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TRANS ENERGY INC
Form 10QSB
August 18, 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 June 30, 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 June 30, 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 June 30, 2005 (unaudited) and December 31, 2004, related unaudited consolidated statements of operations for the three and six months ended June 30, 2005 and 2004, stockholders' equity (deficit) and cash flows for the six months ended June 30, 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 June 30, 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

June 30, 2005 and December 31, 2004

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TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	June 30, 2005
	----- (Unaudited)
ASSETS	
CURRENT ASSETS	
Cash	\$ 334,629
Accounts receivable, net	1,955,100
Other receivables	27,557
Prepaid expenses	75,549

Total Current Assets	2,392,835

PROPERTY AND EQUIPMENT, NET	8,525,794

OTHER ASSETS	
Bonds	50,159
Prepaid loan costs	19,810
Deposits	17,491
Investment in Texas Keystone Wells	175,000
Customer lists	662,106
Life insurance, cash surrender value	67,726

Total Other Assets	992,292

TOTAL ASSETS	\$ 11,910,921
	=====

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)

	June 30, 2005
	----- (Unaudited)
CURRENT LIABILITIES	
Accounts payable - trade	\$ 1,678,113
Related party payables (Note 5)	1,458,137
Accrued expenses	1,161,282
Judgments payable (Note 3)	70,379
Debentures payable	50,000
Notes payable - current portion	865,727

Total Current Liabilities	5,283,638

LONG-TERM LIABILITIES	
Notes payable	4,137,330
Asset retirement obligation	1,758,944

Total Long-Term Liabilities	5,896,274

Total Liabilities	11,179,912

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; 4,815,098 and 3,555,074 shares issued and outstanding, respectively	4,815
Capital in excess of par value	30,440,935
Comprehensive Income	(1,808)
Deferred expenses	(92,500)
Accumulated deficit	(29,620,433)

Total Stockholders' Equity (Deficit)	731,009

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 11,910,921
	=====

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of these condensed consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
REVENUES	\$ 3,338,661	\$ 555,245	\$ 5,889,201	\$ 1,134,975
COSTS AND EXPENSES				
Cost of oil and gas	2,620,237	448,850	4,335,187	1,068,371
Salaries and wages	48,779	85,107	116,679	180,022
Depreciation, depletion and amortization	414,886	128,168	720,778	467,857
Selling, general and administrative	671,650	74,784	1,115,617	112,158
Total Costs and Expenses	3,755,552	736,909	6,288,261	1,828,408
LOSS FROM OPERATIONS	(416,891)	(181,664)	(399,060)	(693,433)
OTHER INCOME (EXPENSE)				
Gain (loss) on extinguishment of debt	--	--	2,306	(246,836)
Net gain (loss) on sale of assets	4,674	--	(7,864)	175,910
Other income	8,293	9,128	8,293	9,128
Interest expense	(121,933)	(58,982)	(196,020)	(109,200)
Total Other Income (Expense)	(108,966)	(49,854)	(193,285)	(170,998)
LOSS FROM OPERATIONS BEFORE INCOME TAXES	(525,857)	(231,518)	(592,345)	(864,431)
INCOME TAXES	--	--	--	--
NET LOSS	\$ (525,857)	\$ (231,518)	\$ (592,345)	\$ (864,431)

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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 (continued)
(Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004	2005	2004
NET LOSS	\$ (525,857)	\$ (231,518)	\$ (592,345)	\$ (864,431)
OTHER COMPREHENSIVE LOSS				
Changes due to hedging Activities	1,493	--	(1,808)	--
NET COMPREHENSIVE LOSS	\$ (524,364)	\$ (231,518)	\$ (594,153)	\$ (864,431)
BASIC LOSS PER SHARE	\$ (0.11)	\$ (0.12)	\$ (0.13)	\$ (0.46)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	4,815,098	1,957,108	4,599,293	1,865,040

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 Exces Par
	Shares	Amount	Comprehensive Shares	Accumulated Amount	
Balance, December 31, 2004	--	\$ --	3,555,074	\$ 3,555	\$ 27,85

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Common stock issued for services to be rendered (unaudited)	--	--	50,000	50	9
Common stock issued for the conversion of debt (unaudited)	--	--	25,000	25	4
Common stock issued for purchase of Arvilla (unaudited)	--	--	1,185,024	1,185	2,36
Changes due to hedging activities (unaudited)	--	--	--	--	
Contributed services (unaudited)	--	--	--	--	7
Net loss for the six months ended June 30, 2005 (unaudited)	--	--	--	--	
Balance, June 30, 2005 (unaudited)	--	\$ --	4,815,098	\$ 4,815	\$ 30,44

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)

	For the Six Months Ended June 30,	
	2005	2004
	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (592,345)	\$ (864,431)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	720,778	467,857
Net gain from sale of assets	(3,254)	(175,910)
(Gain) loss on extinguishment of debt	(2,306)	246,836
Non-cash expense	75,000	--
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(170,461)	(138,625)
(Increase) in prepaids	(74,326)	--
(Increase) in other current assets	(15,502)	--
(Increase) in other assets	(71,680)	--
(Decrease) increase in accounts payable and current liabilities	(58,018)	113,124
Decrease in accrued expenses	126,449	--

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	-----	-----
Net Cash Used by Operating Activities	(65,665)	(351,149)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	15,260	201,000
Borrowings from life insurance policy	--	1,708
Cash acquired from subsidiary	408,333	--
Expenditures for property and equipment	(477,545)	(440)
	-----	-----
Net Cash Provided (Used) by Investing Activities	(53,952)	202,268
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in bank overdraft	--	(49,120)
Payments on related party payables	(6,640)	(228,488)
Proceeds from related party notes	637,088	603,750
Principal payments on notes payable	(255,864)	(172,928)
	-----	-----
Net Cash Provided by Financing Activities	374,584	153,214
	-----	-----
NET INCREASE IN CASH	254,967	4,333
CASH, BEGINNING OF PERIOD	79,662	183
	-----	-----
CASH, END OF PERIOD	\$ 334,629	\$ 4,516
	=====	=====

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 Six Months Ended June 30,	
	2005	2004
	-----	-----
CASH PAID FOR:		
Interest	\$ --	\$ 30,810
Income taxes	\$ --	\$ --
NON-CASH FINANCING ACTIVITIES:		

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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	\$ --
Contributed Services	\$ 75,000	\$ --

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 June 30, 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 and six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

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 June 30, 2005 of \$ 29,545,433 and has a working capital deficit at June 30, 2005 of \$2,890,803. 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 - CONTINGENCIES AND COMMITMENTS

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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 June 30, 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 June 30, 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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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 June 30, 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:

	For the Six Months Ended June 30	Oil and Gas Sales	Pipeline Transmission	Well Servicing
	-----	-----	-----	-----
Oil and gas revenue	2005	\$ 509,770	\$ 1,103,917	\$ 4,275,514
	2004	150,737	984,238	--
Operating income (loss) applicable to industry segment	2005	(450,426)	(64,875)	116,241
	2004	(680,184)	(13,249)	--
General corporate expenses not allocated to industry segments	2005	--	--	--
	2004	--	--	--
Interest expense	2005	(35,283)	(17,990)	(142,747)

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	2004	(91,505)	(17,695)	--
Other income (expenses)	2005	(38,570)	(14,681)	(140,034)
	2004	(198,812)	27,814	--
Assets (net of intercompany accounts)	2005	6,875,953	588,788	4,446,180
	2004	403,814	537,804	--

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NOTE 4 - BUSINESS SEGMENTS (continued)

Depreciation, depletion, Amortization and accretion	2005	178,805	36,881	505,092
	2004	430,695	37,162	--
Property and equipment Acquisitions (Deletions)	2005	187,875	36,881	237,529
	2004	(67,282)	(88,750)	--

NOTE 5 - 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 6 - 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 June 30, 2005, the difference in rates resulted in additional interest of \$1,808 that was recorded as other comprehensive income.

NOTE 7 - EQUITY

In January 2005, the Company issued 50,000 shares of common stock for services to be rendered valued at \$92,500.

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

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NOTE 7 - EQUITY (continued)

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 six months ended June 30, 2005.

Had compensation cost for the Company's stock options granted to directors 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 six months ended June 30, 2005. Also under these same provisions, the Company's net loss would have been changed by the pro forma amounts indicated below:

	For the Three Months Ended June 30,		For the Six Months End June 30,	
	2005	2004	2005	
Net loss:				
As reported	\$ (525,857)	\$ (231,518)	\$ (592,345)	\$
Pro forma	\$ (525,857)	\$ (231,518)	\$ (1,429,191)	\$
Basic loss per share:				
As reported	\$ (0.11)	\$ (0.12)	\$ (0.13)	\$
Pro forma	\$ (0.11)	\$ (0.12)	\$ (0.31)	\$

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NOTE 7 - EQUITY (continued)

Stock Options - A summary of the status of the warrants granted under various agreements at June 30, 2005 and 2004, and changes during the periods then ended is presented below:

June 30, 2005		June 30, 2004	
Weighted Average Shares	Exercise Price	Weighted Average Shares	Exercise Price

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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	\$	--	\$
=====						

A summary of the status of the warrants granted under the various agreements at June 30, 2005, are presented in the table below:

	Warrants Outstanding				Warrant
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	\$	Number Exercisable
\$1.95	553,324	9.50 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

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reverse split of our common stock. The reverse split was effected on January 28, 2005. All references to per share data and common stock have been restated to reflect the effect of this reverse split.

Results of Operations

The following table sets forth the percentage relationship to total revenues of principal items contained in the our unaudited consolidated statements of operations for the three and six month periods ended June 30, 2005 and 2004. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004	2005	2004
	(Unaudited)		(Unaudited)	
Total Revenues.....	100%	100%	100%	100%
Total costs and expenses.....	110	133	106	161
Loss from operations.....	(12)	(33)	(7)	(61)
Other income (expense).....	(3)	(9)	(3)	(15)
Net loss.....	(16)	(42)	(10)	(76)

Revenues for the three months ("second quarter") and six months ("first half") ended June 30, 2005 increased 501% and 419%, respectively, compared to the same periods of 2004, primarily due to the acquisition of Arvilla and inclusion of its revenues for the 2005 periods. Increased consolidated revenues also reflect increased oil and gas prices and volume. Our cost of oil and gas for the second quarter and first half of 2005 increased 484% and 306%, respectively, compared to the 2004 periods, also due to price and volume increases.

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Selling, general and administrative expenses increased 798% and 828% for the second quarter and first half of 2005, respectively, compared to the same 2004 periods, attributed to the acquisition of Arvilla. Salaries and wages decreased 43% and 35% for the second quarter and first half of 2005, respectively, when compared to the 2004 periods, primarily due to a reduction in accrued wages. Depreciation, depletion, amortization and accretion expense increased 224% and 54% for the second quarter and first half of 2005, due to the addition of Arvilla Assets. Also, the first quarter contained only two months of Arvilla expenses in contrast to the second quarter that contained the full three months of expenses.

Loss from operations for the second quarter and first half of 2005 was \$416,891 and \$399,060, respectively, compared to a loss of \$181,664 and 693,433 for the like periods of 2004. The improvement for the first half of 2005 is related to the acquisition of Arvilla and its increased contribution to revenues, price and volume increases, although the loss for the second quarter increased from the 2004 period due to a decrease in April revenues in Arvilla related to poor weather conditions. We realized total other expenses of \$108,966 and \$193,285 during the second quarter and first half of 2005, respectively, compared to total other expenses of \$49,854 and \$170,998 for the 2004 periods. The increased expenses for the 2005 periods were primarily attributed to

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interest expense increases due to additional debt and an increase in variable interest rates.

As a percentage of total revenues, total costs and expenses decreased from 133% in the second quarter of 2004 to 110% for the second quarter of 2005, and also decreased from 161% for the first half of 2004 to 106% for the first half of 2005. This improvement is also attributed to the acquisition of Arvilla and its additional revenues reported during the periods.

Our net loss for the second quarter and first half of 2005 was \$525,857 and \$592,345, respectively, compared to \$231,518 and \$864,431 for the second quarter and first half 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 half 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 June 30, 2005, we had a working capital deficit of \$2,890,803 compared to a deficit of \$2,980,431 at December 31, 2004. This 3% decrease in working capital deficit is primarily attributed to the acquisition of Arvilla and decreases in current liabilities.

During the first half of 2005, operating activities used net cash of \$65,665 compared to net cash used of \$351,149 for the first half of 2004. These results are primarily attributed to the decrease in net loss, an increase in depreciation, depletion and amortization and a decrease in accrued expenses. Also during the first half of 2005, net cash used by investing activities was \$53,952, compared to net cash provided of \$202,268 for the first half of 2004. This result is primarily attributed to cash acquired from our Arvilla subsidiary.

During the first half of 2005, we realized net cash from financing activities of \$374,584 compared to net cash provided of \$153,214 in the first half of 2004. These results are attributed to an increase in related party payable.

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We anticipate meeting our working capital needs during the remainder of the current fiscal year with revenues from 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 June 30, 2005, we had total assets of \$11,910,921 and total stockholders' equity of \$731,009, compared to total assets of \$4,234,111 and total stockholders' deficit of \$1,169,886 at December 31, 2004.

In 1998, we issued \$4,625,400 face value of 8% Secured Convertible Debentures Due June 30, 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 June 30,

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2005, we owed \$50,000 for a debenture plus approximately \$25,000 in interest.

Because we have incurred significant cumulative operating losses through June 30, 2005 and have a working capital deficit at June 30, 2005 of \$2,890,803, there exists substantial doubt about our ability to continue as a going concern. Historically, our revenues have not been sufficient to cover operating costs and 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 June 30, 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

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.

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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.

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

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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.

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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 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

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 June 30, 2005, we owed \$50,000 to one debenture holder plus approximately \$25,000 in interest.

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

Not applicable.

Item 5. Other Information

The following reports were filed with the SEC on Form 8-K during the three month period ended June 30, 2005.

June 9, 2005 - amendment to our Form 8-K filed November 11, 2004, reporting

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under Item 2.01 that in connection with the completion of the acquisition of Cobham Gas Industries, Inc. we filed under Item 9.01 the applicable financial statements related to Cobham.

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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 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: August 18, 2005

By /S/ CLARENCE E. SMITH

Clarence E. Smith
Chief Executive Officer and Director

Date: August 18, 2005

By /S/ WILLIAM F. WOODBURN

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

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