

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TRANS ENERGY INC
Form 10QSB
November 19, 2003

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

FORM 10-QSB

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

For the Quarter Ended September 30, 2003

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 September 30, 2003
-----	-----
Common Stock, \$.001 par value	264,002,290

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Heading

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.....

Consolidated Balance Sheets - September 30, 2003 (Unaudited) and
December 31, 2002.....

Consolidated Statements of Operations - three and nine months ended
September 30, 2003 and 2002 (Unaudited).....

Consolidated Statements of Stockholders' Equity (Deficit).....

Consolidated Statements of Cash Flows - three and nine months ended
September 30, 2003 and 2002 (Unaudited).....

Notes to Consolidated Financial Statements

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

Item 3. Controls and Procedures.....

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.....

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

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

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

Item 5. Other Information.....

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

Signatures.....

-2-

PART I

Item 1. Financial Statements

The accompanying consolidated balance sheet of Trans Energy, Inc. at September 30, 2003 and December 31, 2002, related statements of operations, stockholders' equity (deficit) and cash flows for the nine months ended September 30, 2003 and 2002, have been prepared by our management in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the consolidated results of operations and consolidated financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the quarter ended September 30, 2003, are not necessarily indicative of the results that can be expected for the fiscal year ending December 31, 2003.

TRANS ENERGY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2003 and December 31, 2002

-3-

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

ASSETS

	September 30, 2003	December 31, 2002
	-----	-----
CURRENT ASSETS		
Cash	\$ --	\$ 12,227
Accounts receivable, net	252,584	138,621
Prepaid expenses	990	360
	-----	-----
Total Current Assets	253,574	151,208
	-----	-----
PROPERTY AND EQUIPMENT		
Vehicles	59,830	59,830
Machinery and equipment	10,092	10,092
Pipelines	1,745,217	2,254,908
Well equipment	49,155	49,155
Wells	3,620,868	3,620,868
Leasehold acreage	95,945	95,945
Accumulated depreciation	(3,867,955)	(3,496,460)
	-----	-----
Total Fixed Assets	1,713,152	2,594,338
	-----	-----
OTHER ASSETS		

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Cash surrender value - life insurance (net)	2,090	2,090
	-----	-----
Total Other Assets	2,090	2,090
	-----	-----
TOTAL ASSETS	\$ 1,968,816	\$ 2,747,636
	=====	=====

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

-4-

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	September 30, 2003	December 31, 2002
	-----	-----
	(Unaudited)	
CURRENT LIABILITIES		
Accounts payable - trade	\$ 880,642	\$ 701,791
Notes payable - convertible	36,325	41,575
Accrued expenses	1,081,470	921,420
Salaries payable	1,186,429	969,529
Notes payable - current portion	1,217,605	1,327,333
Judgments payable (Note 5)	1,156,223	1,115,094
Related party payables	1,023,640	1,075,587
Debentures payable	331,462	331,462
	-----	-----
Total Current Liabilities	6,913,796	6,483,791
	-----	-----
LONG-TERM LIABILITIES		
Judgments payable (Note 5)	--	2,702
Notes payable	103,195	199,862
	-----	-----
Total Long-Term Liabilities	103,195	202,564
	-----	-----
Total Liabilities	7,016,991	6,686,355
	-----	-----
COMMITMENTS AND CONTINGENCIES		

Edgar Filing: TRANS ENERGY INC - Form 10QSB

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; 264,002,290 and 237,519,127 shares issued and outstanding, respectively	264,001	237,518
Capital in excess of par value	23,065,095	23,045,785
Accumulated deficit	(28,377,271)	(27,222,022)
	-----	-----
Total Stockholders' Equity (Deficit)	(5,048,175)	(3,938,719)
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 1,968,816	2,747,636
	=====	=====

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

-5-

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2003	2002	2003	2002
REVENUES	\$ 494,611	\$ 283,478	\$ 1,571,528	\$ 629,072
COSTS AND EXPENSES				
Cost of oil and gas	437,642	191,675	1,336,614	558,198
Salaries and wages	95,913	65,713	288,059	196,734
Depreciation, depletion and amortization	262,629	418,547	717,614	526,248
Selling, general and administrative	35,801	30,677	204,985	224,217
Total Costs and Expenses	831,985	706,612	2,547,272	1,505,397
LOSS FROM OPERATIONS	(337,374)	(423,134)	(975,744)	(876,325)
OTHER INCOME (EXPENSE)				
Gain on disposal of asset	--	--	112,235	--
Loss on sale of asset	--	--	(5,807)	--
Other income	10,903	4,826	17,401	9,104

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Interest expense	(98,958)	(131,502)	(303,334)	(331,413)
	-----	-----	-----	-----
Total Other Income (Expense)	(88,055)	(126,676)	(179,505)	(322,309)
	-----	-----	-----	-----
LOSS FROM OPERATIONS BEFORE INCOME TAXES AND MINORITY INTERESTS	(425,429)	(549,810)	(1,155,249)	(1,198,634)
	-----	-----	-----	-----
INCOME TAXES	--	--	--	--
	-----	-----	-----	-----
MINORITY INTERESTS	--	--	--	--
	-----	-----	-----	-----
NET LOSS	\$ (425,429)	\$ (549,810)	\$ (1,155,249)	\$ (1,198,634)
	=====	=====	=====	=====
BASIC LOSS PER SHARE	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.01)
	=====	=====	=====	=====
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	264,002,290	207,671,301	249,441,810	197,870,431
	=====	=====	=====	=====

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

-6-

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

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Balance, December 31, 2001	300	--	176,683.189	\$ 176,682
Conversion of preferred stock and preferred dividends to common stock	--	--	16,835,938	16,836
Conversion of notes payable to common stock	--	--	5,000,000	5,000
Common stock issued for services	--	--	1,000,000	1,000
Conversion of notes payable to common stock	--	--	4,166,667	4,167
Common stock issued for cash	--	--	33,333,333	33,333
Common stock issued for services	--	--	500,000	500

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Net loss for the year ended December 31, 2002	--	--	--	--
	-----	-----	-----	-----
Balance, December 31, 2002	--	--	237,519,127	237,518
Common stock issued for conversion of debt and related interest (unaudited)	--	--	26,483,163	26,483
Net loss for the nine months ended September 30, 2003 (unaudited)	--	--	--	--
	-----	-----	-----	-----
Balance, September 30, 2003 (unaudited)	\$ --	--	264,002,290	264,001
	=====	=====	=====	=====

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

-7-

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

	For the Six Months Ended June 30,	
	2003	2002
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,155,249)	\$ (1,198,634)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation, depletion and amortization	717,614	526,248
Net gain from sale of assets	(106,428)	--
Common stock issued for services	--	27,000
Settlement expense	64,582	
Changes in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(140,080)	10,738
Increase in prepaid and other current assets	(630)	2,638
Increase in accounts payable and current liabilities	609,649	347,205
	-----	-----
Net Cash Used by Operating Activities	(75,124)	(241,701)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	240,000	--
Expenditures for property and equipment	--	(49,463)
	-----	-----
Net Cash Provided (Used) by Investing Activities	240,000	(49,463)

Edgar Filing: TRANS ENERGY INC - Form 10QSB

	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in cash overdraft	--	3,370
Stock subscription deposit	--	200,000
Proceeds from related party payables	233,650	366,431
Payments on related party payables	(204,480)	(130,136)
Proceeds from notes payable	--	25,000
Payments on notes payable	(206,273)	(174,992)
	-----	-----
Net Cash Provided (Used) by Financing Activities	(177,103)	289,673
	-----	-----
NET DECREASE IN CASH	(12,227)	(1,491)
	-----	-----
CASH, BEGINNING OF PERIOD	12,227	1,491
	-----	-----
CASH, END OF PERIOD	\$ --	\$ --
	=====	=====
CASH PAID FOR:		
Interest	\$ 91,074	\$ 106,234
Income taxes	\$ --	\$ --
NON-CASH FINANCING ACTIVITIES:		
Common stock issued for debt and related interest	\$ 45,793	\$ 25,000
Common stock issued for services	\$ --	\$ 27,000
Common stock issued for conversion of preferred stock and dividends	\$ --	\$ 23,250

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

-8-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2003 and December 31, 2002

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

Edgar Filing: TRANS ENERGY INC - Form 10QSB

recent audited financial statements and notes thereto included in its December 31, 2002 Annual Report on Form 10-KSB. Operating results for the nine months ended September 30, 2003 and 2002 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 September 30, 2003 of \$28,377,271, and has a working capital deficit at September 30, 2003 of \$6,660,222. 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 - RECLASSIFICATIONS

Certain 2002 amounts have been reclassified to conform to the 2003 presentations.

NOTE 4 - MATERIAL EVENTS

On January 31, 2003, the Company entered into an Agreement of Sale and Exchange with PC Pipeline, Inc. ("Purchaser") for 7.6 miles of Tyler Construction's six-inch natural gas pipeline in Pleasants County, West Virginia in exchange for the remaining 35% of the outstanding common stock of Tyler Construction Company. This now makes Tyler Construction Company a wholly-owned subsidiary of the Company.

-9-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2003 and December 31, 2002

NOTE 4 - MATERIAL EVENTS (Continued)

On February 27, 2003, the Company entered into an Asset Purchase Agreement with Triad Energy Corporation ("Triad") and Sancho Oil & Gas Corporation ("Sancho") whereby Tyler Construction Company ("Tyler") sold 55,000 feet of gas pipeline located in Tyler and Pleasants County, West Virginia for \$270,000. \$240,000 was paid at the time of closing and the remaining \$30,000 was payable 60 days from closing. As part of the Agreement, Tyler assigned its right-of-ways and its gas purchase contract with Sancho, along with an agreement for Triad to use Tyler's right to transport gas which right is not assignable.

During February 2003, the Company filed Form S-8 with the Securities and Exchange Commission for the registration of 3,500,000 shares of the Company's common stock to be issued to A. Thomas Crompton for consulting services that were performed during the fourth quarter of

Edgar Filing: TRANS ENERGY INC - Form 10QSB

2002. The shares were valued at \$0.003, which was the trading price at the time the shares were registered, for a total value of \$10,500.

During the nine months ended September 30, 2003, the Company issued 26,483,163 shares of its common stock for the conversion of debt and related interest at an average price of \$0.0015 per share for a total value of \$45,793.

NOTE 5 - 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 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 court appointed a special commissioner to act as an arbitrator if the Company defaults. The special commissioner would attach a lien if property is found which does not have a lien attached. The first payment has been made, and during the second quarter of 2003, the remaining balance has been paid in full.

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 September 30, 2003 because the Company feels that based on its defenses against the claims that the Company will have no additional liability. Due to the early stage of litigation, it is not possible to evaluate the likelihood of an unfavorable outcome or estimate the extent of potential loss.

-10-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2003 and December 31, 2002ements

NOTE 5 - JUDGMENTS PAYABLE (Continued)

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

Edgar Filing: TRANS ENERGY INC - Form 10QSB

payment of the full obligation. The Company has accrued the balance of \$428,018 plus accrued interest. At September 30, 2003, the total amount including interest of \$503,723 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 September 30, 2003, the Company had accrued a balance including interest of \$17,047 which is included in judgments payable.

RR Donnelly

On July 1, 1998, RR Donnelly (RR) obtained a judgment against the Company for non-payment of accounts payable. The judgment calls for monthly payments of \$3,244 and is bearing interest at 10.00% per annum. At September 30, 2003, the Company has accrued a balance including interest of \$72,819 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, 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.

-11-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2003 and December 31, 2002ements

NOTE 5 - JUDGMENTS PAYABLE (Continued)

Baker Hughes Entities (Continued)

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

Edgar Filing: TRANS ENERGY INC - Form 10QSB

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.

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).

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.

-12-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2003 and December 31, 2002ements

NOTE 5 - JUDGMENTS PAYABLE (Continued)

Baker Hughes Entities (Continued)

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 September 30, 2003, the

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Company has a remaining liability including interest of \$560,634 which is included in judgments payable as a current liability.

During August 2003, the Company received notice that Baker Hughes Oilfield Operations, Inc. d/b/a/ Baker Hughes Inteq. Western Geophysical ("Baker") has filed an Involuntary Chapter 7 Bankruptcy Petition against the Company in the United States Bankruptcy Court Northern District of West Virginia. The Company is filing an answer to the petition and does not expect Baker to prevail in their petition.

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 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 September 30, 2003, the Company has accrued \$28,699, 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 September 30, 2003, the Company had accrued the total amount of \$2,000 and has included it in judgments payable and has classified it as a current liability.

-13-

TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements September 30, 2003 and December 31, 2002

NOTE 6 - OUTSTANDING STOCK OPTIONS

The Company applies Accounting Principles Board ("APB") Opinion 25, "Accounting for Stock Issued to Employees," and related Interpretations in accounting for all stock option plans. Under APB Opinion 25, compensation cost is recognized for stock options granted to employees when the option price is less than the market price of the underlying common stock on the date of grant.

FASB Statement 123, "Accounting for Stock-Based Compensation" ("SFAS No. 123"), requires the Company to provide proforma information regarding net income and net income per share as if compensation costs for the Company's stock option plans and other stock awards had been determined in accordance with the fair value based method prescribed in

Edgar Filing: TRANS ENERGY INC - Form 10QSB

SFAS No. 123. The Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model.

A summary of the status of the Company's stock option plans as of September 30, 2003 and changes during the year is presented below:

	Shares	Weighted Average Exercise Price
Outstanding, December 31, 2002	795,057	\$ 0.50
Granted	--	--
Canceled/Expired	--	--
Exercised	--	--
	-----	-----
	795,057	0.50
	=====	=====
Outstanding, June 30, 2003 (unaudited)	795,057	\$ 0.50
	=====	=====

Exercise Prices	Outstanding			Number Exercisable at 9/30/03
	Number Outstanding at 6/30/03	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	
-----	-----	-----	-----	-----
\$ 0.50	795,057	0.25	\$ 0.50	795,057

The 795,057 options were issued at \$0.50, which is equal to the market price on the date of issuance. All options are fully vested, have a five-year period to be exercised and will expire on December 31, 2003. The options were not issued pursuant to an employee stock option plan.

-14-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2003 and December 31, 2002

NOTE 7 - 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.

Edgar Filing: TRANS ENERGY INC - Form 10QSB

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

	For the Nine Months Ended Sept. 30, -----	Oil and Gas Sales -----	Pipeline Transmission -----
Oil and gas revenue	2003	\$ 392,589	\$ 1,178,938
	2002	359,968	269,504
		-----	-----
Operating loss applicable to industry segment	2003	(803,184)	(172,560)
	2002	(697,869)	(178,456)
Interest expense	2003	(281,512)	(21,822)
	2002	(219,412)	(47,419)
Other income (expenses)	2003	15,001	126,229
	2002	(274,890)	(47,419)
Assets (net of intercompany accounts)	2003	1,438,487	530,329
	2002	2,303,279	809,689
Depreciation and amortization	2003	639,350	78,264
	2002	444,692	81,556
Property and equipment	2003	--	240,000
	2002	49,463	--

-15-

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

The following table sets forth the percentage relationship to total revenues of principal items contained in the our consolidated statements of operations for the three and six month periods ended September 30, 2003 and 2002. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended September 30, -----		Nine Months Ended September 30, -----	
	2003	2002	2003	2002
	----	----	----	----
	(Unaudited)		(Unaudited)	
Total revenues	100%	100%	100%	100%
Total costs and expenses	168	249	162	239
Loss from operations	68	149	62	139
Other income (expense)	(18)	(45)	(12)	(51)
Net loss	(86)	(194)	(74)	(190)

Total revenues for the three months ("third quarter") and nine months ended September 30, 2003 increased 54% and 150% respectively, when compared with

Edgar Filing: TRANS ENERGY INC - Form 10QSB

the third quarter and first nine months of 2002, due primarily to the increase in gas prices and volume. Our cost of oil and gas for the third quarter and first nine months of 2003 increased 128% and 139%, respectively, from the comparable 2002 periods, due to price increases.

Salaries and wages increased 46% for both the third quarter and first nine months of 2003 compared to the 2002 period, due to a reallocation of wages out of general and administrative expenses. Selling, general and administrative expenses increased 17% in the third quarter of 2003, but decreased 9% for the first nine months of 2003. These results are attributed to changes in professional fees and other operating expenses. Depreciation, depletion and amortization decrease 37% in the third quarter of 2003, but increased 36% for the first nine months of 2003. The decrease during the third quarter is attributed to the change in sales mix with increased gas sales, and the increase for the first nine months of 2003 is due to increased production.

Our loss from operations for the third quarter of 2003 was \$337,374 compared to \$423,134 for the third quarter of 2002, and was \$975,744 for the first nine months of 2003 compared to \$876,325 for the first nine months of 2002. The decrease in loss from operations for the third quarter is primarily attributed to the increased revenues and decreased depreciation, depletion and amortization, which more than offset the increase in the cost of oil and gas. The increased loss for the first nine months of 2003 is primarily attributed to the increase in the cost of oil and gas, which was partially offset by the increased revenues. We realized total other expenses of \$96,958 during the third quarter of 2003 compared to total other expenses of \$126,676 for the third quarter of 2002. The decrease is attributed to a 25% decrease in interest expense due to no discounts to amortize in 2003 and paying off debt with proceeds from pipeline sales. Total other expenses for the first nine months of 2003 were \$179,505 compared to total other expenses of \$322,309 for the 2002 period. This decrease was attributed primarily to the \$112,235 gain on disposal of assets during the first nine months of 2003.

As a percentage of total revenues, total costs and expenses decreased from 249% in the third quarter of 2002 to 168% for the third quarter of 2003, and from 239% for the first nine months of 2002 to 162% for the first nine months of 2003. This improvement is attributed to revenues increasing at a rate greater than the increase in total costs and expenses for the respective periods.

-16-

Our net loss for the third quarter of 2003 was \$425,429 compared to \$549,820 for the third quarter of 2002, and \$1,155,249 for the first nine months of 2003 compared to \$1,198,634 for the 2002 period.

For the remainder of fiscal year 2003, management expects selling, general and administrative expenses to remain at approximately the same rate as the first nine months of 2003. 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 2003.

We have included a footnote to our financial statements for the periods ended September 30, 2003 stating that because of our continued losses, working capital deficit and need for additional funding, there is substantial doubt as to whether we can continue as a going concern. See Note 2 to the consolidated financial statements.

Liquidity and Capital Resources

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At September 30, 2003, we had a working capital deficit of \$6,600,222 compared to a deficit of \$6,332,583 at December 31, 2002. This 4% increase in working capital deficit is primarily attributed to the increase in accounts payable, accrued expenses and salaries payable.

During the first nine months of 2003, operating activities used net cash of \$75,124 compared to net cash used of \$241,701 for the first nine months of 2002. These results are primarily attributed to increases in accounts receivable and the increased depletion rate of gas wells. Net cash provided by investing activities in the first nine months of 2003 was \$240,000, compared to net cash used by investing activities of \$49,463 in the 2002 period. The increase is due to proceeds realized from the sale of assets in th 2003 period.

During the first nine months of 2003, we used net cash of \$177,103 by financing activities compared to net cash realized of \$289,673 in the first nine months of 2002. These results are attributed to the pay down of debt in 2003 from the sale of assets and a stock subscription deposit in 2002.

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 September 30, 2003, we had total assets of \$1,968,816 and total stockholders' deficit of \$5,048,175, compared to total assets of \$2,747,636 and total stockholders' deficit of \$3,938,719 at December 31, 2002.

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 commons stock. At September 30, 2003, 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.

-17-

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," "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.

Edgar Filing: TRANS ENERGY INC - Form 10QSB

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.

-18-

(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 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

Edgar Filing: TRANS ENERGY INC - Form 10QSB

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 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. At September 30, 2003, we had a remaining liability, including interest, of \$560,634. The Baker Entities continue their proceedings to enforce a foreign judgment against us in Pleasants County, West Virginia. A hearing with a special commission of the court was held on May 29, 2003 in Pleasant County, at which time no additional action was taken.

In August 2003, we received notice that the Baker Entities has filed an involuntary bankruptcy petition against us in the United States Bankruptcy Court, Northern District of West Virginia. We are preparing and filing an answer to the petition and management does not expect the Baker Entities to prevail in their petition.

-19-

(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. During the third quarter of 2003, the remaining balance on the judgment was paid in full.

Edgar Filing: TRANS ENERGY INC - Form 10QSB

(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 have made several payments to Mr. Forbus. Mr. Forbus has made a demand upon for payment in full. We are not currently making payments.

(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.

(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 and the current balance is \$28,692. This amount has increased from the last quarter due to increased expenses incurred with the installation of a water flow on the Sagebrush field.

Item 2. Changes In Securities and Use of Proceeds

This Item is not applicable

Item 3. Defaults Upon Senior Securities

In 1998, we issued \$4,625,400 face value of 8% secured convertible debentures due September 30, 1999. Interest on the debentures accrued upon the date of issuance until payment in full of the principal sum was been made or duly provided for. Holders of the debentures have the option, at any time, until maturity, to convert the principal amount of their debenture, or any portion of the principal amount which is at least \$10,000 into shares of the our common stock at a conversion price for each share equal to the lower of (a) seventy percent (70%) of the market price of the our stock averaged over the five trading days prior to the date of conversion, or (b) the market price on the issuance date of the debentures. Any accrued and unpaid interest shall be payable, at our option, in cash or in shares of our common stock valued at the then effective conversion price. During 2000, all but one of the remaining outstanding debentures were converted into commons stock. At September 30, 2003, 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.

-20-

Item 5. Other Information

This Item is not applicable.

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

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

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

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

Exhibit 32.2 Certification of Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

There were no current reports filed on Form 8-K for the three month period ended September 30, 2003.

-21-

SIGNATURES

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

TRANS ENERGY, INC.

Date: November 19, 2003

By /S/ ROBERT I. RICHARDS

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

Date: November 19, 2003

By /S/ WILLIAM F. WOODBURN

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

