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TRANS ENERGY INC
Form 10QSB
June 21, 2005

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

FORM 10-QSB

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

For the Quarter Ended March 31, 2005

OR

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

For the transition period from to

Commission File Number 0-23530

TRANS ENERGY, INC.

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

Nevada

93-0997412

(State or other jurisdiction of
incorporation or organization)

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

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

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, 2005 |
|---|----------------------------------|
| ----- Common Stock, \$.001 par value | ----- 4,815,098 |

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PART I

Item 1. Financial Statements

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

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TRANS ENERGY, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005 and December 31, 2004

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

ASSETS

| | March 31, 2005 | December 31, 2004 |
|--------------------------------------|-------------------|----------------------|
| | ----- | ----- |
| | (Unaudited) | |
| CURRENT ASSETS | | |
| Cash | \$ 164,204 | \$ 79,662 |
| Accounts receivable, net | 1,811,473 | 653,917 |
| Other receivables | 53,420 | 8,825 |
| Prepaid expenses | 85,131 | 1,223 |
| | ----- | ----- |
| Total Current Assets | 2,114,228 | 743,627 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT, NET | 8,665,050 | 3,372,599 |
| | ----- | ----- |
| OTHER ASSETS | | |
| Bonds | 50,159 | 50,159 |
| Prepaid loan costs | 19,810 | -- |
| Deposits | 16,268 | 1,400 |
| Customer lists | 766,649 | -- |
| Life insurance, cash surrender value | 67,726 | 66,326 |
| | ----- | ----- |
| Total Other Assets | 920,612 | 117,885 |
| | ----- | ----- |
| TOTAL ASSETS | \$11,699,890 | \$ 4,234,111 |
| | ===== | ===== |

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

| | March 31, 2005 | December 31, 2004 |
|---|----------------------|----------------------|
| | ----- (Unaudited) | ----- |
| CURRENT LIABILITIES | | |
| Accounts payable - trade | \$ 1,506,521 | \$ 1,277,375 |
| Related party payables (Note 6) | 989,377 | 719,199 |
| Accrued expenses | 986,254 | 844,858 |
| Judgments payable (Note 3) | 70,379 | 70,379 |
| Debentures payable | 50,000 | 50,000 |
| Notes payable - current portion | 611,795 | 762,247 |
| | ----- | ----- |
| Total Current Liabilities | 4,214,326 | 3,724,058 |
| | ----- | ----- |
| LONG-TERM LIABILITIES | | |
| Notes payable | 4,555,876 | 108,190 |
| Asset retirement obligation | 1,749,315 | 1,571,749 |
| | ----- | ----- |
| Total Long-Term Liabilities | 6,305,191 | 1,679,939 |
| | ----- | ----- |
| Total Liabilities | 10,519,517 | 5,403,997 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY (DEFICIT) (Note 7 and 8) | | |
| 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; 4,815,098 and 3,555,074 shares issued and outstanding, respectively | 4,815 | 3,555 |
| Capital in excess of par value | 30,365,935 | 27,854,647 |
| Comprehensive Income | (3,301) | -- |
| Deferred expenses | (92,500) | -- |
| Accumulated deficit | (29,094,576) | (29,028,088) |
| | ----- | ----- |
| Total Stockholders' Equity (Deficit) | 1,180,373 | (1,169,886) |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 11,699,890 | \$ 4,234,111 |
| | ===== | ===== |

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

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

| | For the Three Months Ended March 31, | |
|---|---|--------------|
| | 2005 | 2004 |
| | ----- | ----- |
| REVENUES | \$ 2,550,540 | \$ 579,730 |
| | ----- | ----- |
| COSTS AND EXPENSES | | |
| Cost of sales and oil and gas | 1,714,950 | 619,521 |
| Salaries and wages | 67,900 | 94,915 |
| Depreciation, depletion, amortization and accretion | 305,892 | 341,188 |
| Selling, general and administrative | 443,967 | 35,875 |
| | ----- | ----- |
| Total Costs and Expenses | 2,532,709 | 1,091,499 |
| | ----- | ----- |
| INCOME (LOSS) FROM OPERATIONS | 17,831 | (511,769) |
| | ----- | ----- |
| OTHER INCOME (EXPENSE) | | |
| Gain on disposal of asset | 2,355 | 175,910 |
| Loss on sale of asset | (14,894) | -- |
| Gain on settlement of debt | 2,306 | (246,836) |
| Interest expense | (74,086) | (50,218) |
| | ----- | ----- |
| Total Other Income (Expense) | (84,319) | (121,144) |
| | ----- | ----- |
| LOSS FROM OPERATIONS BEFORE INCOME TAXES | (66,488) | (632,913) |
| INCOME TAXES | -- | -- |
| | ----- | ----- |
| NET LOSS | \$ (66,488) | \$ (632,913) |
| OTHER COMPREHENSIVE LOSS | | |
| Changes due to hedging activities | (3,301) | -- |
| | ----- | ----- |
| NET COMPREHENSIVE LOSS | \$ (69,789) | \$ (632,913) |
| | ===== | ===== |

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| | | |
|-------------------------------------|-----------|-----------|
| BASIC LOSS PER SHARE | \$ (0.02) | \$ (0.33) |
| | ===== | ===== |
| WEIGHTED AVERAGE SHARES OUTSTANDING | 4,381,090 | 1,936,944 |
| | ===== | ===== |

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

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

| | Preferred Stock | | Common Stock | | Capital Excess Par |
|---|-----------------|--------|-------------------------|-----------------------|--------------------------|
| | Shares | Amount | Comprehensive Shares | Accumulated Amount | |
| Balance, December 31, 2004 (Restated) | -- | \$ -- | 3,555,074 | \$ 3,555 | \$ 27,8 |
| Common stock issued for services to be rendered (unaudited) | -- | -- | 50,000 | 50 | |
| Common stock issued for the conversion of debt (unaudited) | -- | -- | 25,000 | 25 | |
| Common stock issued for purchase of Arvilla (unaudited) | -- | -- | 1,185,024 | 1,185 | 2,3 |
| Changes due to hedging activities | -- | -- | -- | -- | |
| Net loss for the three months ended March 31, 2005 (unaudited) | -- | -- | -- | -- | |
| Balance, March 31, 2005 (unaudited) | -- | \$ -- | 4,815,098 | \$ 4,815 | \$ 30,3 |

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

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

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| | For the Three Months Ended March 31, | |
|---|---|--------------|
| | 2005 | 2004 |
| | ----- | ----- |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (66,488) | \$ (632,913) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Depreciation, depletion, amortization and accretion | 305,892 | 341,188 |
| Net gain from sale of assets | (2,355) | (175,910) |
| (Gain) loss on extinguishment of debt | (2,306) | 246,836 |
| Changes in operating assets and liabilities: | | |
| (Increase) in accounts receivable | (26,834) | (100,599) |
| (Increase) in prepaids | (83,908) | -- |
| (Increase) in other current assets | (41,365) | -- |
| (Decrease) increase in accounts payable and current liabilities | (229,610) | 439,407 |
| Decrease in accrued expenses | (48,579) | -- |
| | ----- | ----- |
| Net Cash Provided by Operating Activities | (195,553) | 118,009 |
| | ----- | ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Proceeds from sale of assets | 1,260 | 201,000 |
| Cash acquired from subsidiary | 408,333 | -- |
| Expenditures for property and equipment | (198,443) | -- |
| | ----- | ----- |
| Net Cash Provided by Investing Activities | 211,150 | 201,000 |
| | ----- | ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Change in bank overdraft | -- | (49,120) |
| Payments on related party payables | (6,640) | (88,997) |
| Proceeds from related party notes | 168,328 | 185,000 |
| Principal payments on notes payable | (92,743) | (272,036) |
| | ----- | ----- |
| Net Cash Used by Financing Activities | 68,945 | (225,153) |
| | ----- | ----- |
| NET INCREASE IN CASH | 84,542 | 93,856 |
| CASH, BEGINNING OF PERIOD | 79,662 | 183 |
| | ----- | ----- |
| CASH, END OF PERIOD | \$ 164,204 | \$ 94,039 |
| | ===== | ===== |

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

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

| | For the Three Months Ended March 31, | |
|--|---|-----------|
| | 2005 | 2004 |
| CASH PAID FOR: | | |
| Interest | \$ -- | \$ 4,918 |
| Income taxes | \$ -- | \$ -- |
| NON-CASH FINANCING ACTIVITIES: | | |
| Common stock issued for debt relief | \$ 50,000 | \$ 47,856 |
| Common stock issued for services to be rendered | \$ 92,500 | \$ 26,000 |
| Common stock issued for the net assets over liabilities in the purchase of Arvilla Inc. and subsidiary | \$2,370,048 | \$ -- |

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

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

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

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

NOTE 2 - GOING CONCERN

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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, 2005 of \$ 29,094,576, and has a working capital deficit at March 31, 2005 of \$2,100,098. The potential proceeds from the sale of common stock, other contemplated debt and equity financing, and increases in operating revenues from new development would enable the Company to continue as a going concern. There can be no assurance that the Company can or will be able to complete any debt or equity financing. If these are not successful, management is committed to meeting the operational cash flow needs of the Company.

NOTE 3 - CONTINGENCIES AND COMMITMENTS

Core Laboratories, Inc.

On July 28, 1999, Core Laboratories, Inc. (Core) obtained a judgment against the Company for non-payment of an accounts payable. The judgment calls for monthly payments of \$351 and is bearing interest at 10.00% per annum. At March 31, 2005 the Company had accrued a balance including interest of \$13,587 which is included in judgments payable. The Company is currently in default on this judgment.

RR Donnelly

On July 1, 1998, RR Donnelly (RR) obtained a judgment against the Company for non-payment of accounts payable. The judgment calls for monthly payments of \$3,244 and is bearing interest at 10.00% per annum. At March 31, 2005, the Company has accrued a balance including interest of \$56,792 which is included in judgment payable as a current liability. The Company is currently in default on this judgment.

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TRANS ENERGY, INC. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Financial Statements
March 31, 2005 and December 31, 2004

NOTE 3 - CONTINGENCIES AND COMMITMENTS (continued)

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

NOTE 4 - BUSINESS SEGMENTS

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

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| | For the Three Months Ended March 31, | Oil and Gas Sales | Pipeline Transmission | Well Servicing |
|---|---|----------------------|--------------------------|-------------------|
| | ----- | ----- | ----- | ----- |
| Oil and gas revenue | 2005 | \$ 227,621 | \$ 524,312 | \$ 1,798,607 |
| | 2004 | 55,356 | 524,374 | -- |
| Operating income (loss) applicable to industry segment | 2005 | (216,811) | (11,201) | 245,843 |
| | 2004 | (514,239) | 2,470 | -- |
| General corporate expenses not allocated to industry segments | 2005 | -- | -- | -- |
| | 2004 | -- | -- | -- |
| Interest expense | 2005 | (18,867) | (8,198) | (47,021) |
| | 2004 | (45,450) | (4,768) | -- |
| Other income (expenses) | 2005 | (12,601) | (1,120) | 3,488 |
| | 2004 | (115,836) | 44,910 | -- |
| Assets (net of intercompany accounts) | 2005 | 3,485,768 | 551,992 | 7,662,130 |
| | 2004 | 541,559 | 580,992 | -- |

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

NOTE 4 - BUSINESS SEGMENTS (continued)

| | | | | |
|--|------|----------|----------|---------|
| Depreciation and amortization | 2005 | 85,415 | 18,441 | 202,036 |
| | 2004 | 322,467 | 18,721 | -- |
| Property and equipment Acquisitions (Deletions) | 2005 | (14,286) | -- | 575,936 |
| | 2004 | (67,722) | (88,750) | -- |

NOTE 5 - SIGNIFICANT EVENTS

Acquisition - On January 31, 2005, the Company finalized the acquisition of Arvilla Oilfield Services, LLC., a West Virginia limited liability company, and have assumed all operations, assets and liabilities of Arvilla. Arvilla provides well servicing, work over 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. In consideration for Arvilla Oilfield Services,

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1,185,024 shares of post split Trans Energy, Inc. stock was issued.

The following represents the condensed financial information for Arvilla Oilfield Services as of March 31, 2005:

| | March 31, 2005 (Unaudited) |
|-----------------------------|----------------------------------|
| ASSETS | |
| | |
| CURRENT ASSETS | |
| Cash | \$ 149,033 |
| Accounts receivable, net | 1,271,365 |
| Other receivables | 27,370 |
| | ----- |
| Total Current Assets | 1,447,768 |
| | ----- |
| PROPERTY AND EQUIPMENT, NET | |
| | 5,411,635 |
| | ----- |
| OTHER ASSETS | |
| Prepaid loan costs | 19,810 |
| Deposits | 16,268 |
| Customer lists | 766,649 |
| | ----- |
| Total Other Assets | 802,727 |
| | ----- |
| TOTAL ASSETS | \$7,662,130 |
| | ===== |

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

NOTE 5 - SIGNIFICANT EVENTS (continued)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

| | March 31, 2005 (Unaudited) |
|---------------------------------|----------------------------------|
| CURRENT LIABILITIES | |
| Accounts payable - trade | \$ 472,499 |
| Related party payables | (3,606) |
| Accrued expenses | 114,114 |
| Notes payable - current portion | 608,494 |
| | ----- |
| Total Current Liabilities | 1,191,501 |
| | ----- |
| LONG-TERM LIABILITIES | |
| Notes payable | 3,733,936 |
| Asset retirement obligation | 168,000 |
| | ----- |
| Total Long-Term Liabilities | 3,901,936 |

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| | |
|---|--------------|
| Total Liabilities | 5,093,437 |
| ----- | |
| COMMITMENTS AND CONTINGENCIES | |
| STOCKHOLDERS' EQUITY (DEFICIT) | |
| Capital | 25,000 |
| Comprehensive Income | (3,301) |
| Accumulated deficit | 2,546,994 |
| ----- | |
| Total Stockholders' Equity (Deficit) | 2,568,693 |
| ----- | |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 7,662,130 |
| ===== | |

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

NOTE 5 - SIGNIFICANT EVENTS (continued)

| | For the Three Months Ended March 31, 2005 |
|--|---|
| | ----- |
| REVENUES | \$ 2,459,136 |
| | ----- |
| COSTS AND EXPENSES | |
| Cost of oil and gas | 1,740,688 |
| Depreciation, depletion and amortization | 202,036 |
| Selling, general and administrative | 401,352 |
| | ----- |
| Total Costs and Expenses | 2,344,076 |
| | ----- |
| INCOME (LOSS) FROM OPERATIONS | 115,060 |
| | ----- |
| OTHER INCOME (EXPENSE) | |
| Gain on allocation of assets | 2,612,620 |
| Loss on sale of asset | -- |
| Other income | (314) |
| Gain on settlement of debt | -- |
| Interest expense | (73,361) |
| | ----- |
| Total Other Income (Expense) | 2,538,945 |
| | ----- |
| LOSS FROM OPERATIONS BEFORE INCOME TAXES | 2,654,005 |

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| | |
|--------------|-----------------------|
| INCOME TAXES | -- ----- |
| NET INCOME | \$ 2,654,005 ===== |

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

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 - OTHER COMPREHENSIVE INCOME

The Company has entered into a loan arrangement containing an interest rate hedge. The hedge is based on the difference between the lending institutions floating rate index plus 280 basis points and the existing LIBOR rate. At March 31, 2005, the difference in rates resulted in additional interest of \$3,101 that was recorded as other comprehensive income.

NOTE 8 - EQUITY

In January 2005, the Company issued 50,000 shares of common stock for services to be rendered valued at \$100,000.

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

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

Under FASB Statement 123, the Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model with the following weighted average assumptions used for grants, respectively; dividend yield of zero percent for all years; expected volatility of 68.72%; risk-free interest rate of 4.08 and expected lives of 10 years for the three months ended March 31, 2005.

Had compensation cost for the Company's stock options granted to directors

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and employees been based on the fair value as determined by the Black-Scholes option pricing model at the grant date under the accounting provisions of SFAS No. 123, the Company would have recorded an additional expense of \$837,416 for the three months ended March 31, 2005. Also under these same provisions, the Company's net loss would have been changed by the pro forma amounts indicated below:

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

NOTE 8 - EQUITY (continued)

| | For the Three Months Ended March 31, | |
|-----------------------|---|--------------|
| | 2005 | 2004 |
| Net loss: | | |
| As reported | \$ (66,487) | \$ (632,913) |
| Pro forma | \$ (903,903) | \$ (632,913) |
| Basic loss per share: | | |
| As reported | \$ (0.01) | \$ (0.33) |
| Pro forma | \$ (0.22) | \$ (0.33) |

Stock Options - A summary of the status of the warrants granted under various agreements at March 31, 2005 and 2004, and changes during the years then ended is presented below:

| | March 31, 2005 | | March 31, 2004 | |
|--|-------------------------------|-------------------|-------------------------------|-------------------|
| | Weighted Average Shares | Exercise Price | Weighted Average Shares | Exercise Price |
| Outstanding at beginning of period | -- | \$ -- | -- | \$ -- |
| Granted | 553,324 | 1.95 | -- | -- |
| Exercised | -- | -- | -- | -- |
| Forfeited | -- | -- | -- | -- |
| Expired | -- | -- | -- | -- |
| Outstanding at end of Period | 553,324 | 1.95 | -- | \$ -- |
| Weighted average fair value of options granted during the year | 553,324 | \$ 1.95 | -- | \$ -- |
| Weighted average fair value of options granted during the year | 553,324 | \$ 1.51 | -- | \$ -- |

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

NOTE 8 - EQUITY (continued)

A summary of the status of the warrants granted under the various agreements at March 31, 2005, are presented in the table below:

| Range of Exercise Prices | Number Outstanding | Warrants Outstanding | | Warrant Number Exercisable |
|-----------------------------|---------------------------|---|---------------------------------------|----------------------------------|
| | | Weighted-Average Remaining Contractual Life | Weighted-Average Exercise Price | |
| \$1.95 | 553,324 | 9.75 years | \$ 1.95 | 553,324 |
| | ----- 553,324 ===== | | | ----- 553,324 ===== |

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

Recent Developments

On November 5, 2004, we acquired Cobham Gas Industries, Inc. and certain wells, leases, pipelines, gas purchase agreements, oil hauling agreements, equipment, right of ways and other miscellaneous items related to the leases located in West Virginia. A total of 229 wells were acquired, of which 98 are currently producing, located on approximately 15,000 leased acres.

On January 31, 2005, we finalized the acquisition of Arvilla, Inc. a Nevada corporation, and its subsidiary, assuming all its operations, assets and liabilities. Arvilla 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. Arvilla offers its services in Ohio, Pennsylvania, New York, Virginia, Kentucky and West Virginia.

On November 29, 2004, our board of directors and stockholders holding a majority of our outstanding common stock approved a one share for 150 shares reverse split of our common stock. The reverse split was effected on January 28, 2005.

Results 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, 2005 and 2004. It should be noted that percentages discussed throughout this analysis are stated on an

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approximate basis.

| | Three Months Ended March 31, | |
|---|---------------------------------|-------|
| | 2005 | 2004 |
| | ----- | ----- |
| (Unaudited) | | |
| Total revenues..... | 100% | 100% |
| Total costs and expenses..... | 100 | 188 |
| Loss from operations..... | (0) | 88 |
| Other income (expense)..... | (3) | (20) |
| Other comprehensive loss (hedging)..... | (0) | -- |
| Net loss..... | (2) | (109) |

Total revenues for the three months ("first quarter") ended March 31, 2005 increased 340% compared to the first quarter of 2004, primarily due to the acquisition of Arvilla and inclusion of its revenues for the first quarter. Increased consolidated revenues also reflect increased oil and gas prices and volume. Our cost of oil and gas for the first quarter of 2005 increased 176% from the comparable 2004 period, also due to price and volume increases.

Salaries and wages decreased 28% for the first quarter of 2005 compared to the 2004 period, due to a reduction in accrued wages, and depreciation, depletion, amortization and accretion expense decreased 10% in the first quarter of 2005 due to assets reaching the end of their depreciable lives. The 1137% increase in selling, general and administrative expenses in the first quarter of 2005, from \$35,875 in 2004 to \$443,967 in 2005, is also attributed to the acquisition of Arvilla.

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Our income from operations for the first quarter of 2005 was \$17,831 compared to a loss of \$511,769 for the first quarter of 2004. The improvement is related to the acquisition of Arvilla and its increased contribution to revenues and price and volume increases. We realized total other expenses of \$84,319 during the first quarter of 2005 compared to total other expenses of \$121,144 for the first quarter of 2004. The first quarter of 2005 results were primarily due to interest expense of \$74,086 and losses from the sale of assets.

As a percentage of total revenues, total costs and expenses decreased from 188% in the first quarter of 2004 to 100% for the first quarter of 2005. This is also attributed to the acquisition of Arvilla and its additional revenues reported during the period.

Our net loss for the first quarter of 2005 was \$66,488 compared to \$632,913 for the first quarter of 2004.

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

Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At March 31, 2005, we had a working capital

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deficit of \$2,100,098 compared to a deficit of \$2,980,431 at December 31, 2004. This 30% decrease in working capital deficit is primarily attributed to the acquisition of Arvilla and decreases in current liabilities.

During the first quarter of 2005, operating activities used net cash of \$195,553 compared to net cash provided of \$118,099 for the first quarter of 2004. These results are primarily attributed to the reduction in accrued liabilities and accrued expenses.

Net cash provided by investing activities for the first quarter of 2005 was \$211,150, compared to \$201,000 for the first quarter of 2004. This result is primarily attributed to cash acquired from our Arvilla subsidiary.

During the first quarter of 2005, we realized net cash from financing activities of \$68,945 compared to net cash used of \$225,153 in the first quarter of 2004. These results are attributed to principal payments \$272,036 made on notes payable during the 2004 period, partially offset by \$185,000 realized in proceeds from notes payable. In 2005, principal payments on notes payable were \$92,743 that was exceeded by proceeds from notes of \$168,328.

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

As of March 31, 2005, we had total assets of \$11,699,890 and total stockholders' equity of \$1,180,373, compared to total assets of \$4,234,111 and total stockholders' deficit of \$1,169,886 at December 31, 2004.

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In 1998, we issued \$4,625,400 face value of 8% Secured Convertible Debentures Due March 31, 1999. A portion of the proceeds were used to acquire the GCRL properties and interest in Wyoming. During 2000, all but one of the remaining outstanding debentures were converted into common stock. At March 31, 2005, we owed \$50,000 for a debenture, \$24,954 in interest and \$2,500 in penalties.

Because we have incurred significant cumulative operating losses through March 31, 2005 and have a working capital deficit at March 31, 2005 of \$2,100,098, there exists substantial doubt about our ability to continue as a going concern. Historically, our revenues have not been sufficient to cover operating costs, although revenues for the first quarter of 2005 did cover operating expenses. 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 have included a footnote to our financial statements for the periods ended March 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. See Note 2 to the consolidated financial statements.

Inflation

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

Forward-looking and Cautionary Statements

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

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

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

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Item 3. Controls and Procedures

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

PART II

Item 1. Legal Proceedings

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

- o On September 22, 2000, Tioga Lumber Company obtained a judgment of \$43,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler Construction Company for breach of contract. On

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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.

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

In connection with the closing of the merger agreement on January 31, 2005, we issued to the holders of Arvilla, Inc. capital stock an aggregate of 1,185,024 shares of Trans Energy common stock. These shares were distributed as follows: Clarence E. Smith, 531,437 shares; Rebecca L. Smith 531,437 shares and Howell B. Williams, 122,150 shares.

Each recipient of the Trans Energy shares is a sophisticated and knowledgeable investor and has full access to all pertinent business and financial information related to Trans Energy and Arvilla. Accordingly, Trans Energy has relied upon the exemption from registration under the Securities Act of 1933 provided by Section 4(2) of the Act that exempts a transaction not involving a public offering.

On February 28, 2005, our board of directors authorized the issuance of 50,000 shares of authorized, but previously unissued shares of common stock to Liberty Consulting International, Inc. The shares are in consideration for services pursuant to a Consulting Services Agreement between the company and Liberty Consulting International. The shares have been issued and constitute less than 5% of the total outstanding shares of Trans Energy common stock. The issuance of shares is being made in a private transaction to a person with knowledge of the company's business in reliance upon an exemption from registration under the Securities Act of 1933, pursuant to Section 4(2) of that Act.

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Our board also authorized the issuance of 25,000 shares of our common stock in exchange for professional services rendered and valued at \$50,000. The shares are to be issued pursuant to a registration statement, although that has not been finalized and the shares have not been certificated.

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 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 March 31, 2005, we owed \$50,000 to one debenture holder, \$24,954 in interest and \$2,500 in penalties.

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

In connection with the reverse stock split effected January 28, 2005, we filed with the State of Nevada on the same date an amendment to our articles of incorporation to reflect the reverse split. The amendment reported the reverse stock split and stated that our current authorized capitalization will remain unchanged at 500 million shares of common stock with a par value of \$0.001. The reverse stock split and amendment were approved by the written consent of shareholders holding a majority of our common stock by a vote of 256,287,738 pre-split shares (51.6%) voting for, and zero shares voting against.

Item 5. Other Information

The following reports were filed with the SEC on Form 8-K during the three month period ended March 31, 2005.

February 2, 2005 - reporting under Item 1.01, the entering of a merger agreement and plan of reorganization dated December 3, 2004 to acquire Arvilla Oilfield Services with our wholly owned subsidiary Trans Energy Acquisitions, Inc., Arvilla, Inc., and the controlling stockholders of Arvilla, Inc. Also reported (i) under Item 2.01 that the merger agreement was finalized and closed on January 31, 2005; (ii) under Item 3.02 that in connection with the closing of the merger agreement we issued to the current holders of Arvilla, Inc. capital stock an aggregate of 1,185,024 shares of Trans Energy common stock; (iii) under Item 5.02 that in connection with the acquisition of Arvilla, Inc., immediately prior to the effective time of the merger transaction our board of directors unanimously appointed two new directors, Clarence E. Smith and Rebecca L. Smith, effective upon the closing of the transaction on January 31, 2005; and (iv) under Item 5.03 that in connection with the reverse stock split effected January 28, 2005, we filed with the State of Nevada on the same date an amendment to our articles of incorporation to reflect the reverse split.

March 9, 2005 - reporting under Item 3.02, the unregistered sales of equity securities relating to the issuance of 50,000 shares of common stock in consideration for services pursuant to a consulting services agreement, and which shares have now been issued. Also reporting under Item 5.02 the appointment of new executive directors and a new director.

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June 9, 2005 - amendment to our Form 8-K filed November 11, 2004, reporting under Item 2.01 that in connection with the completion of the acquisition of Cobham Gas Industries, Inc. we are filing under Item 9.01 the applicable financial statements related to Cobham.

Item 6. Exhibits

Exhibit 31.1 Certification of C.E.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of C.E.O. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.2 Certification of Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of

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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 20, 2005

By /S/ CLARENCE E. SMITH

Clarence E. Smith
Chief Executive Officer and Director

Date: June 20, 2005

By /S/ WILLIAM F. WOODBURN

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

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