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TRANS ENERGY INC
Form 10QSB
November 14, 2001

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

FORM 10-QSB

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

For the Quarter Ended September 30, 2001

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 X 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, 2001 |
|--------------------------------|--------------------------------------|
| ----- | ----- |
| Common Stock, \$.001 par value | 176,683,189 |

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PART I

Item 1. Financial Statements

The following unaudited Consolidated Financial Statements for the period ended September 30, 2001 have been prepared by the Company.

TRANS ENERGY, INC.

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CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2001 and December 31, 2000

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TRANS ENERGY, INC. AND SUBSIDIARIES Consolidated Balance Sheets

| | September 30, 2001 | December 31, 2000 |
|--------------------------|-----------------------|----------------------|
| | ----- | ----- |
| | (Unaudited) | |
| ASSETS | | |
| ----- | | |
| CURRENT ASSETS | | |
| Accounts receivable, net | \$ 226,032 | \$ 71,006 |
| | ----- | ----- |
| Total Current Assets | 226,032 | 71,006 |
| | ----- | ----- |
| PROPERTY AND EQUIPMENT | | |
| Vehicles | 59,013 | 59,013 |
| Machinery and equipment | 10,092 | 10,092 |
| Pipelines | 2,254,908 | 2,254,908 |
| Well equipment | 49,155 | 49,155 |
| Wells | 3,449,540 | 3,315,019 |
| Leasehold acreage | 180,000 | 180,000 |
| Accumulated depreciation | (1,889,793) | (1,706,648) |
| | ----- | ----- |
| Total Fixed Assets | 4,112,915 | 4,161,539 |
| | ----- | ----- |
| OTHER ASSETS | | |
| Restricted cash | 65,689 | 65,689 |
| Deposits | 1,420 | 1,420 |
| | ----- | ----- |
| Total Other Assets | 67,109 | 67,109 |
| | ----- | ----- |
| TOTAL ASSETS | \$ 4,406,056 | \$ 4,299,654 |
| | ===== | ===== |

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

| | September 30, 2001 | December 31, 2000 |
|---|-----------------------|----------------------|
| | ----- (Unaudited) | ----- |
| CURRENT LIABILITIES | | |
| Cash overdraft | \$ 82,365 | \$ 11,608 |
| Accounts payable - trade | 1,699,877 | 1,444,692 |
| Accrued expenses | 762,930 | 638,466 |
| Salaries payable | 457,998 | 367,998 |
| Notes payable - current portion | 1,381,956 | 1,538,855 |
| Related party payables | 439,132 | 288,042 |
| Debentures payable | 331,462 | 331,462 |
| | ----- | ----- |
| Total Current Liabilities | 5,155,720 | 4,621,123 |
| | ----- | ----- |
| NET LIABILITIES IN EXCESS OF THE ASSETS OF DISCONTINUED OPERATIONS | -- | 5,400 |
| | ----- | ----- |
| LONG-TERM LIABILITIES | | |
| Notes payable | 658,766 | 658,766 |
| | ----- | ----- |
| Total Long-Term Liabilities | 658,766 | 658,766 |
| | ----- | ----- |
| Total Liabilities | 5,814,486 | 5,285,289 |
| | ----- | ----- |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS' EQUITY (DEFICIT) | | |
| Preferred stock; 10,000,000 shares authorized at \$0.001 par value; 300 and 300 shares issued and outstanding, respectively | -- | -- |
| Common stock; 300,000,000 shares authorized at \$0.001 par value; 176,683,189 and 172,028,189 shares issued and outstanding, respectively | 176,682 | 172,027 |
| Capital in excess of par value | 22,776,278 | 22,608,733 |
| Accumulated deficit | (24,361,390) | (23,766,395) |
| | ----- | ----- |

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| | | |
|---|--------------|--------------|
| Total Stockholders' Equity (Deficit) | (1,408,430) | (985,635) |
| | ----- | ----- |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) | \$ 4,406,056 | \$ 4,299,654 |
| | ===== | ===== |

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

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

| | For the Nine Months Ended September 30, | |
|---|---|-------------|
| | 2001 | 2000 |
| | ----- | ----- |
| REVENUES | \$ 1,036,553 | \$ 890,185 |
| | ----- | ----- |
| COSTS AND EXPENSES | | |
| Cost of oil and gas | 731,860 | 571,746 |
| Salaries and wages | 52,053 | 62,718 |
| Depreciation, depletion and amortization | 183,145 | 233,051 |
| Selling, general and administrative | 496,099 | 1,222,200 |
| | ----- | ----- |
| Total Costs and Expenses | 1,463,157 | 2,089,715 |
| | ----- | ----- |
| LOSS FROM OPERATIONS | (426,604) | (1,199,530) |
| | ----- | ----- |
| OTHER INCOME (EXPENSE) | | |
| Other income | 1,218 | 6,126 |
| Interest expense | (169,609) | (275,447) |
| | ----- | ----- |
| Total Other Income (Expense) | (168,391) | (269,321) |
| | ----- | ----- |
| LOSS FROM OPERATIONS BEFORE INCOME TAXES | (594,995) | (1,468,851) |
| | ----- | ----- |

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| | | | |
|--|--------------|----------------|-----|
| INCOME TAXES | -- | -- | |
| NET LOSS | \$ (594,995) | \$ (1,468,851) | \$ |
| BASIC LOSS PER SHARE | \$ (0.00) | \$ (0.03) | \$ |
| WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING | 174,429,507 | 46,259,026 | 176 |

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

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

| | Preferred Stock | | Common Stock | |
|--|-----------------|--------|--------------|----------|
| | Shares | Amount | Shares | Amount |
| Balance, December 31, 1999 | -- | \$ -- | 7,107,746 | \$ 7,107 |
| Common stock issued for cash at \$0.05 per share | -- | -- | 1,691,287 | 1,691 |
| Common stock issued for services and conversion of debt to equity at \$0.12 per share | -- | -- | 11,722,383 | 11,722 |
| Common stock issued for conversion of debentures, penalty and interest at \$0.04 per share | -- | -- | 151,930,606 | 151,931 |
| Cancellation of common stock | -- | -- | (423,833) | (424) |
| Preferred stock issued for acquisition | 300 | -- | -- | -- |
| Discount for beneficial conversion feature of preferred stock | -- | -- | -- | -- |
| Warrants granted below market value | -- | -- | -- | -- |

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| | | | | |
|---|-----|-------|-------------|------------|
| Net loss for the year ended December 31, 2000 | -- | -- | -- | -- |
| Balance, December 31, 2000 | 300 | -- | 172,028,189 | 172,027 |
| Common stock issued for services at \$0.04 per share (unaudited) | -- | -- | 3,655,000 | 3,655 |
| Common stock issued for services at \$0.026 per share (unaudited) | -- | -- | 1,000,000 | 1,000 |
| Net loss for the nine months ended September 30, 2001 (unaudited) | -- | -- | -- | -- |
| Balance, September 30, 2001 (unaudited) | 300 | \$ -- | 176,683,189 | \$ 176,682 |

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

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

| | For the Nine Months September 30 | |
|--|-------------------------------------|----------------|
| | 2001 | 2000 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (594,995) | \$ (1,400,000) |
| Adjustments to reconcile net loss to net cash (used) by operating activities: | | |
| Depreciation, depletion and amortization | 183,145 | 200,000 |
| Common stock issued for services | 172,200 | 4,000 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in accounts receivable | (155,025) | |
| (Increase) decrease in restricted cash | -- | 1,000 |
| Decrease (increase) in prepaid and other current assets | -- | (1,000) |
| Increase in accounts payable and accrued expenses | 237,846 | 4,000 |
| Net Cash (Used) by Operating Activities | (156,829) | (3,400,000) |

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CASH FLOWS FROM INVESTING ACTIVITIES:

| | | |
|---|-----------|--|
| Expenditures for property and equipment | (134,522) | |
| | | |
| Net Cash (Used) by Investing Activities | (134,522) | |
| | | |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | |
|---|----------|-----|
| Increase in cash overdraft | 70,757 | |
| Proceeds from related party notes | 176,477 | 2 |
| Proceeds from notes payable | 150,147 | 2 |
| Principal payments on notes payable | (85,242) | (1) |
| Principal payments on related party notes | (20,788) | (|
| | | |
| Net Cash Provided by Financing Activities | 291,351 | 3 |
| | | |

NET INCREASE (DECREASE) IN CASH

--

(

CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR

--

--

CASH AND CASH EQUIVALENTS, END OF YEAR

\$ --

\$

CASH PAID FOR:

| | | |
|--------------|------------|------|
| Interest | \$ 106,234 | \$ 1 |
| Income taxes | \$ -- | \$ |

NON-CASH FINANCING ACTIVITIES:

| | | |
|----------------------------------|------------|--------|
| Common stock issued for debt | \$ -- | \$ 5,2 |
| Common stock issued for services | \$ 172,200 | \$ 4 |

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

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TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
September 30, 2001 and December 31, 2000

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 generally

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accepted accounting principles have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim condensed consolidated financial statements include normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto included in its December 31, 2000 Annual Report on Form 10-KSB. Operating results for the nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001.

NOTE 2 - GOING CONCERN

The Company's consolidated financial statements are prepared using generally accepted accounting principles 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, 2001, and has a working capital deficit at September 30, 2001. 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 - COMMITMENTS AND CONTINGENCIES

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.

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TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements September 30, 2001 and December 31, 2000

NOTE 3 - COMMITMENTS AND CONTINGENCIES (Continued)

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

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Texas entered an Agreed Final Judgment in favor of Western against the Company in the amount of \$600,665, together with post judgment interest at 10% per annum. Following the judgment, Western and the Company entered into settlement negotiations concerning the Company's satisfaction of the judgment through payments over a four to five month period together with the pledge of collateral on certain unencumbered assets. Previously, on or about July 9, 1998, a judgment had been entered in the 152nd District Court of Harris County, Texas against the Company in favor of Baker Hughes Oilfield Operations, Inc. d/b/a/ Baker Hughes Inteq. Western Geophysical ("Baker"), a division of Western Atlas International, Inc., in the amount of \$41,142, together with interest and attorney fees. This judgment was outstanding at the time of the filing of the Involuntary Petition.

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

On January 19, 2001, the Company filed with the Bankruptcy Court the Motion to Dismiss Chapter 7 Case. The reasons cited by the Company in support of its Motion to Dismiss included, but were not limited to, (i) the Texas Court being an improper venue for the action, and (ii) the Company never receiving the Involuntary Petition and Summons notifying it of the action. 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. The Company has only paid \$50,000 subsequent to the settlement. The Company is not current with its payments related to the settlement, however, the Company and the Baker Entities are negotiating to extend the payments.

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TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements September 30, 2001 and December 31, 2000

NOTE 3 - COMMITMENTS AND CONTINGENCIES (Continued)

On April 10, 2000, a company recorded and served its Notice and Statement of Lien in the Sixth Judicial District, Campbell County, Wyoming, against the Company for non-payment of services. The Company has recorded a liability of \$78,651 which is included in accounts payable at December 31, 2000. Subsequent to year end, the Company entered into a settlement agreement wherein the Company will transfer a portion of the Powder River Basin leasehold acreage in Campbell County, Wyoming held by the Company for settlement of the liability. The Company has agreed to this settlement and the transaction should be finalized during the fourth quarter of 2001.

On September 22, 2000, a company obtained a judgment of \$46,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler Construction Company for breach of contract. The Company has accrued \$47,741 which is included in accounts payable at December 31, 2000.

On February 13, 2001, Ross Forbus obtained a judgment of \$428,018 against the Company to satisfy a promissory note previously entered into by the Company with Mr. Forbus on April 8, 1996. The Company has recorded the balance in notes payable at December 31, 2000. The Company is not current with its payments related to the judgment, however, the Company and Ross Forbus are negotiating to extend the payments.

On September 28, 2001, the Securities and Exchange Commission (the "Commission") announced that it had filed a civil action in U.S. District Court for the District of Columbia (Civil Action No. 1:01CV020060) against the Company and two of its directors, Loren E. Bagley and William F. Woodburn. The complaint alleges violations of the anti-fraud and reporting provisions of the federal securities laws and seeks injunctive relief against the Company, Mr. Bagley and Mr. Woodburn to enjoin them from future violations of securities laws. The complaint also seeks civil penalties against Messrs. Bagley and Woodburn.

The Commission's action is premised on the dissemination of alleged false and misleading statements through press releases, website postings and Commission filings. The complaint alleges that these statements contained misrepresentations, inaccuracies and omissions during a period when Mr. Bagley served as the Company's President and Mr. Woodburn as the Vice President and principal financial officer. The Company's counsel is actively reviewing the complaint and determining an appropriate response.

NOTE 4 - MATERIAL EVENTS

On July 30, 2001, the Company entered into an agreement with Millennium Energy, LLC (Millennium), whereby the Company assigned and transferred half of its 51% interest and shares in Gas & Oil, Inc. in exchange for part of Millennium's Trenton-Black River drilling rights. In accordance with APB 29, Accounting for Nonmonetary Transactions, the Company has recorded its investment

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in the Trenton-Black River drilling rights at the fair value of half the Company's interest in Gas & Oil, Inc. The Company previously had fully allowed for its interest in Gas & Oil, Inc. and has thus recorded the new investment in Trenton-Black River at \$-0-.

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TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Consolidated Financial Statements September 30, 2001 and December 31, 2000

NOTE 4 - MATERIAL EVENTS (Continued)

On September 10, 2001, Mr. Bagley resigned as President and Chief Executive Officer of the Company and Mr. Woodburn resigned as Vice President, although Mr. Woodburn continues as Secretary and Treasurer. Mr. Bagley was then appointed as a Vice President and Robert L. Richards was elected as the new President, Chief Executive Officer and a director.

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

The following table sets forth the percentage relationship to total revenues of principal items contained in the Company's Consolidated Statements of Operations for the three and nine month periods ended September 30, 2001 and 2000. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

| | Three Months Ended September 30, | | Nine months End September |
|-------------------------------|-------------------------------------|------|------------------------------|
| | 2001 | 2000 | 2001 |
| | (Unaudited) | | (Unaudited) |
| Total revenues..... | 100% | 100% | 100% |
| Total costs and expenses..... | 123 | 135 | 141 |
| Loss from operations..... | (23) | (35) | (41) |
| Other income (expense)..... | (16) | (12) | (16) |
| Net loss..... | (39) | (47) | (57) |

Total revenues for the three months ("third quarter") ended September 30, 2001 increased 8% when compared with the third quarter of 2000. For the nine months ("first nine months") ended September 30, 2001, total revenues increased 16% compared to the first nine months of 2000. The increases during the 2001

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periods are primarily due to higher gas sales and higher oil and gas prices. Cost of oil and gas for the third quarter and first nine months of 2001 increased 35% and 28%, respectively, from the third quarter and first nine months of 2000 due to increased sales, land lease expenses and increased gas prices to the Company. Selling, general and administrative expenses for the third quarter and first nine months of 2001 declined 46% and 59%, respectively, when compared to the third quarter and first nine months of 2000 primarily attributed to fewer stock issuances for services and a smaller working staff.

Depreciation, depletion and amortization expenses for the third quarter and first nine months of 2001 decreased 33% and 21%, respectively, compared to the same 2000 periods. This decrease is attributed to the write-off of the Wyoming properties that were impaired during 2000. Also, salaries and wages decreased 3% and 17% for the first nine months and third quarter of 2001, respectively, compared to the 2000 period primarily due to a smaller working staff.

Total costs and expenses as a percentage of total revenues decreased from 234% in the third quarter of 2000 to 141% for the third quarter of 2001, and from 135% for the first nine months of 2000 to 123% for the first nine months of 2001. Actual total costs and expenses decreased 1% and 30% for the third quarter and first nine months of 2001, respectively. The decreases are primarily attributed to the decreases in selling, general and administrative expenses and depreciation, depletion and amortization.

The Company's net loss for the third quarter and first nine months of 2001 was \$145,288 and \$594,995, respectively, compared to \$161,624 and \$1,468,851 for the same 2000 period. This decrease in the Company's net loss for the 2001 periods is primarily attributed to the increase in revenues and corresponding decreases in selling, general and administrative expenses and depreciation, depletion and amortization.

For the remainder of fiscal year 2001, management expects selling, general and administrative expenses to remain at approximately the same rate as the third quarter of 2001. 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 2001.

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The Company has included a footnote to its financial statements for the periods ended September 30, 2001 stating that because of the Company's continued losses, working capital deficit and need for additional funding, there is substantial doubt as to whether the Company can continue as a going concern. See Note 2 to the consolidated financial statements.

Net Operating Losses

The Company has accumulated approximately \$16,000,000 of net operating loss carryforwards as of December 31, 2000, which may be offset against future taxable income through the year 2020 when the carryforwards expire. The use of these losses to reduce future income taxes will depend on the generation of sufficient taxable income prior to the expiration of the net operating loss

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carryforwards.

In the event of certain changes in control of the Company, there will be an annual limitation on the amount of net operating loss carryforwards which can be used. No tax benefit has been reported in the financial statements for the year ended December 31, 2000 or the nine month period ended September 30, 2001 because the potential tax benefits of the loss carryforward is offset by valuation allowance of the same amount.

Liquidity and Capital Resources

Historically, the Company's working capital needs have been satisfied through its operating revenues and from borrowed funds. At September 30, 2001, the Company had a working capital deficit of \$4,929,688 compared to a deficit of \$4,550,117 at December 31, 2000. This 8% decline in working capital is primarily attributed to the increases in trade accounts payable (18%), accrued expenses (20%), salaries payable (25%) and related party payables (52%), and was partially offset by the 218% increase in net accounts receivable.

During the first nine months of 2001, the Company's operating activities used net cash of \$156,829 compared to \$326,977 net cash used in the first nine months of 2000. The Company's decrease in net loss for the first nine months of 2001 was partially offset by the decrease in common stock issued for services and smaller increase in accounts payable during the 2001 period, and decreases in payroll and in interest expenses due to conversion of debentures in 2000.

The Company also reported \$134,522 net cash used by investing activities in the first nine months of 2001 due to expenditures for property and equipment, compared to \$240 expended in 2000. During the first nine months of 2001, the Company realized \$291,351 in cash from financing activities compared to \$313,740 realized in the 2000 period. This result is due primarily from decreased proceeds from related party notes and notes payable.

The Company anticipates meeting its working capital needs during the remainder of the current fiscal year with revenues from operations, particularly from its Powder River Basin interests in Wyoming and its New Benson gas wells drilled in West Virginia. In the event revenues are not sufficient to meet the Company's working capital needs, it 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 the Company or, if available, it will be on acceptable or favorable terms to the Company.

As of September 30, 2001, the Company had total assets of \$4,406,056 and total stockholders' deficit of \$1,408,430, compared to total assets of \$4,299,654 and total stockholders' deficit of \$985,635 at December 31, 2000.

In 1998, the Company 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, 2001, the Company owed \$331,462 in connection with the debentures consisting of \$50,000 for one debenture holder that the Company has been unable to contact and \$281,462 in penalties and interest.

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

Forward-Looking and Cautionary Statements

Forward-looking statements in this report are made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The Company wishes to advise readers that actual results may differ substantially from such forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements, including, but not limited to, the following: the ability of the Company to secure additional financing, the possibility of success in the Company's drilling endeavors, competitive factors, and other risks detailed in the Company's periodic report filings with the Securities and Exchange Commission.

PART II

Item 1. Legal Proceedings

There are no material pending legal proceedings to which the Company is a party or to which any of its property is subject except as set forth below.

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 \$600,665.36, together with post judgment interest at 10% per annum. Following the judgment, Western and the Company entered into settlement negotiations concerning the Company's satisfaction of the judgment through payments over a four to five month period together with the pledge of collateral on certain unencumbered assets. Previously, on or about July 9, 1998, a judgment had been entered in the 152nd District Court of Harris County, Texas against the Company in favor of Baker Hughes Oilfield Operations, Inc. d/b/a/ Baker Hughes Inteq. Western Geophysical ("Baker"), a division of Western Atlas International, Inc., in the amount of \$41,142.00, 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 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

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pay to Western and Baker the sum of \$182,736.66, on behalf of the Company and pursuant to the terms of the Settlement Agreement.

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The Settlement Agreement provided that, subject to the approval of the Bankruptcy Court, the Company agreed to pay to the Baker Entities \$759,664.31, 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 \$117,260.71 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.

On April 10, 2000, Bellevue Resources, Inc. recorded and served a Notice and Statement of Lien in the Sixth Judicial District, Campbell County, Wyoming, against the Company for non-payment of services. The Company recorded a liability of \$78,651 in its financial statements under accounts payable for the year ended December 31, 2000 to reflect this claim. Bellevue Resources has agreed to take certain lease acreage in Campbell County, Wyoming held by the Company as payment for this liability. The Company has agreed to this settlement and the transaction should be finalized during the fourth quarter of 2001.

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. The Company has accrued \$47,741 which is included in the Company's financial statements for the year ended December 31, 2000 under accounts payable.

On February 13, 2001, Ross Forbus obtained a judgment of \$428,018 against the Company to satisfy a promissory note previously entered into by the Company with Mr. Forbus on April 8, 1996. The Company has agreed to payment terms and recorded the balance in notes payable at December 31, 2000.

On September 28, 2001, the Securities and Exchange Commission announced that it had filed a civil action in U.S. District Court for the District of Columbia (Civil Action No. 1:01CV020060) against the Company and two of its directors, Loren E. Bagley and William F. Woodburn. The complaint alleges violations of the anti-fraud and reporting provisions of the federal securities laws and seeks injunctive relief against the Company, Mr. Bagley and Mr. Woodburn to enjoin them from future violations of securities laws. The complaint also seeks civil penalties against Messrs. Bagley and Woodburn.

The Commission's action is premised on the dissemination of alleged false and misleading statements through press releases, website postings and Commission filings. The complaint alleges that these statements contained misrepresentations, inaccuracies and omissions during a period when Mr. Bagley served as the Company's President and Mr. Woodburn as the Vice President and principal financial officer. The Company's counsel is actively reviewing the complaint and determining an appropriate response.

On September 10, 2001, Mr. Bagley resigned as President and Chief Executive Officer of the Company and Mr. Woodburn resigned as Vice President, although he continues as Secretary and Treasurer. Mr. Bagley was then appointed

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as a Vice President and Robert I. Richards was elected as the new President, Chief Executive Officer and a director.

Item 2. Changes In Securities and Use of Proceeds

During the third quarter of 2001 the Company issued 1,000,000 shares of its common stock to one person in exchange for services valued at \$0.026 per share, or an aggregate of \$26,000. The shares were issued pursuant to a registration statement on Form S-8.

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Item 3. Defaults Upon Senior Securities

In 1998, the Company issued \$4,625,400 face value of 8% Secured Convertible Debentures due March 31, 1999 (the "Debentures") 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 Company's Common Stock at a conversion price for each share equal to the lower of (a) seventy percent (70%) of the market price of the Company's Common 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 the option of the Company, in cash or in shares of the Company's 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, 2001, the Company owed \$331,462 in connection with the debentures consisting of \$50,000 to one debenture holder and \$281,462 in penalties and interest.

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

This Item is not applicable

Item 5. Other Information

This Item is not applicable

Item 6. Exhibits and Reports on Form 8-K

(b) Reports on Form 8-K

On July 13, 2001, the Company filed a Current Report on Form 8-K reporting under Item 5 that on July 29, 2001, Gary Lawyer had resigned as a director of the Company.

On October 11, 2001, the Company filed a Current Report on Form 8-K reporting under Item 5 that on September 28, 2001 the Securities and Exchange Commission filed a complaint against the Company and two of its directors. The Report also disclosed that on September 10, 2001 the Company's President and Chief Executive Officer resigned as did the Company's Vice President, and Robert I. Richards was elected as the new

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President, Chief Executive Officer and a director.

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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: November 14, 2001

By /S/ ROBERT I. RICHARDS

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

Date: November 14, 2001

By /S/ WILLIAM F. WOODBURN

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

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