TRANS ENERGY INC
Form 10-Q
May 16, 2002

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 March 31, 2002

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 March 31, 2002
Common Stock, $.001 par value	193,519,127

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Heading

PART I

Item 1. Financial Statements

The following unaudited Consolidated Financial Statements for the period ended March 31, 2002 have been prepared by the Company.

TRANS ENERGY, INC.

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2002 and December 31, 2001

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

ASSETS

	March 31, 2002 (Unaudited)	December 31, 2001
CURRENT ASSETS		
Cash	$ 13,667	$ 1,491
Accounts receivable, net	144,304	186,478
Total Current Assets	157,971	187,969
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	3,578,570	3,559,644
Leasehold acreage	114,426	114,426
Accumulated depreciation	(2,631,375)	(2,602,528)
Total Fixed Assets	3,434,789	3,444,710
OTHER ASSETS		
Cash surrender value - life insurance (net)	8,791	8,791
Total Other Assets	8,791	8,791
TOTAL ASSETS	$ 3,601,551	$ 3,641,470

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

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	March 31, 2002 (Unaudited)	December 31, 2001
CURRENT LIABILITIES		
Accounts payable - trade	$ 654,449	$ 754,552
Notes payable - convertible	46,130	41,575
Accrued expenses	564,396	619,678
Salaries payable	684,962	642,662
Notes payable - current portion	1,575,854	1,311,695
Judgments payable (Note 5)	1,191,754	1,228,964
Related party payables	792,025	704,829
Debentures payable	331,462	331,462
Dividends payable	--	23,250
Stock subscription deposit (Note 4)	200,000	--
Total Current Liabilities	6,041,032	5,658,667
LONG-TERM LIABILITIES		
Judgments payable (Note 5)	6,434	6,434
Notes payable	282,165	282,165
Total Long-Term Liabilities	288,599	288,599
Total Liabilities	6,329,631	5,947,266
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock; 10,000,000 shares authorized at $0.001 par value; -0- and 300 shares issued and outstanding, respectively	--	--
Common stock; 500,000,000 shares authorized at $0.001 par value; 193,519,127 and 176,683,189 shares issued and outstanding, respectively	193,518	176,682
Capital in excess of par value	22,775,785	22,769,371
Accumulated deficit	(25,697,383)	(25,251,849)
Total Stockholders' Equity (Deficit)	(2,728,080)	(2,305,796)
TOTAL LIABILITIES AND STOCKHOLDERS'		

EQUITY (DEFICIT)	$ 3,601,551	$ 3,641,470

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

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

	For the Three Months Ended March 31, 2002	2001
REVENUES	$ 169,489	$ 294,425
COSTS AND EXPENSES		
Cost of oil and gas	272,198	188,445
Salaries and wages	17,765	16,619
Depreciation, depletion and amortization	53,789	60,883
Selling, general and administrative	139,960	140,684
Total Costs and Expenses	483,712	406,631
LOSS FROM OPERATIONS	(314,223)	(112,206)
OTHER INCOME (EXPENSE)		
Other income	3,329	721
Interest expense	(134,640)	(61,089)
Total Other Income (Expense)	(131,311)	(60,368)
LOSS FROM OPERATIONS BEFORE INCOME TAXES AND MINORITY INTERESTS	(445,534)	(172,574)
INCOME TAXES	--	--
MINORITY INTERESTS	--	--
NET LOSS	$ (445,534)	$ (172,574)
BASIC LOSS PER SHARE	$ (0.00)	$ (0.00)
WEIGHTED AVERAGE SHARES OUTSTANDING	186,784,752	173,837,689

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

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

	Preferred Stock		Common Stock	
	Shares	Amount	Shares	Amount
Balance, December 31, 2000	300	$ --	172,028,189	$ 172,02
Common stock issued for services at $0.03 per share	--	--	4,655,000	4,65
Discount on beneficial conversion feature of notes payable	--	--	--	--
Dividend on preferred stock at 7.75%	--	--	--	--
Net loss for the year ended December 31, 2001	--	--	--	--
Balance, December 31, 2001	300	--	176,683,189	176,68
Conversion of preferred stock and preferred dividends to common stock (unaudited)	(300)	--	16,835,938	16,83
Net loss for the three months ended March 31, 2002 (unaudited)	--	--	--	--
Balance, March 31, 2002 (unaudited)	--	$ --	193,519,127	$ 193,51

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

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

	For the Three Months Ended March 31, 2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(445,534)	$(172,574)
Adjustments to reconcile net loss to net cash (used) by operating activities:		
Depreciation, depletion and amortization	53,789	60,883
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	42,174	(72,558)
(Increase) in prepaid and other current assets	--	(10,058)
Increase (decrease) in accounts payable and accrued expenses	(175,237)	142,802
Increase in cash overdraft	--	3,771
Net Cash (Used) by Operating Activities	(524,808)	(47,734)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for property and equipment	(18,926)	(55,787)
Net Cash (Used) by Investing Activities	(18,926)	(55,787)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Stock subscription deposit	200,000	--
Proceeds from related party notes	87,196	14,600
Proceeds from notes payable	268,714	108,280
Principal payments on notes payable	--	(19,359)
Net Cash Provided by Financing Activities	555,910	103,521
NET INCREASE (DECREASE) IN CASH	12,176	--
CASH, BEGINNING OF PERIOD	1,491	--
CASH, END OF PERIOD	$ 13,667	$ --

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

TRANS ENERGY, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Continued)
(Unaudited)

	For the Three Months Ended March 31, 2002	2001
CASH PAID FOR:		
Interest	$76,043	$41,650
Income taxes	$-	$ --
NON-CASH FINANCING ACTIVITIES:		
Common stock issued for debt	$ --	$ --
Common stock issued for services	$ --	$ --
Common stock issued for preferred stock and preferred dividends	$23,250	$ --

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
March 31, 2002 and December 31, 2001

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 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, 2001 Annual Report on Form 10-KSB. Operating results for the three months ended March 31, 2002 and 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002.

7NOTE 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 March 31, 2002 of $25,697,383, and has a working capital deficit at March 31, 2002 of $5,883,061. 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 2001 amounts have been reclassified to conform to the 2002 presentations.

NOTE 4 - MATERIAL EVENTS

Stockholders' Equity

During February 2002, the Company converted 300 shares of preferred stock and $23,250 of cumulative preferred dividends into 16,835,938 shares of common stock. As a result of this conversion, the Company has -0- shares of preferred stock issued and outstanding at March 31, 2002.

During February 2002, the Company received $200,000 for the purchase of 33,333,333 shares of common stock. The 33,333,333 shares have not yet been issued, and as such $200,000 is being shown as a stock subscription deposit at March 31, 2002.

NOTE 4 - MATERIAL EVENTS (Continued)

Notes Payable

During March 2002, the Company entered into a promissory note with an unrelated party for $25,000. The note is payable upon demand and accrues interest at 10% per annum.

NOTE 5 - JUDGMENTS PAYABLE

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 District Court in Harris County, Texas 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. At December 31, 2001, the balance due to Tioga was $47,234 and is included in judgments payable and is classified as a current liability.

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. Management 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 December 31, 2001 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.

On December 26, 2001, George Hillyer filed a suit against the Company and William F. Woodburn and Loren E. Bagley, individually. The action seeks $250,750 in connection with certain services performed for the Company. The Company has indicated that the suit is not justified and that the Company and the individual defendants intend to vigorously defend the action. The Company has not accrued any amounts for these claims as of December 31, 2001 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.

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 accrued the balance of $428,018 plus accrued interest of $25,372. The total amount of $453,390 is included in judgments payable and is classified as a current liability.

NOTE 5 - JUDGMENTS PAYABLE (Continued)

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 December 31, 2001, the Company had accrued a balance of $14,669 which is included in judgments payable. $6,434 has been classified as a long-term liability.

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. The Company has accrued a balance of $62,880 which is included in judgment payable as a current liability.

On April 10, 2000, Bellevue Resources 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 had recorded a liability of $78,651 at December 31, 2000. During 2001, the Company entered into a settlement agreement wherein the Company transferred a portion of the Powder River Basin leasehold acreage in Campbell County, Wyoming. At December 31, 2001, the balance was $55,259 that is included judgments payable as a current liability.

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.

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.

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TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
March 31, 2002 and December 31, 2001

NOTE 5 - JUDGMENTS PAYABLE (Continued)

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. At December 31, 2001, the Company has a remaining liability of $601,966 which is included in judgments payable as a current liability.

On September 28, 2001, the U.S. Securities & Exchange Commission ("SEC") filed a civil action in the U.S. District Court for the District of Columbia against the Company, Loren E. Bagley, its President and William Woodburn, its Vice President.

The SEC sought a judgment against the Company enjoining it from future violations of Sections 10(b) and 13(a) of the Securities and Exchange Act of 1934 (Exchange Act) and Rules 10b-5, 12B-20, 13a-1, and 13a-13. Further, the SEC sought a judgment against Messrs. Bagley and Woodburn enjoining them from future violations of Section 10(b) of the Exchange Act and Rule 10b-5, from aiding and abetting future violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13, and assessing civil penalties against them.

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TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Consolidated Financial Statements
March 31, 2002 and December 31, 2001

NOTE 5 - JUDGMENTS PAYABLE (Continued)

On February 26, 2002, the United States District Court for the District of Columbia entered a permanent injunction against the Company, its former President, Loren E. Bagley, and its former Vice President and principal financial officer, William F. Woodburn, permanently enjoining them from future violations of Sections 10(b) and 13(a) of the Securities Exchange Act of 1934 (Exchange Act) and Rules 10b-5, 12b-20, 13a-1, and 13a-13 thereunder. The Court's order further enjoins Messrs. Bagley and Woodburn from aiding and abetting violations of Section 13(a) of the Exchange Act and Rules 12b-20, 13a-1, and 13a-13 thereunder and orders Messrs. Bagley and Woodburn to each pay a $20,000 civil penalty. The Company and Messrs. Bagley and Woodburn consented to entry of the permanent injunction and the imposition of civil penalties without admitting or denying the SEC's allegations.

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 month periods ended March 31, 2002 and 2001. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended March 31,	
	2002	2001
	(Unaudited)	
Total revenues.......................	100%	100%
Total costs and expenses.............	285	138
Net (loss) from operations...........	(185)	(38)
Other income (expense)...............	(77)	(21)
Net (loss) before income taxes........	(262)	(59)
Income taxes.........................	-	-
Net income (loss)....................	(262)	(59)

Total revenues for the three months ("first quarter") ended March 31, 2002 decreased 42% when compared with the first quarter of 2002. The decreases during the 2002 period is primarily due to less oil production and lower oil and gas prices. Cost of oil and gas for the first quarter of 2002 increased 44% from the first quarter of 2001 due to accounting for additional drilling costs on new wells. Selling, general and administrative expenses for the first quarter of 2002 were approximately the same as for the 2001 period and salaries and wages increased a modest 7% for the period. Depreciation, depletion and amortization decreased 12% due to lower oil production and full depreciation of assets. The loss from operations for the first quarter of 2002 was $314,223 compared to $112,206 for the 2001 period, an increase of 180%.

Total costs and expenses as a percentage of total revenues increased from 138% in the first quarter of 2001 to 285% for the first quarter of 2001. Actual total costs and expenses increased 19% for the first quarter 2002. The increase is primarily attributed to the increases in cost of oil and gas and the increase in depreciation, depletion and amortization. Other expenses also increased 118%, attributed the 119% increase in interest expense due to loans for increased drilling expenses.

The Company's net loss for the first quarter of 2002 was $445,534 compared to $172,574 for the 2001 period. The increase is primarily attributed to the decrease in revenues and increased cost of oil and gas.

For the remainder of fiscal year 2002, management expects selling, general and administrative expenses to remain at approximately the same rate as the first quarter of 2002. 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 2002.

The Company has included a footnote to its financial statements for the periods ended March 31, 2002 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 $18,246,000 of net operating loss carryforwards as of December 31, 2001, which may be offset against future taxable income through the year 2021 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 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, 2001 or the three month period ended March 31, 2002 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 March 31, 2002, the Company had a working capital deficit of $5,883,061 compared to a deficit of $5,470,698 at December 31, 2001. This 8% further decline in working capital is primarily attributed to the decrease in accounts receivable (23%) and increases in notes payable (20%) and related party payables (12%). Also, the Company recorded a $200,000 stock subscription deposit during the first quarter of 2002 related to the purchase of common stock that has not been issued. Working capital benefitted from decreases accrued expenses (9%) and judgments payable (3%).

During the first three months of 2002, the Company's operating activities used net cash of $524,808 compared to $47,734 net cash used in the first three months of 2001. This result is attributed to the Company's increased net loss for the period.

The Company also reported $18,926 net cash used by investing activities in the first three months of 2002 compared to $55,787 net cash used in the 2001 period. The decline is attributed to the decrease in expenditures for property and equipment during the 2002 period. During the first three months of 2002, the Company realized $555,910 in cash from financing activities compared to $103,521 realized in the 2001 period. This increase is due primarily to the stock subscription deposit and the increase in proceeds from 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 March 31, 2002, the Company had total assets of $3,601,551 and total stockholders' deficit of $2,728,080, compared to total assets of $3,641,470 and total stockholders' deficit of $2,305,796 at December 31, 2001.

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 March 31, 2002, 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.

Inflation

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

Certain material pending legal proceedings to which the Company is a party or to which any of its property is subject is set forth below.

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(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 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 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.

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 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. Subsequently, the Company 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. Management believes that this payment will satisfy the Baker Entities until the obligation can be paid in full.

(b) 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 management anticipates the transaction will be finalized during the second quarter of 2002.

(c) 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. Management has represented that the Company has reached a negotiated payment schedule with Tioga. The Company has made the initial payment pursuant to the settlement and management expects the full amount will be paid by the third quarter 2002.

(d) On April 16, 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 has made small payments to Mr. Forbus. Management is currently attempting to extend the term of the payments.

(e) On December 26, 2001, George Hillyer filed a suit against the Company and William F. Woodburn and Loren E. Bagley individually. The action seeks $250,750 in connection with certain services performed for the Company. Management has indicated that the suit is not justified and that the Company and the individual defendants intend to vigorously defend the action. The Company has not accrued any amounts for these claims as of December 31, 2001 because the Company feels that the based on its defenses against the claims it will have no additional liability. Due to the early stage of the litigation, it is not possible to evaluate the likelihood of an unfavorable outcome or estimate the extent of potential loss.

(f) In September 2001, the Securities and Exchange Commission filed a civil action in the United States District Court for the District of Columbia (Civil Action No. 1:01CV020060) against Trans Energy, Inc. (the "Company") and two of its directors, Loren E. Bagley and William F. Woodburn. The complaint alleged violations of the anti-fraud and reporting provisions of the federal securities laws in connection with press releases, website postings, and Commission filings. The Commission's complaint sought injunctive relief and civil penalties.

On February 26, 2002, the District Court entered a permanent injunction against the Company, Mr. Bagley, and Mr. Woodburn, permanently enjoining them from future violations of the Securities Exchange Act of 1934 and certain rules promulgated thereunder. The Court also ordered Messrs. Bagley and Woodburn to each pay a $20,000 civil penalty. The Company, Mr. Bagley and Mr. Woodburn consented to entry of the permanent injunction and the imposition of civil penalties without admitting or denying the Commission's allegations. Messrs. Bagley and Woodburn have each paid their civil penalty.

(g) 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 the Company sold certain assets which Mr. Spencer claims to be the beneficial owner. The complaint seeks $1,000,000 in damages. Management 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 December 31, 2001 because the Company feels that the based on its defenses against the claims it will have no additional liability. Due to the early stage of the litigation, it is not possible to evaluate the likelihood of an unfavorable outcome or estimate the extent of potential loss.

Item 2. Changes In Securities and Use of Proceeds

During the first quarter of 2002 the Company issued 16,835,938 shares of its common stock to three persons upon the conversion of preferred stock and dividends into common stock. This transaction was exempt from registration under the Securities Act of 1933 pursuant to Section 3(a)(9) of that Act.

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 March 31, 2002, 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.

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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 March 5, 2002, the Company filed a Current Report on Form 8-K reporting under Item 5 that on February 26 2002, the SEC entered an injunction against the Company and two of its directors.

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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: May 16, 2002 By /S/ Robert I. Richards
ROBERT I. RICHARDS, President,
Chief Executive Officer and Director

Date: May 16, 2002 By /S/ William F. Woodburn
WILLIAM F. WOODBURN
Secretary / Treasurer
(Principal Accounting Officer)