#### 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 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 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, 2004, we owed \$344,720 in connection with the debentures consisting of \$50,000 to one debenture holder and \$294,720 in penalties.

## Edgar Filing: TRANS ENERGY INC - Form 10QSB

-16-

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

This Item is not applicable.

### Item 5. Other Information

On November 5, 2004, we finalized an agreement with Texas Energy Trust Company, a Delaware Business Trust with offices in Irving, Texas ("TETCO"), whereby we acquired from TETCO certain oil and gas leases and leasehold interests located in Wetzel and Marion Counties, West Virginia, and other assets. The parties had previously entered into a preliminary agreement on September 29, 2004.

The acquisition was accomplished by our wholly owned subsidiary, Prima Oil Company, Inc., acquiring from TETCO 100% of the issued and outstanding shares (2,100 shares) of Cobham Gas Industries, Inc., a Delaware corporation. Under the terms of the agreement, we are acquiring 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. A total of 229 wells are being acquired, of which 98 are currently producing, located on approximately 15,000 leased acres. Among the assets acquired are certain vehicles and heavy equipment and various other drilling equipment.

In consideration for the acquired property, we are paying a purchase price of \$1,975,058, of which approximately 25% is being paid in cash and the balance in shares of our restricted common stock. Of the total cash payment of \$489,264, an initial payment of \$250,000 was paid at the closing, with the remaining balance to be paid quarterly in equal installments of \$59,816 beginning January 1, 2005, with the final payment due October 1, 2005.

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

#### (a) 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. |

#### (b) Reports on Form 8-K

On October 5, 2004, we filed a current report on Form 8-K reporting under Section 8.01 the entering of a preliminary agreement to acquire assets from Texas Energy Trust Company.

On October 26, 2004, we filed a current report on Form 8-K reporting under Section 3.02 the issuance of shares of our common stock upon the conversion of debt.



-17-

E>

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, thereunto duly authorized.

TRANS ENERGY, INC.

Date: November 15, 2004

By /S/ ROBERT I. RICHARDS

-----  
ROBERT I. RICHARDS, President,  
Chief Executive Officer and Director

Date: November 15, 2004

By /S/ WILLIAM F. WOODBURN

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

-17-