

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TRANS ENERGY INC
Form 10QSB
June 22, 2006

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, 2006

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

Indicate by check mark whether the registrant is a shell company (as defined by 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 March 31, 2006
----- Common Stock, \$.001 par value	----- 4,186,104

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Heading

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.....
Consolidated Balance Sheets - March 31, 2006 (Unaudited) and
December 31, 2005.....
Consolidated Statements of Operations - three months ended
March 31, 2006 and 2005 (Unaudited).....
Consolidated Statements of Stockholders' Equity (Deficit).....
Consolidated Statements of Cash Flows - three months ended
March 31, 2006 and 2005 (Unaudited).....
Notes to Unaudited Condensed Consolidated Financial Statements

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

PART I

Item 1. Financial Statements

The accompanying consolidated balance sheets of Trans Energy, Inc. at March 31, 2006 (unaudited) and December 31, 2005, related unaudited consolidated statements of operations, stockholders' equity (deficit) and consolidate statements of cash flows for the three months ended March 31, 2006 and 2005, 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, 2006, are not necessarily indicative of the results that can be expected for the fiscal year ending December 31, 2006.

TRANS ENERGY, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2006 and December 31, 2005

-1-

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

ASSETS

	March 31, 2006 ----- (Unaudited)	December 31, 2005 -----
CURRENT ASSETS		
Cash	\$ 444,672	\$ 439,258
Accounts receivable, net	1,227,151	1,396,696
Prepaid expenses	11,745	9,617
	-----	-----
Total Current Assets	1,683,568	1,845,571
	-----	-----
PROPERTY AND EQUIPMENT, NET	2,039,211	2,160,256
	-----	-----
OTHER ASSETS		
Assets of discontinued operations	--	6,672,688
Deposits	1,223	4,914
Investments	175,000	175,000
Life insurance, cash surrender value	75,995	75,995
	-----	-----
Total Other Assets	252,218	6,928,597
	-----	-----

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TOTAL ASSETS	\$ 3,974,997	\$10,934,424
	=====	=====

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

-2-

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	March 31, 2006	December 31, 2005
	-----	-----
	(Unaudited)	
CURRENT LIABILITIES		
Accounts payable - trade	\$ 2,482,964	\$ 2,355,429
Related party payables (Note 6)	788,848	855,502
Accrued expenses	879,034	860,368
Judgments payable (Note 3)	77,767	77,767
Debentures payable	50,000	50,000
Notes payable - current portion	659,205	659,205
	-----	-----
Total Current Liabilities	4,937,818	4,858,271
	-----	-----
LONG-TERM LIABILITIES		
Notes payable	60,543	6,872
Liabilities of discontinued operations	--	4,772,812
Asset retirement obligation	803,939	799,393
	-----	-----
Total Long-Term Liabilities	864,482	5,579,077
	-----	-----
Total Liabilities	5,802,300	10,437,348
	-----	-----
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; 4,952,148 shares issued and 4,186,104 and 4,707,515 shares outstanding, respectively	4,952	4,952
Capital in excess of par value	30,856,798	30,856,798

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Treasury stock	(755,737)	(286,467)
Accumulated deficit	(31,933,316)	(30,078,207)
	-----	-----
Total Stockholders' Equity (Deficit)	(1,827,303)	497,076
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 3,974,997	\$ 10,934,424
	=====	=====

-3-

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

	For the Three Months Ended March 31,	
	2006	2005
	-----	-----
REVENUES	\$ 1,712,307	\$ 752,220
	-----	-----
COSTS AND EXPENSES		
Cost of oil and gas	1,520,392	624,248
Salaries and wages	81,658	67,900
Depreciation, depletion, amortization and accretion	139,750	103,856
Selling, general and administrative	111,940	107,279
	-----	-----
Total Costs and Expenses	1,853,740	903,283
	-----	-----
INCOME (LOSS) FROM OPERATIONS	(141,433)	(151,063)
	-----	-----
OTHER INCOME (EXPENSE)		
Gain on disposal of asset	--	2,355
Loss on sale of asset	--	(14,894)
Gain on settlement of debt	--	2,306
Interest expense	(31,370)	(27,175)
	-----	-----
Total Other Income (Expense)	(31,370)	(37,408)
	-----	-----
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(172,803)	(188,471)
	-----	-----
INCOME TAXES	--	--
	-----	-----

Edgar Filing: TRANS ENERGY INC - Form 10QSB

NET LOSS BEFORE DISCONTINUED OPERATIONS	(172,803)	(188,471)
GAIN FROM DISCONTINUED OPERATIONS	183,776	121,983
LOSS ON DISPOSAL OF DISCONTINUED OPERATIONS	(1,866,082)	--
	-----	-----
NET LOSS	\$ (1,855,109)	\$ (66,488)
	=====	=====
BASIC (LOSS) GAIN PER SHARE		
Continuing Operations	\$ (0.04)	\$ (0.04)
Discontinued Operations	(0.40)	0.03
	-----	-----
	\$ (0.44)	\$ (0.01)
	=====	=====
WEIGHTED AVERAGE SHARES OUTSTANDING	4,707,515	4,381,090
	=====	=====

-4-

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

	Preferred Stock		Common Stock		Capit Exce Accum Par
	Shares	Amount	Treasury Shares	Amount	
Balance, December 31, 2005	--	\$ --	4,952,148	\$ 4,952	\$ 30,8
Shares received for discontinued operations on March 31, 2006 (unaudited)	--	--	--	--	
Net loss for the three months ended March 31, 2006 (unaudited)	--	--	--	--	
	-----	-----	-----	-----	-----
Balance, March 31, 2006 (unaudited)	--	\$ --	4,952,148	\$ 4,952	\$ 30,8
	=====	=====	=====	=====	=====

Edgar Filing: TRANS ENERGY INC - Form 10QSB

-5-

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

	For the Three Months Ended March 31,	
	2006	2005
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,855,109)	\$ (66,488)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	139,750	305,892
Net gain from sale of assets	--	(2,355)
(Gain) loss on extinguishment of debt	--	(2,306)
Discontinued operations	1,430,606	--
Changes in operating assets and liabilities:		
Decrease (Increase) in accounts receivable	169,545	(26,834)
(Increase) in prepaid expenses	(2,128)	(83,908)
(Increase) in other assets	3,691	(41,365)
(Decrease) increase in accounts payable and current liabilities	127,535	(229,610)
Increase (Decrease) in accrued expenses	23,212	(48,579)
	-----	-----
Net Cash Provided (Used) by Operating Activities	37,102	(195,553)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	--	1,260
Cash acquired from subsidiary	--	408,333
Expenditures for property and equipment	(18,705)	(198,443)
	-----	-----
Net Cash Provided (Used) by Investing Activities	(18,705)	211,150
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable	14,540	--
Payments on related party payables	(5,431)	(6,640)
Proceeds from related party notes	--	168,328
Principal payments on notes payable	(22,092)	(92,743)
	-----	-----
Net Cash Provided (Used) by Financing Activities	(12,983)	68,945
	-----	-----

Edgar Filing: TRANS ENERGY INC - Form 10QSB

NET INCREASE IN CASH	5,414	84,542
CASH, BEGINNING OF PERIOD	439,258	79,662
	-----	-----
CASH, END OF PERIOD	\$ 444,672	\$ 164,204
	=====	=====

-6-

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

	For the Three Months Ended March 31,	
	2006	2005
	-----	-----
CASH PAID FOR:		
Interest	\$ 18,915	\$ --
Income taxes	\$ --	\$ --
NON-CASH FINANCING ACTIVITIES:		
Common stock issued for debt relief	\$ --	\$ 50,000
Common stock issued for services to be rendered	\$ --	\$ 92,500
Common stock issued for the net assets over liabilities in the purchase of Arvilla Inc. and subsidiary	\$ --	\$ 2,370,048
	-----	-----

-7-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Unaudited Condensed Consolidated Financial Statements
March 31, 2006 and December 31, 2005

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

Edgar Filing: TRANS ENERGY INC - Form 10QSB

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, 2005 Annual Report on Form 10-KSB. Operating results for the three months ended March 31, 2006 is not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

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, 2006 of \$ 31,933,316, and has a working capital deficit at March 31, 2006 of \$3,254,250. 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, sale of drilling programs, and other contemplated debt and equity financing, and increases in operating revenues from new development and business acquisitions 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. The Company's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 - CONTINGENCIES AND COMMITMENTS

On July 28, 1999 Core Laboratories, Inc. obtained a judgment against us 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, 2006 we had accrued a balance including interest of \$14,062 as a current liability. We are currently in default on this judgment.

On July 1, 1998, RR Donnelly 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 March 31, 2006, we had accrued a balance including interest of \$63,705 as a current liability. We are currently in default on this judgment.

-8-

NOTE 3 - CONTINGENCIES AND COMMITMENTS (continued)

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

Edgar Filing: TRANS ENERGY INC - Form 10QSB

financial position or results of operations.

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 Three Months Ended March 31, -----	Oil and Gas Sales -----	Pipeline Transmission -----	Well Servicing ----- (Discontinue
Oil and gas revenue	2006	\$ 324,075	\$ 1,388,232	\$ --
	2005	227,621	524,312	1,798,607
Operating income (loss) applicable to industry segment	2006	(117,160)	(24,273)	--
	2005	(216,811)	(11,201)	183,755
General corporate expenses not allocated to industry segments	2006	--	--	--
	2005	--	--	--
Interest expense	2006	(31,003)	(367)	--
	2005	(18,867)	(8,198)	(47,021)
Other income (expenses)	2006	--	--	--
	2005	(12,601)	(1,120)	3,488
Assets (net of intercompany accounts)	2006	2,516,498	1,458,499	--
	2005	3,485,768	551,992	7,662,130

-9-

NOTE 4 - BUSINESS SEGMENTS (continued)

Depreciation and amortization	2006	136,490	3,260	--
	2005	85,415	18,441	202,036

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Property and equipment				
Acquisitions (Deletions)	2006	18,705	--	--
	2005	(14,286)	--	575,936

NOTE 5 - SIGNIFICANT EVENTS

Sale of Arvilla

Effective March 31, 2006, we finalized the agreement to sell our well servicing and maintenance business in exchange for shares of Trans Energy common stock, certain natural gas properties and other considerations, which agreement was initially entered into on January 3, 2006. Part of the reason for the sale was the inability of our board of directors to agree on the direction of Trans Energy with Arvilla as a significant subsidiary. Under the terms of the definitive agreement, our wholly owned subsidiary, Arvilla, Inc. sold to Clarence E. Smith and Rebecca L. Smith, both directors of Trans Energy, 100% of the outstanding membership interests of Arvilla Oilfield Services, LLC, a West Virginia limited liability company ("AOS").

AOS provides well servicing, workover and related transportation services to independent oil and natural gas producers in the northeast region of the 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 during the drilling and completion of new wells. AOS offers its services in Ohio, Pennsylvania, New York, Virginia, Kentucky and West Virginia and also owns a fleet of well service equipment.

We originally acquired AOS from Clarence and Rebecca Smith on January 31, 2005 through a merger of our subsidiary, Trans Energy Acquisitions, with and into Arvilla, Inc., with Arvilla being the surviving entity. As consideration, we issued 1,185,024 shares of our common stock, of which 1,042,821 shares were issued to the Smiths, both of whom became directors of Trans Energy following the acquisition. AOS's operations were previously conducted as Arrow Oilfield Service Company, a division of Belden & Blake Corporation, a privately held company engaged in the exploration, development and production of oil and natural gas. In June 2004, the Smiths acquired Arrow Oilfield Services from Belden & Blake and created Arvilla Oilfield Services, LLC as the operating entity. Subsequently, the Smiths created Arvilla, Inc. that acquired all the membership interests of Arvilla Oilfield Services in order to facilitate its acquisition by Trans Energy.

-10-

NOTE 5 - SIGNIFICANT EVENTS (Continued)

Sale of Arvilla (Continued)

As a result of consummating the definitive agreement, Clarence and Rebecca Smith returned to us 521,411 shares of their Trans Energy common stock. The Smiths have also conveyed to Trans Energy all of their interest in and to five oil and gas wells located in

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Tyler County, West Virginia. Assignments for the wells originally was to be held in escrow pending satisfaction by Trans Energy of two promissory notes in the aggregate amount of \$763,000 payable to AOS and to Arvilla Pipeline Construction Co., Inc., a separate entity owned by Clarence and Rebecca Smith. However, pursuant to the First Amendment to Definitive Agreement, the parties agreed that the wells would be transferred at the closing and we agreed to pay AOS \$176,239 on or before April 30, 2006, and pay Arvilla Pipeline \$115,000 on or before April 30, 2006. To secure these payments by Trans Energy, Clarence and Rebecca Smith will hold a lien on a certain Lyon Leasehold Deed of Trust until the debt is satisfied.

An additional term of the definitive agreement provided that each of Clarence and Rebecca Smith received bonuses equal to approximately \$85,000. A further condition of the closing included the written consent for the sale of AOS from certain banks and lenders having the right to call a loan on the ownership transfer of AOS.

Upon execution of the definitive agreement, Clarence Smith resigned as our Chief Executive Officer, but remained on our board of directors until the closing. At the closing, both Clarence and Rebecca Smith resigned as directors of Trans Energy and Arvilla, Inc. Clarence and Rebecca Smith have also agreed not to sell an amount of their remaining Trans Energy common stock during each calendar quarter on or after March 22, 2006, in an aggregate amount greater than (i) 50,000 shares (adjusted for stock splits or stock dividends; or (ii) one percent of the total outstanding shares of Trans Energy common stock on the date of any such sale.

Finally, the closing of the transaction was expressly conditioned on the receipt of a fairness opinion from a qualified independent party stating that the transactions contemplated by the definitive agreement are fair to Trans Energy and our stockholders. That opinion was issued and delivered to Trans Energy on March 31, 2006.

Sale of Wyoming Wells and Properties

In April 2006, we finalized a definitive Agreement for Sale of Oil and Gas Properties related to the sale of certain wells, overriding royalties and undeveloped acreage located in Campbell County, Wyoming. The assets have been sold at public auction through the Oil & Gas Asset Clearinghouse in Houston, Texas. The gross sales price for the properties is \$1,003,000, which is expected to be paid to us when the sales close on or about May 12, 2006.

The wells sold by us, all located in Campbell County, Wyoming, include the Pinion Fee #1, Sagebrush Federal #1, Sagebrush Federal #2, Sagebrush Federal #3 (injector), Boley #31-36 Sandbar, State #1-36 Sandbar and State #2-36 Sandbar. Also included in the sales were overriding royalties on two wells (Sagebrush Federal #1, Sagebrush Federal #2) and Tract TR4-B, and 2,530 undeveloped acres, also located in Campbell County.

-11-

Edgar Filing: TRANS ENERGY INC - Form 10QSB

March 31, 2006 and December 31, 2005

NOTE 6 - 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.

NOTE 7 - EQUITY

The Company has adopted the disclosure-only provisions of Statement of Financial Standards (SFAS) No. 123, Accounting for Stock-Based Compensation. Accordingly, no compensation cost has been recognized in the financial statements for employees, except when the exercise price is below the market price of the stock on the date of grant. Had compensation cost for our stock option plans been determined based on the fair value at the grant date for awards in fiscal year 2006 and 2005 consistent with the provisions of SFAS No. 123, our approximate net loss and loss per share would have been the pro forma amounts indicated below:

	For the Three Months Ended March 31,	
	2006	2005
Net loss:		
As reported	\$ (1,855,109)	\$ (66,488)
Addback:		
Stock-based employee compensation expense determined under intrinsic value based method for all awards, net of related tax effects	--	--
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	--	(837,416)
Pro forma	\$ (1,855,109)	\$ (903,904)
	=====	=====
Basic loss per share:		
As reported	\$ (0.44)	\$ (0.01)
Pro forma	\$ (0.44)	\$ (0.19)

NOTE 7 - EQUITY (continued)

Stock Warrants - A summary of the status of the warrants granted under various agreements at March 31, 2006 and 2005, and changes during the years then ended is presented below:

	March 31, 2006		March 31, 2005	
	Weighted Average Shares	Exercise Price	Weighted Average Shares	Exercise Price
Outstanding at beginning of period	553,324	\$ 1.95	--	--
Granted	--	--	553,324	\$ 1.95
Exercised	--	--	--	--
Forfeited	--	--	--	--
Expired	--	--	--	--
Outstanding at end of Period	553,324	\$ 1.95	553,324	\$ 1.95
Weighted average fair value of options granted during the year	--	\$ --	553,324	\$ 1.95
Weighted average fair value of options granted during the year	--	\$ --	553,324	\$ 1.95

Range of Exercise Prices	Number Outstanding	Options Outstanding		Options Exercisable	
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Weighted-Average Number	Exercisable
\$1.95	553,324	8.75 years	\$ 1.95	553,324	
	553,324			553,324	

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

Recent Developments

Sale of Arvilla

On April 7, 2006, we finalized the agreement to sell our well servicing and maintenance business in exchange for shares of Trans Energy common stock, certain natural gas properties and other considerations, which agreement was initially entered into on January 3, 2006. Part of the reason for the sale was the inability of our board of directors to agree on the direction of Trans Energy with Arvilla as a significant subsidiary. Under the terms of the definitive agreement, our wholly owned subsidiary, Arvilla, Inc. was sold to Clarence E. Smith and Rebecca L. Smith, both directors of Trans Energy, including 100% of the outstanding membership interests of Arvilla Oilfield Services, LLC, a West Virginia limited liability company ("AOS").

AOS provides well servicing, workover and related transportation services to independent oil and natural gas producers in the northeast region of the 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 during the drilling and completion of new wells. AOS offers its services in Ohio, Pennsylvania, New York, Virginia, Kentucky and West Virginia and also owns a fleet of well service equipment.

We originally acquired AOS from Clarence and Rebecca Smith on January 31, 2005 through a merger of our subsidiary, Trans Energy Acquisitions, with and into Arvilla, Inc., with Arvilla being the surviving entity. As consideration, we issued 1,185,024 shares of our common stock, of which 1,042,821 shares were issued to the Smiths, both of whom became directors of Trans Energy following the acquisition. AOS's operations were previously conducted as Arrow Oilfield Service Company, a division of Belden & Blake Corporation, a privately held company engaged in the exploration, development and production of oil and natural gas. In June 2004, the Smiths acquired Arrow Oilfield Services from Belden & Blake and created Arvilla Oilfield Services, LLC as the operating entity. Subsequently, the Smiths created Arvilla, Inc. that acquired all the membership interests of Arvilla Oilfield Services in order to facilitate its acquisition by Trans Energy.

As a result of consummating the definitive agreement, Clarence and Rebecca Smith returned to us 521,411 shares of their Trans Energy common stock. The Smiths have also conveyed to Trans Energy all of their interest in and to five oil and gas wells located in Tyler County, West Virginia. Assignments for the wells originally was to be held in escrow pending satisfaction by Trans Energy of two promissory notes in the aggregate amount of \$763,000 payable to AOS and to Arvilla Pipeline Construction Co., Inc., a separate entity owned by Clarence and Rebecca Smith. However, pursuant to the First Amendment to Definitive Agreement, the parties agreed that the wells would be transferred at the closing and we agreed to pay AOS \$176,239 on or before April 30, 2006, and pay Arvilla Pipeline \$115,000 on or before April 30, 2006. To secure these payments by Trans Energy, Clarence and Rebecca Smith will hold a lien on a certain Lyon Leasehold Deed of Trust until the debt is satisfied. These notes have been paid and the lien released.

An additional term of the definitive agreement provided that each of Clarence and Rebecca Smith received bonuses equal to approximately \$85,000. A

Edgar Filing: TRANS ENERGY INC - Form 10QSB

further condition of the closing included the written consent for the sale of AOS from certain banks and lenders having the right to call a loan on the ownership transfer of AOS.

Upon execution of the definitive agreement, Clarence Smith resigned as our Chief Executive Officer, but remained on our board of directors until the closing. At the closing, both Clarence and Rebecca Smith resigned as directors of Trans Energy and Arvilla, Inc. Clarence and Rebecca Smith have also agreed not to sell an amount of their remaining Trans Energy common stock during each calendar quarter on or after March 22, 2006, in an aggregate amount greater than (i) 50,000 shares (adjusted for stock splits or stock dividends; or (ii) one percent of the total outstanding shares of Trans Energy common stock on the date of any such sale.

-14-

Finally, the closing of the transaction was expressly conditioned on the receipt of a fairness opinion from a qualified independent party stating that the transactions contemplated by the definitive agreement are fair to Trans Energy and our stockholders. That opinion was issued and delivered to Trans Energy on March 31, 2006.

Sale of Wyoming Wells and Properties

In April 2006, we finalized a definitive Agreement for Sale of Oil and Gas Properties related to the sale of certain wells, overriding royalties and undeveloped acreage located in Campbell County, Wyoming. The assets have been sold at public auction through the Oil & Gas Asset Clearinghouse in Houston, Texas. The gross sales price for the properties is \$1,003,000

The wells sold by us, all located in Campbell County, Wyoming, include the Pinion Fee #1, Sagebrush Federal #1, Sagebrush Federal #2, Sagebrush Federal #3 (injector), Boley #31-36 Sandbar, State #1-36 Sandbar and State #2-36 Sandbar. Also included in the sales were overriding royalties on two wells (Sagebrush Federal #1 and Sagebrush Federal #2) and Tract TR4-B, and 2,530 undeveloped acres, also located in Campbell County.

Results of Operations

The following table sets forth the percentage relationship to total revenues of principal items contained in our consolidated statements of operations for the three month periods ended March 31, 2006 and 2005. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended March 31,	
	2006	2005
	-----	-----
(Unaudited)		
Total revenues.....	100 %	100 %
Total costs and expenses.....	108	120
Loss from operations.....	(8)	(20)
Other income (expense).....	(2)	(5)
Discontinued operations.....	(98)	16
Net loss.....	(108)	(9)

Total revenues from continuing operations for the three months ("first quarter") ended March 31, 2006 increased 128% compared to the first quarter of

Edgar Filing: TRANS ENERGY INC - Form 10QSB

2005, primarily due to the increase in energy prices and the gas distribution contracts the Company entered into in the summer of 2005. Our cost of oil and gas for the first quarter of 2006 also increased by \$896,144 or 144% from the comparable 2005 period, because of the gas purchased to fulfill our distribution contracts.

Salaries and wages increased 20% for the first quarter of 2006 compared to the 2005 period, due to raises given to our management employees. Depreciation, depletion and amortization and accretion expense increased 35% due to an impairment of mineral properties recorded in the first quarter of 2006 of \$40,697. Selling, general and administrative expenses increased \$4,661 or 4% in the first quarter of 2006 from the first quarter of 2005 due to raises given to management.

Our loss from operations for the first quarter of 2006 was \$141,433 compared to a loss of \$151,063 for the first quarter of 2005. The improvement is related to the increase in oil and gas prices. We realized total other expenses of \$31,370 during the first quarter of 2006 compared to total other expenses of \$37,408 for the first quarter of 2005. The first quarter of 2006 results were due to interest expense of \$31,370.

-15-

We recorded a loss of \$1,682,306 on the disposition of Arvilla in the first quarter of 2006. Our statement of operations for the first quarter of 2005 was restated to reflect the operations of Arvilla as discontinued.

Our net loss for the first quarter of 2006 was \$1,855,109 compared to \$66,488 for the first quarter of 2005.

For the remainder of fiscal year 2006, management expects selling, general and administrative expenses to remain at approximately the same rate as the first quarter of 2006. 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 2006.

Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At March 31, 2006, we had a working capital deficit of \$3,254,250 compared to a deficit of \$3,012,700 at December 31, 2005. This 8% increase in working capital deficit is primarily attributed to the net loss in the first quarter of 2006.

During the first quarter of 2006, operating activities provided net cash of \$37,102 compared to net cash used of \$195,553 for the first quarter of 2005. These results are primarily attributed to the reduction in accounts receivable and an increase in current liabilities.

Net cash used by investing activities for the first quarter of 2006 was \$18,705 for the purchase of well equipment, compared to \$211,150 provided primarily from the acquisition of a subsidiary during the first quarter of 2005.

During the first quarter of 2006, we used net cash in financing activities of \$12,983 in the repayment of notes payable compared to net cash provided by notes payable of \$68,945 in the first quarter of 2005. Our cash was used to repay related and unrelated notes payable.

We anticipate meeting our working capital needs during the remainder of the current fiscal year with revenues from our ongoing operations, particularly from our wells in Wetzel County, West Virginia and new third party natural gas wells

Edgar Filing: TRANS ENERGY INC - Form 10QSB

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 March 31, 2006, we had total assets of \$3,974,997 and total stockholders' deficit of \$1,827,303, compared to total assets of \$10,934,424 and total stockholders' equity of \$497,076 at December 31, 2005. The decrease was due to the disposition of Arvilla.

Because we have incurred significant cumulative operating losses through March 31, 2006 and have a working capital deficit at March 31, 2006 of \$3,254,250, there exists substantial doubt about our ability to continue as a going concern. Historically, our revenues have not been sufficient to cover operating costs. However, 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 included a footnote to our financial statements for the period ended December 31, 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.

-16-

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:

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

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:

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

-17-

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.

On July 28, 1999 Core Laboratories, Inc. obtained a judgment against us for non-payment of an accounts payable. The judgment calls for monthly payments of \$351 and is bearing interest at 10% per annum. At March 31, 2006 we had accrued a balance including interest of \$20,330 as a current liability. We are currently in default on this judgment.

On July 1, 1998, RR Donnelly 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% per annum. At March 31, 2006, we had accrued a balance including interest of \$91,857 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

None.

Item 3. Defaults Upon Senior Securities

Edgar Filing: TRANS ENERGY INC - Form 10QSB

None.

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

No matters were submitted to a vote of our securities holders during the first quarter ended March 31, 2006.

Item 5. Other Information

The following reports were filed with the SEC on Form 8-K during the three month period ended March 31, 2006.

January 9, 2006 - reporting under Item 101 that Trans Energy has entered into an agreement to sell certain assets, including Arvilla Oilfield Services, LLC held by Arvilla, Inc., our wholly owned subsidiary, and reporting under Item 502 the resignation of our Chief Executive Officer, Clarence E. Smith, and the appointment of James K. Abcouwer as our new President and Chief Executive Officer

April 13, 2006 - reporting under Item 2.01 the completion of the sale of Arvilla, Inc. and reporting under Item 502 the resignations of two directors, Clarence E. Smith and Rebecca L. Smith.

April 27, 2006 - reporting under Item 1.01 the sale of certain wells and properties located in Campbell County Wyoming.

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.

-18-

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.

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: June 21, 2006

By /S/ JAMES K. ABCOUWER

JAMES K. ABCOUWER
Chief Executive Officer and Director

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Date: June 21, 2006

By /s/ WILLIAM F. WOODBURN

WILLIAM F. WOODBURN
Chief Operating Officer,
Secretary / Treasurer and Director
(Principal Accounting Officer)

-19-