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TRANS ENERGY INC  
Form 10QSB  
May 21, 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 March 31, 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  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 March 31, 2004
Common Stock, \$.001 par value	293,566,131

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PART I

Item 1. Financial Statements

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

TRANS ENERGY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

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March 31, 2004 and December 31, 2003

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TRANS ENERGY, INC. AND SUBSIDIARIES  
Consolidated Balance Sheets

	ASSETS	
	March 31, 2004	December 31, 2003
	----- (Unaudited)	----- (Restatd)
CURRENT ASSETS		
Cash	\$ 94,039	\$ 183
Accounts receivable, net (Note 1)	346,984	198,691
Other receivables	11,758	58,452
Prepaid expenses	990	990
	-----	-----
Total Current Assets	452,771	258,316
	-----	-----
PROPERTY AND EQUIPMENT (Note 2)		
Vehicles	67,257	77,118
Machinery and equipment	10,092	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	(4,229,911)	(4,021,605)
	-----	-----
Total Fixed Assets	664,694	1,029,473
	-----	-----
OTHER ASSETS		
Cash surrender value - life insurance (net)	5,086	5,086
	-----	-----
Total Other Assets	5,086	5,086
	-----	-----
TOTAL ASSETS	\$ 1,122,551	\$ 1,292,875
	=====	=====

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	March 31, 2004	December 31, 2003
	----- (Unaudited)	----- (Restated)
CURRENT LIABILITIES		
Bank overdraft	\$ --	\$ 49,120
Accounts payable - trade	995,983	786,191
Notes payable - convertible	--	36,325
Accrued expenses	1,092,783	954,749
Salaries payable	1,346,529	1,266,479
Notes payable - current portion	955,385	1,221,083
Judgments payable	498,397	500,397
Related party payables	1,341,684	1,271,681
Debentures payable	331,462	331,462
Environmental remediation	201,500	200,000
	-----	-----
Total Current Liabilities	6,763,723	6,617,487
	-----	-----
LONG-TERM LIABILITIES		
Notes payable	101,083	105,421
	-----	-----
Total Long-Term Liabilities	101,083	105,421
	-----	-----
Total Liabilities	6,864,806	6,722,908
	-----	-----
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
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; 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	(29,437,115)	(28,804,202)
	-----	-----
Total Stockholders' Equity (Deficit)	(5,742,255)	(5,430,033)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 1,122,551	\$ 1,292,875

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

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

	For the Three Months Ended March 31,	
	2004	2003
REVENUES	\$ 579,730	\$ 417,063
COSTS AND EXPENSES		
Cost of oil and gas	619,521	323,992
Salaries and wages	94,915	95,893
Depreciation, depletion and amortization	339,688	253,233
Selling, general and administrative	37,375	56,225
Total Costs and Expenses	1,091,499	729,343
LOSS FROM OPERATIONS	(511,769)	(312,280)
OTHER INCOME (EXPENSE)		
Gain on disposal of asset	175,910	112,235
Loss on sale of asset	--	(5,807)
Other income	--	773
Loss on extinguishment of debt	(246,836)	--
Interest expense	(50,218)	(102,196)
Total Other Income (Expense)	(121,144)	5,005
LOSS FROM OPERATIONS BEFORE INCOME TAXES AND MINORITY INTERESTS	(632,913)	(307,275)
INCOME TAXES	--	--
MINORITY INTERESTS	--	--
NET LOSS	\$ (632,913)	\$ (307,275)
BASIC LOSS PER SHARE	\$ (0.00)	\$ (0.00)

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WEIGHTED AVERAGE SHARES OUTSTANDING	290,541,538	239,308,016
	=====	=====

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

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### 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	--	--	3,190,395	3,190
Common stock issued for extinguishment of related party debt (unsecured)	--	--	21,365,297	21,365
Net loss for the three months ended March 31, 2002	--	--	--	--
	-----	-----	-----	-----
Balance, March 31, 2003	--	\$ --	293,566,131	\$ 293,565
	=====	=====	=====	=====

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

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

	For the Three March 2004 -----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$(632,913)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Depreciation, depletion and amortization	339,688
Net gain from sale of assets	(175,910)
Loss on extinguishment of debt	246,836
Accretion of environmental remediation costs	1,500
Changes in operating assets and liabilities:	
(Increase) in accounts receivable	(100,599)

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(Increase) in prepaid and other current assets	--
Increase in accounts payable and current liabilities	439,407
	-----
Net Cash Provided by Operating Activities	118,009
	-----
CASH FLOWS FROM INVESTING ACTIVITIES:	
Proceeds from sale of assets	201,000
Expenditures for property and equipment	--
	-----
Net Cash Provided by Investing Activities	201,000
	-----
CASH FLOWS FROM FINANCING ACTIVITIES:	
Change in bank overdraft	(49,120)
Payments on related party payables	(88,997)
Proceeds from related party notes	185,000
Proceeds from notes payable	--
Principal payments on notes payable	(272,036)
	-----
Net Cash Used by Financing Activities	(225,153)
	-----
NET INCREASE (DECREASE) IN CASH	93,856
CASH, BEGINNING OF PERIOD	183
	-----
CASH, END OF PERIOD	\$ 94,039
	=====

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

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

For the Three Months  
Ending  
March 31,  
2004

CASH PAID FOR:

Interest	\$ 4,918	\$ 5
Income taxes	\$ --	\$

NON-CASH FINANCING ACTIVITIES:

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Common stock issued for debt	\$ 47,866	\$ 1
Common stock issued for related party debt	\$ 26,000	\$

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### TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements March 31, 2004 and December 31, 2003

#### 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 three months ended March 31, 2004 and 2003 are not necessarily indicative of the results that may be expected for the year ending December 31, 2003.

#### 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 March 31, 2004 of \$29,380,428, and has a working capital deficit at March 31, 2004 of \$6,254,265. 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

Tioga Lumber Company

A foreign judgment has been filed with the Circuit Court in Pleasants County, West Virginia for a judgment against the Company by Tioga Lumber Company (Tioga) rendered by the Circuit Court in



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Pleasants County, West Virginia for non-payment of an accounts payable. The judgment is for \$46,375 plus prejudgment interest at 10.00%.

On February 28, 2002, the Company and Tioga reached an agreement wherein the Company would pay Tioga \$10,000 by March 5, 2002 and \$8,000 per month thereafter. The Company believes that it has satisfied the balance owed to Tioga, although the judgment has not yet been released. The Company is proceeding to secure the release of the judgment.

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TRANS ENERGY, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
March 31, 2004 and December 31, 2003

NOTE 3 - JUDGMENTS PAYABLE (Continued)

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 alleges that the Company sold certain assets that Mr. Spencer claims to be the beneficial owner. The complaint seeks \$1,000,000 in damages. The Company has filed its answer to the allegations and feels that the Company has met its obligations in full to Mr. Spencer. Management also believes the suit is without merit and intends to vigorously defend the action. The Company has not accrued any amounts for these claims as of March 31, 2004 because the Company feels that based on its defenses against the claims that the Company will have no additional liability. The Company has filed an answer to the complaint and the matter is still pending.

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. The Company has made several small payments to Mr. Forbus and is currently negotiating with him toward extending the payments until the judgment can be paid in full. Mr. Forbus has made a demand upon the Company for payment of the full obligation. The Company has accrued the balance of \$428,018 plus accrued interest. At March 31, 2004, the total amount including interest of \$487,672 is included in judgments payable and is classified as a current liability.

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 March 31, 2004 the Company had accrued a balance including interest of \$16,367 which is included in judgments payable.

RR Donnelly

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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 March 31, 2004, the Company has accrued a balance including interest of \$69,979 which is included in judgment payable as a current liability.

### Baker Hughes Entities

On February 7, 2001, the United States Bankruptcy Court, Southern District of Texas, entered an Order Granting Motion to Dismiss Chapter 7 Case in the action entitled In Re: Trans Energy, Inc., Case No. 00-39496-H4-7. The Order dismissed the involuntary bankruptcy action instituted against the Company on October 16,

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### TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements March 31, 2004 and December 31, 2003

#### NOTE 3 - JUDGMENTS PAYABLE (Continued)

##### Baker Hughes Entities (Continued)

2000. The sole petitioning creditor named in the Involuntary Petition was Western Atlas International, Inc. ("Western"). An Order for Relief Under Chapter 7 was entered by the Court on November 22, 2000.

On April 23, 2000, the 189th District Court of Harris County, Texas entered an Agreed Final Judgment in favor of Western against the Company in the amount of \$600,665, together with post judgment interest at 10% per annum. Following the judgment, Western and the Company entered into settlement negotiations concerning the Company's satisfaction of the judgment through payments over a four to five month period together with the pledge of collateral on certain unencumbered assets.

Previously, on or about July 9, 1998, a judgment had been entered in the 152nd District Court of Harris County, Texas against the Company in favor of Baker Hughes Oilfield Operations, Inc. d/b/a/ Baker Hughes Inteq. Western Geophysical ("Baker"), a division of Western Atlas International, Inc., in the amount of \$41,142, together with interest and attorney fees. This judgment was outstanding at the time of the filing of the Involuntary Petition.

During its negotiations with Western for settlement of the Judgment, the Company made a \$200,000 "good faith payment" to Western's counsel on October 23, 2000. On December 12, 2000, Joe Hill was named as the Chapter 7 Trustee. Subsequently, Western's counsel delivered the \$200,000 to the Trustee.

On January 19, 2001, the Company filed with the Bankruptcy Court the Motion to Dismiss Chapter 7 Case. The reasons cited by the Company in support of its Motion to Dismiss included, but were not limited to, (i) the Texas Court being an improper venue for the action, and (ii) the Company never receiving the Involuntary Petition and Summons notifying it of the action.

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In anticipation of the Bankruptcy Court dismissing the Involuntary Petition, on February 2, 2001, the Company entered into a Settlement Agreement with Baker Hughes Oilfield Operations, Inc. d/b/a/ Baker Hughes Inteq. Western Geophysical, a division of Western Atlas International, Inc. (the "Baker Entities"). In entering its order on February 7, 2001 to dismiss the action, the Court ordered the Trustee to retain \$17,695 for satisfaction of administrative fees and expenses, and to pay to Western and Baker the sum of \$182,737, on behalf of the Company and pursuant to the terms of the Settlement Agreement.

The Settlement Agreement provided that, subject to the approval of the Bankruptcy Court, the Company agreed to pay to the Baker Entities \$759,664, plus interest at 10%. In addition to the \$200,000 payable from the escrow, the Company agreed to pay to the Baker Entities an initial payment of \$117,261 within fifteen days from the date of the Dismissal Order (due February 21, 2001).

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TRANS ENERGY, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
March 31, 2004 and December 31, 2003

NOTE 3 - JUDGMENTS PAYABLE (Continued)

Baker Hughes Entities (Continued)

The Company also agreed to make additional payments of \$100,000 every thirty days following the initial payment, with the first payment due beginning no later than March 23, 2001, continuing until the total obligation plus interest is paid in full. Further, the Company pledged as collateral certain properties, personal property and fixtures and two directors each pledged 750,000 shares of the Company's common stock which they personally own.

During 2002, the Company assigned the income stream from the sale of oil from three of its wells (Pinon Fee #1, Sagebrush #1 and Sagebrush #2) to the Baker entities as payments towards the amounts owed. The Company believes that this payment will satisfy the Baker Entities until the Company has paid the full obligation. The Baker Entities continue its proceedings to enforce a foreign judgment against the Company in Pleasants County, West Virginia. At March 31, 2003, the Company has a remaining liability including interest of \$534,287 which is included in judgments payable as a current liability.

The Baker Entities continued their proceedings to enforce a foreign judgment against the Company in Pleasants County, West Virginia. Then on December 23, 2003, the Company and the Baker Entities entered into a Settlement Agreement and Mutual Release whereby the Company paid \$350,000 to the Baker Entities as payment in full for all monies owned and the Baker Entities gave the Company a release of all judgments and liens against it.

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 Pinon Fee #1, Sagebrush #1 and Sagebrush #2 wells, operated by Lario and

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in which the Company has working interests. The Company is preparing an answer to the complaint and is asking for a complete accounting of all monies owed. Lario is retaining a portion of the Company's share of the monthly oil production monies and applying them to the amount owed. At March 31, 2004, the Company has accrued \$47,584, which is included in accounts payable as a current liability.

O.C. Smith

On February 5, 2003, O.C. Smith obtained a judgment against the Company for \$6,000 as ordered by the Circuit Court of Ritchie County, West Virginia. Mr. Smith had brought suit against the Company, successor of Apple Corporation, for an accounting of all gas purchased by the Company as well as judgment for all amounts still owing. The Company had acquired all of Apple Corporation's interest in this gas and management determined that there was an unpaid balance still owing Mr. Smith. The \$6,000 is payable in three monthly installments beginning on April 25, 2003. At December 31, 2003, the Company had paid an amount of \$4,000 and included it in judgments payable and has classified it as a current liability at that date. During the three months ended March 31, 2004, the remaining balance was paid in full.

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TRANS ENERGY, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
March 31, 2004 and December 31, 2003

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:

NOTE 4 - BUSINESS SEGMENTS (Continued)

	For the Three Months Ended March 31, -----	Oil and Gas Sales -----	Pip Trans -----
Oil and gas revenue	2004	\$ 55,356	\$ 52
	2003	154,689	26
Operating income (loss) applicable to industry segment	2004	(514,239)	
	2003	(272,457)	(3)

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General corporate expenses not allocated to industry segments	2004	--	
	2003	--	
Interest expense	2004	(45,450)	(
	2003	(88,471)	(1
Other income (expenses)	2004	(115,836)	4
	2003	773	
Assets (net of intercompany accounts)	2004	541,559	58
	2003	--	
Depreciation and amortization	2004	320,967	1
	2003	227,145	2
Property and equipment Acquisitions (Deletions)	2004	(67,722)	(8
	2003	(240,000)	

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TRANS ENERGY, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
March 31, 2004 and December 31, 2003

NOTE 5 - SIGNIFICANT EVENTS

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 \$174,910 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.

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 extinguishments of \$16,452.

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.

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 properly reflect the ending balance of trade accounts receivable. As of December 31, 2003, the accounts receivable balance previously reported included amounts which 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

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net loss per share.

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### 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 month periods ended March 31, 2004 and 2003. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended March 31,	
	2004	2003
	----	----
	(Unaudited)	
Total revenues.....	100%	100%
Total costs and expenses.....	188	175
Loss from operations.....	88	75
Other income (expense).....	(21)	1
Net loss.....	(109)	74

Total revenues for the three months ("first quarter") ended March 31, 2004 increased 38% compared to the first quarter of 2003, due primarily to the increase in gas prices and volume. Our cost of oil and gas for the first quarter of 2004 increased 91% from the comparable 2003 periods, due to price increases.

Salaries and wages decreased 1% for the first quarter of 2004 compared to the 2003 period, and selling, general and administrative expenses decreased 34% in the first quarter of 2004, primarily due to a decrease in professional fees. Depreciation, depletion and amortization increased 34% in the first quarter of 2004 due to increased volume in gas transmissions.

Our loss from operations for the first quarter of 2004 was \$511,769 compared to \$312,280 for the first quarter of 2003. The increase in loss from operations for the first quarter is primarily attributed to the increased cost of oil and gas and increased depreciation, depletion and amortization. We realized total other expenses of \$121,144 during the first quarter of 2004 compared to total other income of \$5,005 for the first quarter of 2003. The first quarter of 2004 results were primarily due to the recognition of a loss on the extinguishment of debt of \$246,836. The increase in expenses was partially offset by the 51% decrease in interest expense due a reduction in debt.

As a percentage of total revenues, total costs and expenses increased from 175% in the first quarter of 2003 to 188% for the first quarter of 2004. This too is attributed to the increase in cost of oil and gas for the period.

Our net loss for the first quarter of 2004 was \$632,913 compared to \$307,275 for the first quarter of 2003.

For the remainder of fiscal year 2004, management expects selling, general and administrative expenses to remain at approximately the same rate as the first quarter 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 March 31, 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

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financial statements.

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### Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At March 31, 2004, we had a working capital deficit of \$6,310,952 compared to a deficit of \$6,359,171 at December 31, 2003. This 1% decrease in working capital deficit is primarily attributed to the sale of pipeline assets and reduction in current liabilities.

During the first quarter of 2004, operating activities provided net cash of \$118,009 compared to net cash provided of \$54,043 for the first quarter of 2003. These results are primarily attributed to increases in accounts receivable and the increased depletion rate of gas wells as well as the recognition of the loss on extinguishment of debt. Cash was used during the period due to the increased net loss and increased accounts receivable. Net cash provided by investing activities from proceeds from the sale of assets in the first quarter of 2004 was \$201,000, compared to \$240,000 in the 2003 period.

During the first quarter of 2004, we used net cash of \$225,153 from financing activities compared to \$300,622 in the first quarter of 2003. These results are attributed to principal payments made on notes payable during the 2004 period and were partially offset by \$185,000 realized in proceeds from notes payable.

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 terms.

As of March 31, 2004, we had total assets of \$1,122,551 and total stockholders' deficit of \$5,742,255, 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 March 31, 2004, we owed \$331,462 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.

### 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,"

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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.

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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
- 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

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 February 7, 2001, the United States Bankruptcy Court, Southern District of Texas, entered an Order Granting Motion to Dismiss Chapter 7 Case in the action entitled In Re: Trans Energy, Inc., Case No. 00-39496-H4-7. The Order dismissed the involuntary bankruptcy action instituted against us on October 16, 2000. The sole petitioning creditor named in the Involuntary Petition was Western Atlas International, Inc. An Order for Relief Under Chapter 7 was entered by the Court on November 22, 2000.

On April 23, 2000, the 189th District Court of Harris County, Texas



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entered an Agreed Final Judgment in favor of Western against us in the amount of \$600,665.36, together with post judgment interest at 10% per annum. Following the judgment, we entered into settlement negotiations with Western concerning our satisfaction of the judgment through payments over a four to five month period, together with the pledge of collateral on certain unencumbered assets. Previously, on or about July 9, 1998, a judgment had been entered in the 152nd District Court of Harris County, Texas against us in favor of Baker Hughes Oilfield

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Operations, Inc. d/b/a/ Baker Hughes Inteq. Western Geophysical ("Baker"), a division of Western Atlas International, Inc., in the amount of \$41,142.00, together with interest and attorney fees. This judgment was outstanding at the time of the filing of the Involuntary Petition.

During our negotiations with Western for settlement of the Judgment, we made a \$200,000 "good faith payment" to Western's counsel on October 23, 2000. On December 12, 2000, Joe Hill was named as the Chapter 7 Trustee. Subsequently, Western's counsel delivered the \$200,000 to the Trustee.

On January 19, 2001, we filed with the Bankruptcy Court the Motion to Dismiss Chapter 7 Case. The reasons cited in support of the Motion to Dismiss included, but were not limited to, (i) the Texas Court being an improper venue for the action, and (ii) we never receiving the Involuntary Petition and Summons notifying it of the action. In anticipation of the Bankruptcy Court dismissing the Involuntary Petition, on February 2, 2001, we entered into a Settlement Agreement with Baker Hughes Oilfield Operation, Inc., d/b/a/ Baker Hughes Inteq. Western Geophysical, a division of Western Atlas International, Inc. (the "Baker Entities"). In entering its order on February 7, 2001 to dismiss the action, the Court ordered the Trustee to retain \$17,694.80 for satisfaction of administrative fees and expenses, and to pay to Western and Baker the sum of \$182,736.66, on our behalf and pursuant to the terms of the Settlement Agreement.

The Settlement Agreement provided that, subject to the approval of the Bankruptcy Court, we agreed to pay to the Baker Entities \$759,664.31, plus interest at 10%. In addition to the \$200,000 payable from the escrow, we pledged as collateral certain properties, personal property and fixtures and two directors each pledged 750,000 shares of our common stock which they personally own. Subsequently, we assigned the income stream from the sale of oil in the Pinon Fee #1, Sagebrush #1 and Sagebrush #2 to the Baker Entities as payments toward the amounts owed.

The Baker Entities continue their proceedings to enforce a foreign judgment against us in Pleasants County, West Virginia. On December 23, 2003 we entered into a Settlement Agreement and Mutual Release with the Baker Entities whereby on January 5, 2004 we paid \$350,000 to the Baker Entities as payment in full for all monies owed and the Baker Entities gave us a release of all judgments and liens against us.

(b) 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.

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(c) On April 16, 2001, Ross Forbus obtained a judgment of \$428,018 against us to satisfy a promissory note previously entered into with Mr. Forbus on April 8, 1996. We agreed to payment terms and has made several payments to Mr. Forbus. Mr. Forbus has made a demand upon for payment in full.

(d) In January 2002, a suit entitled Dennis L. Spencer vs. Trans Energy, Inc. and Messrs. Woodburn and Bagley was filed in the Circuit Court of Ritchie County, West Virginia ( Civil Action No. 02-C-02). The complaint alleges that we sold certain assets which Mr. Spencer claims to be the beneficial owner. The complaint seeks \$1,000,000 in damages. We have filed an answer to the complaint and the matter is still pending.

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(e) 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 are preparing an answer to the complaint and are asking for a complete accounting of all monies owed. Lario is retaining our share of monthly oil production monies and applying them to the amount owed. As of December 31, 2003, the amount due was \$51,371.

(f) On February 5, 2003, O.C. Smith obtained a judgment against us for \$6,000 in the Circuit Court of Ritchie County, West Virginia. Mr. Smith had brought suit against our predecessor Apple Corporation, for an accounting of all gas purchased by us as well as judgment for all amounts still owing. We acquired all of Apple Corporation's interest in this well and management determined that there was an unpaid balance still owing Mr. Smith. The \$6,000 was payable in three monthly installments beginning on April 25, 2003. The final installment was paid on February 23, 2004 and we consider the judgment paid in full.

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

During the first quarter of 2004 we issued 3,190,396 shares of common stock for the conversion of convertible debt at an average of \$.02 per share, or an aggregate of \$64,308. Also in the first quarter of 2004, we issued 21,365,297 shares of common stock for the extinguishment of certain debts valued at \$256,383, or an average price of \$.012 per share.

Shares issued for extinguishment of debt were issued in reliance upon the exemption from registration under the Securities Act of 1933 provided by Section 4(2) thereunder. Shares issued for conversion of convertible debt were pursuant to the exemption provided by Section 3(a)(9) of said 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 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

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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 March 31, 2004, we owed \$331,462 in connection with the debentures consisting of \$50,000 to one debenture holder and \$281,462 in penalties.

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

This Item is not applicable.

Item 5. Other Information

This Item is not applicable.

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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 Sarbanses-Oxley Act of 2002.

Exhibit 31.2 Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanses-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

We filed a Current Report on Form 8-K on January 15, 2004 and an amended report on January 23, 2004, reporting under Items 2 and 5 the sale of certain working interests in five oil and gas wells and the use of a portion of the proceeds to settle an ongoing lawsuit.

We also filed a Form 8-K on March 31, 2004 reporting under Item 2 the sale by our wholly owned subsidiary, Tyler Construction Company, Inc., of 16,000 feet of 6-inch natural gas gathering pipeline located in Pleasants and Tyler Counties, West Virginia, and 30,096 feet of 4-inch pipeline located in Pleasants and Ritchie Counties, West Virginia.

### 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.

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TRANS ENERGY, INC.

Date: May 21, 2004

By /S/ ROBERT I. RICHARDS

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

Date: May 21, 2004

By /S/ WILLIAM F. WOODBURN

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

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