

Edgar Filing: TRANS ENERGY INC - Form 10KSB

TRANS ENERGY INC
Form 10KSB
May 22, 2006

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

FORM 10-KSB

(Mark One)

Annual Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

For the Fiscal Year Ended December 31, 2005

Transition Report Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Commission File Number 0-23530

TRANS ENERGY, INC.

(Name of small business issuer 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) (Zip Code)

Issuer's telephone no.: (304) 684-7053

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act: Common

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

State the issuer's revenues for its most recent fiscal year. \$ 4,797,201

State the aggregate market value of the voting stock held by non-affiliates computed by reference to the price at which the stock was sold, or the average bid and ask prices of such stock as of a specified date within 60 days. \$1,233,094 (Based on price of \$0.61 per share on May 12, 2006)

State the number of shares outstanding of each of the issuer's classes of common equity, as of the latest practicable date.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Class -----	Outstanding as of March 31, 2006 -----
Common Stock, Par Value \$.001 per share	4,707,515

DOCUMENTS INCORPORATED BY REFERENCE

A description of "Documents Incorporated by Reference" is contained in Part III, Item 13.

Transitional Small Business Disclosure Format. Yes [] No [X]

TRANS ENERGY, INC.

TABLE OF CONTENTS

PART I

Item 1.	Description of Business
Item 2.	Description of Property.....
Item 3.	Legal Proceedings.....
Item 4.	Submission of Matter to a Vote of Security Holders.....

PART II

Item 5.	Market for Common Equity and Related Stockholder Matters.....
Item 6.	Management's Discussion and Analysis or Plan of Operation.....
Item 7.	Financial Statements.....
Item 8.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.....
Item 8A.	Controls and Procedures.....
Item 8B.	Other Information.....

PART III

Item 9.	Directors, Executive Officers, Promoters and Control persons; Compliance with Section 16(a) of the Exchange Act.....
Item 10.	Executive Compensation.....
Item 11.	Security Ownership of Certain Beneficial Owners and Management.....
Item 12.	Certain Relationships and Related Transactions.....

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Item 13. Exhibits.....
Item 14. Principal Accountant Fees and Services.....
Signatures.....

-2-

PART I

Item 1. Description of Business

History

Trans Energy, Inc. is engaged in the transportation, marketing and production of natural gas and oil, and certain exploration and development activities. We own and operate approximately 93 oil and gas wells in West Virginia. We also own and operate an aggregate of over 20 miles of 4-inch and 6-inch gas transmission lines located within West Virginia in the Counties of Ritchie and Tyler. This pipeline system gathers natural gas produced from these wells and from wells owned by third parties. We also have approximately 10,000 gross acres under lease in West Virginia in the counties of Wetzel and Tyler.

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

Our principal executive offices are located at 210 Second Street, P.O. Box 393, St. Marys, West Virginia 26170, and our telephone number is (304) 684-7053.

Recent Events

Sale of Cobham Assets

On September 1, 2005, together with our wholly owned subsidiary Prima Oil Company, Inc., we finalized the sale of certain assets to Texas Energy Trust Company and its trustee, George Hillyer ("Buyer"). These assets include the following:

- * Certain leases for the production of oil and natural gas located in Marion County, West Virginia (the "Marion County Leases");
* Certain oil or natural gas wells located on the Marion County Leases (the "Marion County Wells"), together with all of the equipment and other tangible personal property physically attached to any of the wells, including all pipelines, rights of way, easements, well head equipment and leasehold estates;
* Certain vehicles and other equipment, parts, inventories and hand tools;
* Miscellaneous well logs, maps, production data, sales records and histories, royalty payment records and other information concerning the Marion County Leases and Marion County Wells;
* A \$50,000 reclamation bond pursuant to which all of the Marion County Wells, and others, are permitted;
* Certain cash and trade accounts receivable generated by the operations

Edgar Filing: TRANS ENERGY INC - Form 10KSB

and results of operations of the Marion County Leases and Marion County Wells, realized on or after August 1, 2005; and

- * All the outstanding capital common stock of Cobham Gas Industries held by Trans Energy, Inc. or any of our affiliates.

The assets are a portion of those total Cobham Gas assets we acquired in November 2004. In consideration for the above referenced assets, the Buyer provided the following to us:

-3-

- * The return to us of 244,633 shares of Trans Energy, Inc. common stock initially issued to Buyer in January 2005 and which shares are to be valued at the closing price per share of our common stock on the closing date;
- * The return to us of all of Buyer's options, warrants and future rights to acquire any securities of Trans Energy or any of our affiliates;
- * We retain the right to use through December 31, 2005 the \$50,000 reclamation bond in order to comply with certain West Virginia bonding requirements; and
- * Buyer will assume responsibility for the payment of certain loans in the amount of \$96,839, the liabilities related to the plugging of certain of the Marion County Wells, all expenses related to operation, maintenance and ownership of the Marion County Leases and the Marion County Wells incurred on or after August 1, 2005.

In addition to the above, we have agreed to fulfill the remaining payment obligations to Buyer under that certain agreement dated November 5, 2004, and we will retain responsibility for the payment of certain debts related to Cobham Gas Industries.

Sale of Arvilla

On April 7, 2006, we finalized the agreement to sell our well servicing and maintenance business in exchange for shares of Trans Energy common stock, certain natural gas properties and other considerations, which agreement was initially entered into on January 3, 2006. Part of the reason for the sale was the inability of our board of directors to agree on the direction of Trans Energy with Arvilla as a significant subsidiary. Under the terms of the definitive agreement, our wholly owned subsidiary, Arvilla, Inc. sold to Clarence E. Smith and Rebecca L. Smith, both directors of Trans Energy, 100% of the outstanding membership interests of Arvilla Oilfield Services, LLC, a West Virginia limited liability company ("AOS").

AOS 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. AOS offers its services in Ohio, Pennsylvania, New York, Virginia, Kentucky and West Virginia and also owns a fleet of well service equipment.

We originally acquired AOS from Clarence and Rebecca Smith on January 31, 2005 through a merger of our subsidiary, Trans Energy Acquisitions, with and into Arvilla, Inc., with Arvilla being the surviving entity. As consideration, we issued 1,185,024 shares of our common stock, of which 1,042,821 shares were

Edgar Filing: TRANS ENERGY INC - Form 10KSB

issued to the Smiths, both of whom became directors of Trans Energy following the acquisition. AOS's operations were previously conducted as Arrow Oilfield Service Company, a division of Belden & Blake Corporation, a privately held company engaged in the exploration, development and production of oil and natural gas. In June 2004, the Smiths acquired Arrow Oilfield Service Company from Belden & Blake and created Arvilla Oilfield Services, LLC as the operating entity. Subsequently, the Smiths created Arvilla, Inc. that acquired all the membership interests of Arvilla Oilfield Services in order to facilitate its acquisition by Trans Energy.

As a result of consummating the definitive agreement, Clarence and Rebecca Smith returned to us 521,411 shares of their Trans Energy common stock. The Smiths have also conveyed to Trans Energy all of their interest in and to five oil and gas wells located in Tyler County, West Virginia. Assignments for the wells originally was to be held in escrow pending satisfaction by Trans Energy of two promissory notes in the aggregate amount of \$763,000 payable to AOS and to Arvilla Pipeline Construction Co., Inc., a separate entity owned by Clarence and Rebecca Smith. However, pursuant to the First Amendment to Definitive Agreement, the parties agreed that the wells would be transferred at the closing and we agreed to pay AOS \$176,239 on or before April 30, 2006, and pay Arvilla

-4-

Pipeline \$115,000 on or before April 30, 2006. To secure these payments by Trans Energy, Clarence and Rebecca Smith will hold a lien on a certain Lyon Leasehold Deed of Trust until the debt is satisfied.

An additional term of the definitive agreement provided that each of Clarence and Rebecca Smith received bonuses equal to approximately \$85,000. A further condition of the closing included the written consent for the sale of AOS from certain banks and lenders having the right to call a loan on the ownership transfer of AOS.

Upon execution of the definitive agreement, Clarence Smith resigned as our Chief Executive Officer, but remained on our board of directors until the closing. At the closing, both Clarence and Rebecca Smith resigned as directors of Trans Energy and Arvilla, Inc. Clarence and Rebecca Smith have also agreed not to sell an amount of their remaining Trans Energy common stock during each calendar quarter on or after March 22, 2006, in an aggregate amount greater than (i) 50,000 shares (adjusted for stock splits or stock dividends; or (ii) one percent of the total outstanding shares of Trans Energy common stock on the date of any such sale.

Finally, the closing of the transaction was expressly conditioned on the receipt of a fairness opinion from a qualified independent party stating that the transactions contemplated by the definitive agreement are fair to Trans Energy and our stockholders. That opinion was issued and delivered to Trans Energy on March 31, 2006.

Sale of Wyoming Wells and Properties

In April 2006, we finalized a definitive Agreement for Sale of Oil and Gas Properties related to the sale of all of our holdings in Wyoming including certain wells, overriding royalties and undeveloped acreage located in Campbell County, Wyoming. The assets have been sold at public auction through the Oil & Gas Asset Clearinghouse in Houston, Texas. The gross sales price for the properties is \$1,003,000.

The wells sold by us, all located in Campbell County, Wyoming, include the

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Pinion Fee #1, Sagebrush Federal #1, Sagebrush Federal #2, Sagebrush Federal #3 (injector), Boley #31-36 Sandbar, State #1-36 Sandbar and State #2-36 Sandbar. Also included in the sales were overriding royalties on two wells (Sagebrush Federal #1 and Sagebrush Federal #2) and Tract TR4-B, and 2,530 undeveloped acres, also located in Campbell County.

Business History

Our business strategy is to economically increase reserves, production and the sale of gas and oil from existing and acquired properties in the Appalachian Basin and elsewhere, in order to maximize shareholders' return over the long term. Our strategic location in West Virginia enables us to actively pursue the acquisition and development of producing properties in that area that will enhance our revenue base without proportional increases in overhead costs.

We operate oil and natural gas properties and transport and market natural gas through our transmission systems in West Virginia. Although management desires to acquire additional oil and natural gas properties and to become more involved in exploration and development, this can only be accomplished if we can secure future funding. Management intends to continue to develop and increase the production from oil and natural gas properties that we currently own. We will continue to transport and market natural gas through our pipelines. During 2004 we sold approximately 7.6 miles of our 6-inch pipeline and approximately 10 miles of our 4-inch pipeline for cash and other consideration. In 2004, we sold approximately 3 miles of 6-inch pipeline and approximately 5.7 miles of 4-inch pipeline.

Cobham Gas Industries, Inc.

On November 5, 2004, we finalized an agreement with Texas Energy Trust Company, a Delaware Business Trust with offices in Irving, Texas, whereby we acquired certain oil and gas leases and leasehold interests located in Wetzell and Marion Counties, West Virginia, and other assets. Our acquisition of Cobham includes its two subsidiaries, Penine Resources, Inc. and Belmont Energy, Inc.

-5-

The acquisition was accomplished by our wholly owned subsidiary, Prima Oil Company, Inc., acquiring from Texas Energy Trust 100% of the issued and outstanding shares (2,100 shares) of Cobham Gas Industries, Inc., a Delaware corporation. Under the terms of the agreement, we acquired 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 producing, located on approximately 15,000 leased acres. Among the assets acquired are certain vehicles and heavy equipment and various other drilling equipment.

In consideration for the acquired property, we paid a purchase price of \$892,344, of which approximately \$489,000 is payable in cash and the balance in 244,633 shares of restricted Trans Energy common stock, post-split, to be issued following the effectiveness of our one share for 150 shares reverse stock split in January 2005. An initial payment of \$250,000 was paid at the closing with the remaining balance to be paid quarterly in equal installments beginning January 1, 2005, with the final payment due October 1, 2005.

The wells are situated in well defined fields producing from the shallow Devonian formation. Big Injun, Gordon and Thirty Foot are sands in the Devonian foundation that have produced substantial natural gas in West Virginia. The field/acreage positions consist of three specific areas; Mannington,

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Smithfield/Wallace and Dents Run. The Mannington field consists of 107 wells encompassing 4,573 acres. These wells are Big Injun wells, at approximately 2,900 - 3,000 feet in depth, dependent on elevation. The Smithfield/Wallace field consists of 92 wells encompassing 9,223 acres. The preponderance of these wells are Big Injun wells, although there are several Gordon wells in the field. Management believes that future development can expand the Gordon and Bayard play. The Dents Run field consists of 30 wells encompassing 1,097 acres. These wells are completed through the Thirty Foot sand.

On September 1, 2005, together with our wholly owned subsidiary Prima Oil Company, Inc., we finalized the sale of certain assets to Texas Energy Trust Company and its trustee, George Hillyer ("Buyer"). These assets include the following:

- * Certain leases for the production of oil and natural gas located in Marion County, West Virginia (the "Marion County Leases");
- * Certain oil or natural gas wells located on the Marion County Leases (the "Marion County Wells"), together with all of the equipment and other tangible personal property physically attached to any of the wells, including all pipelines, rights of way, easements, well head equipment and leasehold estates;
- * Certain vehicles and other equipment, parts, inventories and hand tools;
- * Miscellaneous well logs, maps, production data, sales records and histories, royalty payment records and other information concerning the Marion County Leases and Marion County Wells;
- * A \$50,000 reclamation bond pursuant to which all of the Marion County Wells, and others, are permitted;
- * Certain cash and trade accounts receivable generated by the operations and results of operations of the Marion County Leases and Marion County Wells, realized on or after August 1, 2005; and
- * All the outstanding capital common stock of Cobham Gas Industries held by Trans Energy, Inc. or any of our affiliates.

In consideration for the above referenced assets, the Buyer provided the following to us:

-6-

- * The return to us of 244,633 shares of Trans Energy, Inc. common stock initially issued to Buyer in January 2005 and which shares are to be valued at the closing price per share of our common stock on the closing date;
- * The return to us of all of Buyer's options, warrants and future rights to acquire any securities of Trans Energy or any of our affiliates;
- * We retain the right to use through December 31, 2005 the \$50,000 reclamation bond in order to comply with certain West Virginia bonding requirements; and
- * Buyer will assume responsibility for the payment of certain loans in the amount of \$96,839, the liabilities related to the plugging of certain of the Marion County Wells, all expenses related to operation, maintenance and ownership of the Marion County Leases and the Marion

Edgar Filing: TRANS ENERGY INC - Form 10KSB

County Wells incurred on or after August 1, 2005.

In addition to the above, we have agreed to fulfill the remaining payment obligations to Buyer under that certain agreement dated November 5, 2004, and we will retain responsibility for the payment of certain debts related to Cobham Gas Industries.

Powder River Basin Wyoming -----

On March 6, 1998, we entered into an agreement to purchase from GCRL Energy, Ltd. all of its interest in the Powder River Basin in Campbell and Crook Counties, Wyoming, consisting of interests in five (5) wells, four (4) of which are producing, interests in 30,000 leasehold acres, and interests in approximately seventy-three miles of 3-D seismic data. The properties include three producing fields from Minnelusa Sandstone and were discovered on 3-D seismic. We made an initial payment for the properties of \$50,000 and the balance of \$2,987,962 was paid for with proceeds from the sale of debentures.

The following table sets forth information concerning the existing oil production per day of the producing wells located on the GCRL property.

Name of Well -----	Gross Bbls. Oil Per Day -----	Net % to TENG -----	Net Bbls. to TENG -----
Sagebrush Flat (one unit)	61	42.15%	26
Pinon Fee #1	19	51.2%	9
Swartz Draw	27	27.7%	7
	-----		-----
Total	107		42

In April 2006, we finalized a definitive Agreement for Sale of Oil and Gas Properties related to the sale of certain wells, overriding royalties and undeveloped acreage located in Campbell County, Wyoming. The assets have been sold at public auction through the Oil & Gas Asset Clearinghouse in Houston, Texas. The gross sales price for the properties is \$1,003,000.

The wells sold by us, all located in Campbell County, Wyoming, include the Pinon Fee #1, Sagebrush Federal #1, Sagebrush Federal #2, Sagebrush Federal #3 (injector), Boley #31-36 Sandbar, State #1-36 Sandbar and State #2-36 Sandbar. Also included in the sales were overriding royalties on two wells (Sagebrush Federal #1 and Sagebrush Federal #2) and Tract TR4-B, and 2,530 undeveloped acres, also located in Campbell County.

Current Business Activities

We operate our oil and natural gas properties and transport and market natural gas through our transmission systems in West Virginia. Although management desires to acquire additional oil and natural gas properties and to become more involved in exploration and development, this can only be accomplished if we can secure future funding. Management intends to continue to develop and increase the production from the oil and natural gas properties that it currently owns.

-7-

We will continue to transport and market natural gas through our various pipelines in 2006. During 2005, we purchased a 5% working interest in 14 Benson wells in Tyler County, West Virginia and drilled one well in Doddridge County, West Virginia, of which we own a 100% working interest.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Arvilla Oilfield Services

On January 31, 2005, we finalized the acquisition of Arvilla Oilfield Services, LLC through a merger of our subsidiary, Trans Energy Acquisitions, with and into Arvilla, Inc., with Arvilla, Inc. being the survivor of the merger. Previously in June 2004, Clarence E. Smith and Rebecca L. Smith had acquired Arrow Oilfield Services Company from Belden & Blake Corporation ("B&B"), a privately held company engaged in the exploration, development and production of oil and natural gas reserves. Mr. and Mrs. Smith subsequently created Arvilla Oilfield Services, LLC as the operating entity and then created Arvilla, Inc., that acquired all the membership interests of Arvilla Oilfield Services, LLC. Thus, by acquiring Arvilla, Inc., we assumed all of the operations, assets and liabilities of Arvilla Oilfield Services.

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

In consideration for Arvilla, Inc., we issued 1,185,024 shares of post-split Trans Energy common stock to the following Arvilla stockholders: Clarence E. Smith, 531,437 shares; Rebecca L. Smith 531,437 shares and Howell B. Williams, 122,150 shares. These shares represent approximately 25% of our total outstanding shares (post-split) following the transaction, including shares to be issued in connection with the separate acquisition of the Cobham Gas Industries assets. Arvilla, Inc. will operate as a separate business entity 100% owned by Trans Energy.

Business of Arvilla

Arvilla is engaged in providing well servicing, workover and related transportation services to independent oil and natural gas producers in the northeast region of the United States. Arvilla 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.

Typically, Arvilla will provide a well servicing or swab rig, the crew to operate the rig, and such other specialized equipment as may be needed to meet a customer's requirements. Arvilla also owns a fleet of equipment that provides:

- * brine hauling and disposal;
- * pipeline and facility construction;
- * well location preparation and lease road construction;
- * oil hauling; and
- * trucking of oilfield equipment, such as rigs, casings, tubing and rods.

Arvilla's service area is located within 500 miles of major gas markets for the United States. This strategic location is important as oil and gas companies develop natural gas reserves for future markets. Arvilla provides various services to the oil and gas industry that include:

Trucking services. Arvilla owns a fleet of trucks that can provide customers with the ability to move equipment, tanks, drill pipe, and other types of trucking needs necessary in the oil and gas business. Each time a well is drilled, all drilling equipment must be moved by trucks from one site to the next. This equipment includes generators, water pumps, drill pipe, air compressors, drilling rigs, and many other associated items used in drilling.

Excavating equipment. Arvilla provides dozers, excavators, and loaders that are used to build access roads, cut drill sites for wells, dig pits, reclaim drill sites after drilling is completed, reclaim access roads, and seed, fertilize, lime, and mulch disturbed areas.

Service and swab rigs. Arvilla maintains a fleet of 14 service rigs and swab rigs capable of servicing wells up to 6,000 feet in depth. This service includes running pipe, tubing, rods, and swabbing capabilities. All wells drilled require services of this type.

Brine and water hauling. Arvilla provides a fleet of 20 vacuum trucks designed to deliver water to drilling rigs and fracs. Arvilla also hauls and disposes of brine water from producing wells and disposes of pit water used in well completions.

Disposal wells. Arvilla has 14 brine disposal wells located at various locations in Ohio. These wells are used for the disposal of brine and pit water.

Oil hauling. Arvilla maintains a fleet of 6 oil tankers that pick up oil from producers at the well site and delivers the oil to terminals, from which it is shipped to refineries.

Pipelines. Arvilla has the capability of constructing pipelines for the delivery of natural gas or oil. Most wells drilled require construction of a natural gas line to deliver gas from the well to a gathering system, which will ultimately take the gas to market.

On April 7, 2006, we finalized the agreement to sell our well servicing and maintenance business in exchange for shares of Trans Energy common stock, certain natural gas properties and other considerations, which agreement was initially entered into on January 3, 2006. Part of the reason for the sale was the inability of our board of directors to agree on the direction of Trans Energy with Arvilla as a significant subsidiary. Under the terms of the definitive agreement, our wholly owned subsidiary, Arvilla, Inc. sold to Clarence E. Smith and Rebecca L. Smith, both directors of Trans Energy, 100% of the outstanding membership interests of Arvilla Oilfield Services, LLC, a West Virginia limited liability company ("AOS").

As a result of consummating the definitive agreement, Clarence and Rebecca Smith returned to us 521,411 shares of their Trans Energy common stock. The Smiths have also conveyed to Trans Energy all of their interest in and to five oil and gas wells located in Tyler County, West Virginia. Assignments for the wells originally was to be held in escrow pending satisfaction by Trans Energy of two promissory notes in the aggregate amount of \$763,000 payable to AOS and to Arvilla Pipeline Construction Co., Inc., a separate entity owned by Clarence and Rebecca Smith. However, pursuant to the First Amendment to Definitive Agreement, the parties agreed that the wells would be transferred at the closing and we agreed to pay AOS \$176,239 on or before April 30, 2006, and pay Arvilla Pipeline \$115,000 on or before April 30, 2006. To secure these payments by Trans Energy, Clarence and Rebecca Smith will hold a lien on a certain Lyon Leasehold Deed of Trust until the debt is satisfied. These notes have been paid and the lien released.

An additional term of the definitive agreement provided that each of Clarence and Rebecca Smith received bonuses equal to approximately \$85,000. A further condition of the closing included the written consent for the sale of AOS from certain banks and lenders having the right to call a loan on the ownership transfer of AOS.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Upon execution of the definitive agreement, Clarence Smith resigned as our Chief Executive Officer, but remained on our board of directors until the closing. At the closing, both Clarence and Rebecca Smith resigned as directors of Trans Energy and Arvilla, Inc. Clarence and Rebecca Smith have also agreed not to sell an amount of their remaining Trans Energy common stock during each calendar quarter on or after March 22, 2006, in an aggregate amount greater than (i) 50,000 shares (adjusted for stock splits or stock dividends; or (ii) one percent of the total outstanding shares of Trans Energy common stock on the date of any such sale.

Finally, the closing of the transaction was expressly conditioned on the receipt of a fairness opinion from a qualified independent party stating that

-9-

the transactions contemplated by the definitive agreement are fair to Trans Energy and our stockholders. That opinion was issued and delivered to Trans Energy on March 31, 2006.

Research and Development

We have not allocated funds for conducting research and development activities. We do not anticipate allocating funds for research and development in the immediate future.

Marketing

We operate exclusively in the oil and gas industry. Natural gas production from wells owned by us is generally sold to various intrastate and interstate pipeline companies and natural gas marketing companies. Sales are generally made on the spot market or under short-term contracts (one year or less) providing for variable or market sensitive prices. These prices often are tied to natural gas futures contracts as posted in national publications.

Natural gas delivered through our pipeline network is sold through a contract with Sancho Oil and Gas Corporation to Dominion Hope Gas, a local utility. Some of the gas is sold at a fixed price on a year long basis and some at a variable price per month per Mcf. Under our contract with Sancho, we have the right to sell natural gas subject to the terms and conditions of a 20-year contract, as amended, that Sancho entered into with Hope Gas in 1988. This agreement is a flexible volume supply agreement whereby we receive the full price which Sancho charges the end user less a \$.05 per Mcf marketing fee paid to Sancho. In addition to the natural gas produced by our wells, we also purchased approximately 876 Mcf of natural gas per day in 2005.

The natural gas from our Wetzel County wells is sold to East Resources or Equitable Gas. The gas from our Doddridge County wells is sold to Dominion Hope through a Trans Energy, Inc. contract.

We sell our oil production to third party purchasers under agreements at posted field prices. These third parties purchase the oil at the various locations where the oil is produced.

Although management believes that we are not dependent upon any one customer, our marketing arrangement with Sancho accounted for approximately 77% of our revenue for the year ended December 31, 2005, and approximately 78% for 2004. This marketing agreement is in effect until September 1, 2008.

Competition

Edgar Filing: TRANS ENERGY INC - Form 10KSB

We are in direct competition with numerous oil and natural gas companies, drilling and income programs and partnerships exploring various areas of the Appalachian Basin and elsewhere competing for customers. Many competitors are large, well-known oil and gas and/or energy companies, although no single entity dominates the industry. Many of our competitors possess greater financial and personnel resources enabling them to identify and acquire more economically desirable energy producing properties and drilling prospects than us. Additionally, there is competition from other fuel choices to supply the energy needs of consumers and industry. Management believes that there exists a viable market place for smaller producers of natural gas and oil and for operators of smaller natural gas transmission systems.

Government Regulation

The oil and gas industry is extensively regulated by federal, state and local authorities. The scope and applicability of legislation is constantly monitored for change and expansion. Numerous agencies, both federal and state, have issued rules and regulations binding on the oil and gas industry and its individual members, some of which carry substantial penalties for noncompliance. To date, these mandates have had no material effect on our capital expenditures, earnings or competitive position.

Legislation and implementing regulations adopted or proposed to be adopted by the Environmental Protection Agency and by comparable state agencies, directly and indirectly, affect our operations. We are required to operate in

-10-

compliance with certain air quality standards, water pollution limitations, solid waste regulations and other controls related to the discharging of materials into, and otherwise protecting the environment. These regulations also relate to the rights of adjoining property owners and to the drilling and production operations and activities in connection with the storage and transportation of natural gas and oil.

We may be required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed operations may have upon the environment. Requirements imposed by such authorities could be costly, time-consuming and could delay continuation of production or exploration activities. Further, the cooperation of other persons or entities may be required for us to comply with all environmental regulations. It is conceivable that future legislation or regulations may significantly increase environmental protection requirements and, as a consequence, our activities may be more closely regulated which could significantly increase operating costs. However, management is unable to predict the cost of future compliance with environmental legislation. As of the date hereof, management believes that we are in compliance with all present environmental regulations. Further, we believe that our oil and gas explorations do not pose a threat of introducing hazardous substances into the environment. If such event should occur, we could be liable under certain environmental protection statutes and laws. We presently carry insurance for environmental liability.

Our exploration and development operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes the requirement of permits for the drilling of wells, the regulation of the location and density of wells, limitations on the methods of casing wells, requirements for surface use and restoration of properties upon which wells are drilled, and governing the abandonment and plugging of wells. Exploration and production are also subject to property rights and other laws governing the correlative rights

Edgar Filing: TRANS ENERGY INC - Form 10KSB

of surface and subsurface owners.

We are subject to the requirements of the Occupational Safety and Health Act, as well as other state and local labor laws, rules and regulations. The cost of compliance with the health and safety requirements is not expected to have a material impact on our aggregate production expenses. Nevertheless, we are unable to predict the ultimate cost of compliance.

Although past sales of natural gas and oil were subject to maximum price controls, such controls are no longer in effect. Other federal, state and local legislation, while not directly applicable to us, may have an indirect effect on the cost of, or the demand for, natural gas and oil.

Employees

As of the end of our fiscal year on December 31, 2005, we employed eight full-time employees, consisting of three executives, two marketing and clerical persons, and three production persons. Our subsidiary, Arvilla Oilfield Services, had approximately 103 full time employees consisting of the following:

- * 43 rig hands that operate or work directly on a service rig or swab rig;
- * 25 truck drivers who drive various types of trucks that haul oil, brine or oilfield equipment;
- * 2 equipment operators who operate various types of excavating equipment;
- * 11 roustabouts who perform various types of labor work associated with oil and gas production such as setting tank batteries, meter runs and laying or repairing gas lines;
- * 10 mechanics that repair and maintain all types of trucks, rigs and equipment;
- * 4 clerical employees; 6 managerial persons; and
- * 2 executives.

Following our sale of Arvilla in January 2006 and the departure of their employees, we have added three new employees in our land-lease department. We anticipate adding an account manager during 2006 and such other employees as business warrants.

-11-

None of our employees are members of any union, nor have they entered into any collective bargaining agreements. We believes that our relationship with our employees is good. With the successful implementation of our business plan, we may seek additional employees in the next year to handle anticipated potential growth.

Facilities

We currently occupy approximately 4,000 square feet of office space in St. Marys, West Virginia, which we share with our subsidiaries, Tyler Construction Company and Ritchie County Gathering Systems. We lease an aggregate of approximately 4,000 square feet from an unaffiliated third party under a verbal arrangement for \$1,400 per month, inclusive of utilities.

Industry Segments

No information is presented as to industry segments. We are presently engaged in the principal business of the exploration, development, production, transportation and marketing of natural gas and oil. Reference is made to the statements of operations contained in the financial statements included herewith

Edgar Filing: TRANS ENERGY INC - Form 10KSB

for a statement of our revenues and operating loss for the past two fiscal years.

Risk Factors

You should carefully consider the risks and uncertainties described below and other information in this report. If any of the following risks or uncertainties actually occur, our business, financial condition and operating results, would likely suffer. Additional risks and uncertainties, including those that are not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition or operating results.

We have a history of losses and may realize future losses.

Although our revenues increased approximately 115% during the fiscal year ended December 31, 2005, we may not achieve, or subsequently maintain profitability if anticipated revenues do not increase in the future. We have experienced operating losses, negative cash flow from operations and net losses in each quarterly and annual period for the past several years. As of December 31, 2005, our net operating loss carryforward was approximately \$25 million and our accumulated deficit was approximately \$30 million. We expect to continue to incur significant expenses in connection with

- * exploration and development of new and existing properties;
- * costs of sales and marketing efforts;
- * construction of gathering system infrastructure;
- * additional personnel; and
- * increased general and administrative expenses.

Accordingly, we will need to generate significant revenues to achieve and attain, and eventually sustain profitability. If revenues do not increase, we may be unable to attain or sustain profitability on a quarterly or annual basis. Any of these factors could cause the price of our stock to decline.

We have a significant working capital deficit that makes it more difficult to obtain capital necessary for our operations and which may have an adverse effect on our future business.

As of December 31, 2005, we had a working capital deficit of \$919,187. If our business does not produce positive working capital in the future, our business and financial condition would most likely be materially and negatively impacted.

-12-

It may be necessary for us to seek additional funding, which may not be available on terms favorable to us, or at all.

Management believes that we may need to seek additional funding in the future to provide sufficient working capital and funds for capital expenditures. If we cannot meet future capital requirements through realized revenues from our ongoing business, we may have to raise additional capital by borrowing or by selling equity or equity-linked securities, which would dilute the ownership percentage of our existing stockholders. Also, these securities could also have rights, preferences or privileges senior to those of our common stock. Similarly, if we raise additional capital by issuing debt securities, those securities may contain covenants that restrict us in terms of how we operate our business, which could also affect the value of our common stock. If we borrow

Edgar Filing: TRANS ENERGY INC - Form 10KSB

more money, we will have to pay interest and may also have to agree to restrictions that limit operating flexibility. We may not be able to obtain funds needed to finance operations at all, or may be able to obtain funds only on very unattractive terms. Management may also explore other alternatives such as a joint venture with other oil and gas companies. There can be no assurances, however, that we will conclude any such transaction.

There are many competitors in the oil and gas industry.

We encounter many competitors in the oil and gas industry including in the exploration and development of properties and the sale of oil and gas. Management expects competition to continue to intensify in the future. Many existing and potential competitors have greater financial resources, larger market share and more customers than us, which may enable them to establish a stronger competitive position than we have. If we fail to address competitive developments quickly and effectively, we will not be able to grow and our business will be adversely affected.

Our operating results are likely to fluctuate significantly and cause our stock price to be volatile which could cause the value of your investment in our shares to decline.

Quarterly and annual operating results are likely to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. If operating results do not meet the expectations of securities analysts and investors, the trading price of our common stock could significantly decline which may cause the value of your investment to decline. Some of the factors that could affect quarterly or annual operating results or impact the market price of our common stock include:

- * our ability to develop properties and to market our oil and gas;
- * the timing and amount of, or cancellation or rescheduling of, orders for our oil and gas;
- * our ability to retain key management, sales and marketing and engineering personnel;
- * a decrease in the prices of oil and gas; and
- * changes in costs of exploration or marketing oil and gas.

Due to these and other factors, quarterly and annual revenues, expenses and results of operations could vary significantly in the future, and period-to-period comparisons should not be relied upon as indications of future performance.

Our business could be adversely affected by any adverse economic developments in the oil and gas industry and/or the economy in general.

The oil and gas industry is susceptible to significant change that may influence our business development due to a variety of factors, many of which are outside our control. Some of these factors include:

- * varying demand for oil and gas;
- * fluctuations in price;
- * competitive factors that affect pricing;
- * attempts to expand into new markets;
- * the timing and magnitude of capital expenditures, including costs relating to the expansion of operations;
- * hiring and retention of key personnel;

- * changes in generally accepted accounting policies, especially those related to the oil and gas industry; and
- * new government legislation or regulation.

Any of the above factors or a significant downturn in the oil and gas industry or with economic conditions generally, could have a negative effect on our business and on the price of our common stock.

Our future success depends on retaining existing key employees and hiring and assimilating new key employees. The loss of key employees or the inability to attract new key employees could limit our ability to execute our growth strategy, resulting in lost profitability and a slower rate of growth.

Our future success depends, in part, on the ability to retain our key employees including executive officers. Also, we do not carry, nor do we anticipate obtaining, "key man" insurance on our executives. It would be difficult for us to replace any one of these individuals. In addition, as we grow we may need to hire additional key personnel. We may not be able to identify and attract high quality employees or successfully assimilate new employees into our existing management structure.

If we are unable to manage our growth effectively, our operations and financial performance could be adversely affected.

The ability to manage and operate our business as we execute our anticipated growth will require effective planning. Significant future growth could strain our internal resources, leading to a lower quality of service and other problems that could adversely affect our financial performance. Our ability to manage future growth effectively will also require us to successfully attract, train, motivate, retain and manage new employees and continue to update and improve our operational, financial and management controls and procedures. If we do not manage our growth effectively, our operations could be adversely affected, resulting in slower growth and a failure to achieve or sustain profitability.

Going concern issue.

Our independent auditors have expressed a going concern issue. Our ability to continue as a going concern is dependant upon our ability to achieve a profitable level of operations. We may need, among other things, additional capital resources which we will seek through loans from banks or other forms of financing.

Risks relating to ownership of our common stock

The price of our common stock is extremely volatile and investors may not be able to sell their shares at or above their purchase price, or at all.

Our common stock is presently traded on the OTC Bulletin Board, although there is no assurance that a viable market will continue. The price of our shares in the public market is highly volatile and may fluctuate substantially because of:

- * actual or anticipated fluctuations in our operating results;

Edgar Filing: TRANS ENERGY INC - Form 10KSB

- * changes in or failure to meet market expectations;
- * conditions and trends in the oil and gas industry; and
- * fluctuations in stock market price and volume, which are particularly common among securities of small capitalization companies.

Future sales or the potential for sale of a substantial number of shares of our common stock could cause the market value to decline and could impair our ability to raise capital through subsequent equity offerings.

If we do not generate necessary cash from our operations to finance future business, we may need to raise additional funds through public or private financing opportunities. The issuance of a substantial number of our common

-14-

shares to individuals or in the public markets, or the perception that these sales may occur, could cause the market price of our common stock to decline and could materially impair our ability to raise capital through the sale of additional equity securities. Any such issuances would dilute the equity interests of existing stockholders.

We do not intend to pay dividends.

To date, we have never declared or paid a cash dividend on shares of our common stock. We currently intend to retain any future earnings for growth and development of business and, therefore, do not anticipate paying any dividends in the foreseeable future.

Possible "Penny Stock" Regulation.

Trading of our common stock on the OTC Bulletin Board may be subject to certain provisions of the Securities Exchange Act of 1934, commonly referred to as the "penny stock" rule. A penny stock is generally defined to be any equity security that has a market price less than \$5.00 per share, subject to certain exceptions. If our stock is deemed to be a penny stock, trading in our stock will be subject to additional sales practice requirements on broker-dealers. These may require a broker dealer to:

- * make a special suitability determination for purchasers of penny stocks;
- * receive the purchaser's written consent to the transaction prior to the purchase; and
- * deliver to a prospective purchaser of a penny stock, prior to the first transaction, a risk disclosure document relating to the penny stock market.

Consequently, penny stock rules may restrict the ability of broker-dealers to trade and/or maintain a market in our common stock. Also, many prospective investors may not want to get involved with the additional administrative requirements, which may have a material adverse effect on the trading of our shares.

Item 2. Description of Property

Our properties consist essentially of working and royalty interests owned by us in various oil and gas wells and leases located in West Virginia. Our

Edgar Filing: TRANS ENERGY INC - Form 10KSB

proved reserves for the years ended December 31, 2005, 2004 and 2003 are set forth below:

	December 31,		
	2005	2004	2003
Natural Gas (mmcf)			
Developed	4,263	542,955	-
Undeveloped	-	-	-
Total Proved	4,263	542,955	-
Crude Oil (Bbl)			
Developed	215,844	106,649	99,880
Undeveloped	-	-	-
Total Proved	215,844	106,649	99,880

These estimates are based primarily on the reports of Robert L. Richards (Wyoming), Geologist and presently an officer and director of Trans Energy, and Mark V. Schumacher, PE (West Virginia). Such reports are, by their very nature, inexact and subject to changes and revisions. Proved developed reserves are reserves expected to be recovered from existing wells with existing equipment and operating methods. Proved undeveloped reserves are expected to be recovered from new wells drilled to known reservoirs on undrilled acreage for which existence and recoverability of such reserves can be estimated with reasonable certainty, or from existing wells where a relatively major expenditure is required to establish production. No estimates of reserves have been included in any reports to any federal agency other than the SEC. See SFAS 69 Supplemental Disclosures included as part of our consolidated financial statements.

-15-

Set forth in the following schedule is the average sales price per unit of oil, expressed in barrels ("bbl"), and of natural gas, expressed in thousand cubic feet ("mcf"), produced by us for the past three fiscal years. The increase in the cost of oil production in 2005 is attributed to expenses incurred putting water flood into operation.

Average sales price:	Years ended December 31,	
	2005	2004
Gas (per mcf)	\$ 10.28	\$ 7.40
Oil (per bbl)	56.20	30.24
Average cost of production:		
Gas (per mcf)	-	-
Oil (per bbl)	\$16.19	\$14.19

Edgar Filing: TRANS ENERGY INC - Form 10KSB

We have not filed any estimates of total, proved net oil and gas reserves with any federal authority or agency since the beginning of our last fiscal year.

The following schedule sets forth the capitalized costs relating to oil and gas producing activities by us for the past three fiscal years.

	Years ended December 31,		
	2005	2004	2003
Proved oil and gas producing properties and related lease and well equipment	\$ 3,403,421	\$ 7,093,676	\$ 3,170,000
Unproved oil and gas properties	64,004	95,945	95,945
Accumulated depreciation and depletion	(1,394,403)	(3,870,874)	(2,550,000)
Net Capitalized Costs	\$ 2,073,022	\$ 3,318,747	\$ 715,945

The following schedule summarizes changes in the standardized measure of discounted future net cash flows relating to our proved oil and gas reserves.

	Years ended December 31,		
	2005	2004	2003
Standardized measure, beginning of year	\$ 4,438,836	\$1,864,377	\$ 4,380,000
Oil and gas sales, net of production costs	(7,990,879)	(1,539,222)	(2,400,000)
Sales of mineral in place	-	-	-
Purchases	31,883,344	5,132,087	5,132,087
Net change due to revisions in quantity estimates	(5,287,060)	(1,018,406)	(1,018,406)
Standardized measure, end of year	\$ 23,044,241	\$ 4,438,836	\$ 1,864,377

We do not anticipate investing in or purchasing assets and/or property for the purpose of capital gains. It is our intention to purchase assets and/or

property for the purpose of enhancing our primary business operations. We are not limited as to the percentage amount of our assets we may use to purchase any

Edgar Filing: TRANS ENERGY INC - Form 10KSB

additional assets or properties.

Item 3. Legal Proceedings

Certain material pending legal proceedings to which we are a party or to which any of our property is subject is set forth below.

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.

On July 28, 1999 Core Laboratories, Inc. obtained a judgment against us for non-payment of an accounts payable. The judgment calls for monthly payments of \$351 and is bearing interest at 10% per annum. At December 31, 2005 we accrued a balance including interest of \$19,983 as a current liability. We are currently in default on this judgment.

On July 1, 1998, RR Donnelly obtained a judgment against us for non-payment of accounts payable. The judgment calls for monthly payments of \$3,244 and is bearing interest at 10% per annum. At December 31, 2005, we accrued a balance including interest of \$90,286 as a current liability. We are currently in default on this 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 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of our securities holders during the fourth quarter of the fiscal year ended December 31, 2005.

PART II

Item 5. Market for Common Equity and Related Stockholder Matters

Our common stock is quoted on the OTC Bulletin Board under the symbol TENG. Prior to the effectiveness of our reverse stock split on January 28, 2005, our stock traded under the symbol of TSRG. Set forth in the table below are the quarterly high and low prices of our common stock as obtained from the OTC Bulletin Board for the past two fiscal years and adjusted for the one share for 150 shares reverse stock split.

	High	Low
	----	---
2005		
First Quarter	\$ 2.55	\$ 1.55
Second Quarter	\$ 1.97	\$ 0.70
Third Quarter	\$ 1.85	\$ 1.10
Fourth Quarter	\$ 1.75	\$ 0.71

-17-

2004		
First Quarter	\$ 2.70	\$ 1.05

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Second Quarter	\$ 4.50	\$ 0.75
Third Quarter	\$ 4.35	\$ 1.50
Fourth Quarter	\$ 2.55	\$ 1.35

As of May 15, 2006, there were approximately 388 holders of record of our common stock, which figure does not take into account those shareholders whose certificates are held in the name of broker-dealers or other nominee accounts.

Dividend Policy

We have not declared or paid cash dividends or made distributions in the past, and we do not anticipate that we will pay cash dividends or make distributions in the foreseeable future. We currently intend to retain and reinvest future earnings to finance operations.

Item 6. Management's Discussion and Analysis or Plan of Operation

The following information should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10-KSB.

Results of Operations

The following table sets forth the percentage relationship to total revenues of principal items contained in the statements of operations of the consolidated financial statements included herewith for the two most recent fiscal years ended December 31, 2005 and 2004. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Fiscal Years Ended 2005 -----
Total revenues.....	100%
Total costs and expenses.....	116
Total other income (expenses).....	(6)
Loss before income taxes and change in accounting principal	(23)
Income taxes.....	-
Net (loss).....	(26)

For the Year Ended December 31, 2005 Compared to the Year Ended December 31, 2004

Total revenues of \$4,797,201 for the year ended December 31, 2005 ("2005") increased 100% compared to \$2,390,099 for the year ended December 31, 2004 ("2004"), due primarily to the increase of oil and gas prices and the addition of the Cobham revenues for the last two months of 2004. In 2005, oil made up 23% of total revenues compared to 22% in 2004, and gas represented 77% of revenues in 2005 compared to 76% in 2004. The changes were considered minimal representing only a slight difference in percentage points.

We had an operating loss of \$814,345 for 2005 compared to a loss of \$284,127 in 2004. Total costs and expenses increased 110% in 2005 primarily due to the 163% increase in the cost of oil and gas. Salaries and wages decreased by

21% in 2005. Additionally, the 106% increase in selling, general and administrative expenses was primarily due to increases in insurance premiums, travel expenses and additional labor costs. As a percentage of revenues, total costs and expenses increased to 116% in 2005 from 112% in 2004.

Other expenses as a percentage of revenues decreased from 9% in 2004 to 6% in 2005, attributed to the decrease in interest expense from \$193,683 in 2004 to \$129,034 in 2005 due to the paying off certain debt. We realized a gain on disposition of debt of \$416,560 in 2004, compared to \$7,306 in 2005. We realized a loss on the extinguishment of debt of \$653,257 in 2004 compared to a loss of \$0 in 2005.

Our net loss for 2005 was \$1,456,593 versus a net loss of \$502,848 for 2004. The increase in net loss in 2005 is primarily attributed to increases in cost of oil and gas, selling, general and administrative expenses.

Net Operating Losses

We have accumulated approximately \$24 million of net operating loss carryforwards as of December 31, 2005, which may be offset against future taxable income through 2025. 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, 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, 2005 because the potential tax benefits of the loss carryforward is offset by valuation allowance of the same amount.

Liquidity and Capital Resources

Historically, working capital needs have been satisfied through our operating revenues and from borrowed funds. Our working capital deficit at December 31, 2005 was \$3,079,443 compared with a deficit of \$2,980,431 at December 31, 2004. We anticipate meeting working capital needs during the 2006 fiscal year with revenues from operations and possibly from capital raised through the sale of either equity or debt securities. We have no other current agreements or arrangements for additional funding and there can be no assurance such funding will be available to us, or if available, such funding will be on acceptable or favorable terms to us.

As of December 31, 2005, we had total assets of \$11,672,307 and stockholders' equity of \$90,602 compared to total assets of \$4,234,111 and total stockholders' deficit of \$1,169,886 at December 31, 2004. The increase in total assets and decrease in stockholders' deficit at December 31, 2005 is attributed to the acquisition of Arvilla. We have recorded a long-term liability of \$799,393 as an asset retirement obligation that relates to, in part, the estimated cost to plug wells in the event it becomes necessary.

Because we have generated significant losses from operations through December 31, 2005 and have a working capital deficit at December 31, 2005, there exists substantial doubt about our ability to continue as a going concern. Revenues have not been sufficient to cover operating costs and to allow us to continue as a going concern. Potential proceeds from the future sale of common stock, other contemplated debt and equity financing, and increases in operating revenues from new development would enable us to continue as a going concern. There can be no assurance that we can or will be able to complete any debt or

Edgar Filing: TRANS ENERGY INC - Form 10KSB

equity financing.

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

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

-19-

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:

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

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

Recent Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board, issued Statement of Financial Accounting Standards ("SFAS, No. 154"), "Accounting Changes and Error Corrections," which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements -- An Amendment of APB Opinion No. 28". SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. Management believes the adoption of this statement will have no impact on the financial statements of the Company.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153. This statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion; however, included certain exceptions to that principle. This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have

Edgar Filing: TRANS ENERGY INC - Form 10KSB

commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this statement is issued. Management believes the adoption of this statement will have no impact on the financial statements of the Company.

In December 2004, the Financial Accounting Standards Board issued a revision to Statement of Financial Accounting Standards No. 123R, "Accounting for Stock Based Compensations." This statement supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123. This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." Management believes the adoption of this statement will have no impact on the financial statements of the Company.

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, "Inventory Costs-- an amendment of ARB No. 43, Chapter 4". This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal

-20-

amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management believes the adoption of this statement will have no impact on the financial statements of the Company.

Item 7. Financial Statements

Our financial statements as of and for the fiscal years ended December 31, 2005 and 2004 have been examined to the extent indicated in their report by H J & Associates, LLC, independent certified public accountants, and have been prepared in accordance with generally accepted accounting principles and pursuant to Regulation S-B as promulgated by the SEC. The aforementioned financial statements are included herein starting with page F-1.

Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

This Item is not Applicable.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Item 8A. Controls and Procedures

As of the end of the period covered by this annual report, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and chief 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. In designing and evaluating the disclosure controls and procedures, management recognizes that there are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their desired control objectives. Additionally, in evaluating and implementing possible controls and procedures, management is required to apply its reasonable judgment.

Based upon the required evaluation, our chief executive officer and chief financial officer concluded as of December 31, 2005, our disclosure controls and procedures are effective in timely alerting them to material information relating to the company 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 over financial reporting or in other factors that could significantly affect internal controls over financial reporting subsequent to the date we carried out our evaluation.

Item 8B. Other Information

Reports on Form 8-K

Since the beginning of our fiscal fourth quarter commencing October 1, 2005 through the date of this report, we have filed current reports on Form 8-K reporting the following:

January 9, 2006 - reporting under Item 1.01 that Trans Energy has entered into an agreement to sell certain assets, including Arvilla Oilfield Services, LLC held by Arvilla, Inc., our wholly owned subsidiary, and reporting under Item 502 the resignation of our Chief Executive Officer, Clarence E. Smith, and the appointment of James K. Abcouwer as our new President and Chief Executive Officer.

-21-

April 13, 2006 - reporting under Item 2.01 the completion of the sale of Arvilla, Inc. and reporting under Item 502 the resignations of two directors, Clarence E. Smith and Rebecca Smith.

April 27, 2006 - reporting under Item 1.01 the sale of certain wells and properties located in Campbell County Wyoming.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

The following table sets forth the names, ages, and offices held by our directors and executive officers:

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Name ----	Position -----	Director Since -----	Age ---
James K. Abcouwer	President and C.E.O	April 2006	52
Loren E. Bagley	Vice President and Director	August 1991	64
John G. Corp	Director	February 2005	46
William F. Woodburn	Secretary / Treasurer Chief Operating Officer and Director	August 1991	64
Robert L. Richards	Director	September 2001	59

On January 3, 2006 and in connection with the execution of the definitive agreement to sell Arvilla, Clarence E. Smith resigned as our Chief Executive Officer, which resignation has been accepted by the board of directors. Mr. Smith remained as a director until the closing of the definitive agreement. Mr. Smith was appointed as a director immediately following the acquisition of Arvilla in January 2005 and became our CEO on February 28, 2005. On April 7, 2006, Mr. Smith resigned as a director, as did Rebecca L. Smith. Ms. Smith joined the board of directors following the acquisition of Arvilla in January 2005. Both resignations were the result of the terms of the agreement to sell Arvilla.

On January 6, 2006, our board of directors elected James K. Abcouwer as our new President and Chief Executive Officer. On April 27, 2006 Mr. Abcouwer was elected as a member of the board of directors.

All directors hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified. There are no agreements with respect to the election of directors. We have not compensated our directors for service on the Board of Directors or any committee thereof, but directors are reimbursed for expenses incurred for attendance at meetings of the Board and any committee thereof. Executive officers are appointed annually by the Board and each executive officer serves at the discretion of the Board. The Executive Committee of the Board of Directors, to the extent permitted under Nevada law, exercises all of the power and authority of the Board in the management of the business and affairs of Trans Energy between meetings of the Board.

The business experience of each of the persons listed above during the past five years is as follows:

James K. Abcouwer became President and C.E.O. in January 2006. Mr. Abcouwer has 25 years of experience in the energy industry and is the former C.E.O. of Columbia Natural Resources, Inc., an independent natural gas producer in the Appalachian Basin. He has also served as President and C.E.O. of EnergyUSA, a unit of NiSource Inc. Mr. Abcouwer is a 1975 graduate of the United States Military Academy at West Point, and received a Masters in Business Administration degree from Harvard Business School in 1982. Additionally, he is co-owner of Northstar Energy Corp. of Charleston, W Va., an independent oil and gas development company.

Loren E. Bagley served as our President and C.E.O. from September 1993 to September 2001, at which time he resigned as President and was appointed Vice President. From 1979 to the present, Mr. Bagley has been self-employed in the oil and gas industry as president, C.E.O. or vice president of various

corporations which he has either started or purchased, including Ritchie County

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Gathering Systems, Inc. Mr. Bagley's experience in the oil and gas industry includes acting as a lease agent, funding and drilling of oil and gas wells, supervising production of over 175 existing wells, contract negotiations for purchasing and marketing of natural gas contracts, and owning a well logging company specializing in analysis of wells. Prior to becoming involved in the oil and gas industry, Mr. Bagley was employed by the United States government with the Agriculture Department. Mr. Bagley attended Ohio University and Salem College and earned a B.S. Degree.

John G. Corp became a director on February 28, 2005. Mr. Corp has more than 25 years of extensive experience in drilling, production and oilfield service operations in the Appalachian Basin. Prior to joining Trans Energy, Inc., he held various management positions with Belden & Blake Corp. from 1987-2004. He has a BS degree in Petroleum Engineering from Marietta (Ohio) College and is a member of the Society of Petroleum Engineers, the Ohio Oil & Gas Association and is chairman of the Technical Advisory Committee or the Ohio Department of Natural Resources.

William F. Woodburn has served as our Vice President from August 1991 to September 2001, at which time he resigned as Vice President and was appointed Secretary / Treasurer. In January 2006, Mr. Woodburn was named as our Chief Operating Officer. Mr. Woodburn has been actively engaged in the oil and gas business in various capacities for the past twenty years. For several years prior to 1991, Mr. Woodburn supervised the production of oil and natural gas and managed the pipeline operations of Tyler Construction Company, Inc. and Tyler Pipeline, Inc. Mr. Woodburn is a stockholder and serves as President of Tyler Construction Company, Inc., and is also a stockholder of Tyler Pipeline, Inc. which owns and operates oil and gas wells in addition to natural gas pipelines, and Ohio Valley Welding, Inc. which owns a fleet of heavy equipment that services the oil and gas industry. Prior to his involvement in the oil and gas industry, Mr. Woodburn was employed by the United States Army Corps of Engineers for twenty four years and was Resident Engineer on several construction projects. Mr. Woodburn graduated from West Virginia University with a B.S. in civil engineering.

Robert L. Richards became a director and was appointed President and C.E.O. in September 2001. On February 28, 2004, Mr. Richards relinquished his position as C.E.O., but remained as a director. From 1982 to the present, he has been President of Robert L. Richards, Inc. a consulting geologist firm with 27 years experience in the petroleum industry. He has also served as a geologist with Exxon, exploration geologist with Union Texas Petroleum, and regional exploration manager for Carbonit Exploration, Inc. From 2000 to the present, he has been President and C.E.O. of Derma - Rx, Inc., a formulator and marketer of skin care products. Also, from 1992 to August 2000, Mr. Richards was C.E.O. of Kaire Nutraceuticals, Inc., a developer and marketer of health and nutritional products. Mr. Richards served as Vice President of Continental Tax Corporation from March 1989 to August 1992. He has five and one-half years experience in the United States Air Force as an Instructor Pilot. Mr. Richards holds a B.S. degree in geology from Brigham Young University.

Item 10. Executive Compensation

We do not have a bonus, profit sharing, or deferred compensation plan for the benefit of employees, officers or directors. Management is presently in the process of developing an executive compensation program and deferred compensation program for officers of the company, which will be presented to the board of directors later in 2006. We currently have an employment contract with Mr. Abcouwer with a two year term that includes bonus compensation for accomplishment of certain objectives related to value creation and enhancement.

For the past three fiscal years ended December 31, 2005, our Chief

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Executive Officers were not paid any cash compensation. No other executive officers received cash compensation greater than \$60,000 in any of the past three fiscal years.

-23-

Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information, to the best of our knowledge as December 31, 2005, with respect to each person known by us to own beneficially more than 5% of our outstanding common stock, each director and all directors and officers as a group. Unless otherwise noted, the address of each person listed below is that of Trans Energy, 210 Second Street, St. Marys, West Virginia 26170.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class (1)
Robert L. Richards *	86,754 (2)	1.8 %
Loren E. Bagley *	239,610 (3)	5.1 %
William F. Woodburn *	600,396 (4)	12.8 %
Clarence E. Smith *	696,469 (5)	14.8 %
Rebecca L. Smith *	521,410 (6)	11.1 %
John G. Corp.*	20,000	0.4 %
All directors and executive officers a group (5 persons)	2,164,639	46.0 %

* Indicates director and/or executive officer at December 31, 2005

- (1) Based upon 4,707,515 shares of common stock outstanding.
- (2) Includes 80,087 shares held in the name of Argene Richards, wife of Mr. Richards.
- (3) Includes 33,543 shares held in the name of Carolyn S. Bagley, wife of Mr. Bagley, over which Mrs. Bagley retains voting power.
- (4) Includes 133,670 shares in the name of Janet L. Woodburn, wife of Mr. Woodburn, over which shares Mrs. Woodburn retains voting power, and 314,070 in the name of a corporation in which William and Janet Woodburn are officers and shareholders.
- (5) Includes 663,080 shares held in the name of Clarence E. Smith, 13,334 shares held in the names of two minor children of Clarence E. and Rebecca L. Smith and 20,055 shares held in the name of Clarence E. and Rebecca L. Smith but does not include 521,410 shares held in the name of Rebecca L. Smith.
- (6) Includes 521,410 shares held in the name of Rebecca L. Smith but does not include 663,080 held in the name of Clarence E. Smith, 13,334 shares held in the names of two minor children of Clarence E. and Rebecca L. Smith, and 20,055 shares held in the name of Clarence E. and Rebecca L. Smith.

Item 12. Certain Relationships and Related Transactions

During the past two fiscal years, there have been no transactions between us and any officer, director, nominee for election as director, or any shareholder owning greater than five percent (5%) of our outstanding shares, nor any member of the above referenced individuals' immediate family, except as set forth below.

Loren E. Bagley is President of Sancho, a principal purchaser of our natural gas. Mr. Bagley's wife, Carolyn S. Bagley is a director and owner of 33% of the outstanding capital stock of Sancho. Under our contract with Sancho, we have the right to sell natural gas subject to the terms and conditions of a

Edgar Filing: TRANS ENERGY INC - Form 10KSB

20-year contract, as amended, that Sancho entered into with Hope Gas in 1988. This agreement is a flexible volume supply agreement whereby we receive the full price which Sancho receives less a \$.05 per Mcf marketing fee paid to Sancho. The price of the natural gas is based upon the greater of the residential gas commodity index or the published Inside F.E.R.C. Index, at our option, for the first 1,500 Mcf purchased per day by Hope Gas and thereafter the price is the Inside F.E.R.C. Index. The residential gas commodity index does not directly fluctuate with the overall price of natural gas. The Inside F.E.R.C. Index fluctuates monthly with the change in the price of natural gas. While such option provides certain price protection for us there can be no assurance that prices paid by us to suppliers will be lower than the price which we would receive under the Hope Gas arrangement. During 2005, we paid Sancho an aggregate of approximately \$18,400 pursuant to such contract.

-24-

On May 7, 1996, we borrowed \$100,000 from William Stevenson. Such amount is repayable in one installment of principal and interest of \$110,000 on November 7, 1996. Messrs. Bagley, William F. Woodburn and John B. Sims are jointly and severally liable with us for the repayment of such obligation. Such obligation is secured by the pledge of 50,000 shares of common stock owned by Mr. Woodburn's wife, Janet L. Woodburn. The note was subsequently purchased by an entity in which Mr. and Mrs. Woodburn are officers and shareholders and converted to 173,333 shares of Trans Energy common stock on October 4, 2004.

We occupy approximately 4,000 square feet of office space in St. Marys, West Virginia, which we share with Tyler Construction and Ritchie County Gathering Systems. Prior to 1997, the office space was paid for by Sancho and we used the office space rent free. We believe that the foregoing transactions with Sancho were made on terms no less favorable to us than those available from unaffiliated third parties.

It is our policy that any future material transactions between us and members of management or their affiliates shall be on terms no less favorable than those available from unaffiliated third parties.

Item 13. Exhibits

Exhibits

Exhibit No.	Exhibit Name
2.1(1)	Stock Acquisition Agreement between Trans Energy and Loren E. Bagley and William F. Woodburn
2.2(1)	Asset Acquisition Agreement between Trans Energy and Dennis L. Spencer
2.3(1)	Asset Acquisition Agreement between Trans Energy and Tyler Pipeline, Inc.
2.4(1)	Stock Exchange Agreement between Trans Energy and Ritchie County Gathering Systems, Inc.
2.5(1)	Plan and Agreement of Merger between Trans Energy, Inc. (Nevada) and Apple Corp. (Idaho), to facilitate the change of our corporate domicile to Nevada
2.6(2)	Agreements related to acquisition of Vulcan Energy Corporation
2.7(5)	Agreement and Plan of Reorganization with Arvilla, Inc.
3.1(1)	Articles of Incorporation and all amendments pertaining thereto, for Apple Corp., an Idaho corporation
3.2(1)	Articles of Incorporation for Trans Energy, Inc., a Nevada corporation
3.3(1)	Articles of Merger for the States of Nevada and Idaho
3.4(1)	By-Laws

Edgar Filing: TRANS ENERGY INC - Form 10KSB

- 4.1(1) Specimen Stock Certificate
 - 10.1(1) Marketing Agreement with Sancho Oil and Gas Corporation
 - 10.2(1) Gas Purchase Agreement with Central Trading Company
 - 10.3(1) Price Agreement with Key Oil Company
 - 10.4(3) Settlement Agreement and Mutual Release
 - 10.5(4) Agreement with Texas Energy Trust Company
 - 10.6(4) Assignment and Agreement with Texas Energy Trust Company and Cobham Gas Industries, Inc.
 - 10.7(7) Asset Purchase Agreement with Texas Energy Trust Company.
 - 10.8(8) Definitive Agreement to sell Arvilla Oilfield Services, LLC
 - 10.9(9) First Amendment to Definitive Agreement
 - 21.1(6) Subsidiaries of Registrant (Revised)
 - 31.1 Certification of C.E.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - 31.2 Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
 - 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
 - 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
 - 99.1(1) Reserve Estimate and Evaluation of oil and gas properties
 - 99.2(1) Reserve Estimate and Evaluation for Dennis L. Spencer wells
- (1) Previously filed as exhibit to Form 10-SB.
 - (2) Previously filed as exhibit to Form 8-K dated August 7, 1995.
 - (3) Previously filed as exhibit to Form 8-K file January 23, 2004.

-25-

- (4) Previously filed as exhibit to Form 8-K filed November 11, 2004.
- (5) Previously filed as exhibit to the Preliminary Information Statement pursuant to Section 14C filed with the SEC on December 8, 2004.
- (6) Previously filed as exhibit to Form 10-KSB for year ended December 31, 2004 filed April 27, 2005.
- (7) Previously filed as exhibit to Form 8-K dated September 1, 2005.
- (8) Previously filed as exhibit to Form 8-K dated January 3, 2006.
- (9) Previously filed as exhibit to Form 8-K filed April 13, 2006

Item 14. Principal Accountants Fees and Services

We do not have an audit committee and as a result our entire board of directors performs the duties of an audit committee. Our board of directors will approve in advance the scope and cost of the engagement of an auditor before the auditor renders audit and non-audit services. As a result, we do not rely on pre-approval policies and procedures.

Audit Fees -----

The aggregate fees billed by our independent auditors, H J & Associates, for professional services rendered for the audit of our annual financial statements included in our Annual Reports on Form 10-KSB for the years ended December 31, 2005 and 2004, and for the review of quarterly financial statements included in our Quarterly Reports on Form 10-QSB for the quarters ending March 31, June 30 and September 30, 2005 and 2004, were \$91,312 for 2005 and \$24,119 for 2004.

Audit Related Fees

Edgar Filing: TRANS ENERGY INC - Form 10KSB

For the years ended December 31, 2005 and 2004, there were no fees billed for assurance and related services by H J & Associates relating to the performance of the audit of our financial statements which are not reported under the caption "Audit Fees" above.

Tax Fees

For the years ended December 31, 2005 and 2004, fees billed by H J & Associates for tax compliance, tax advice and tax planning were \$2,300 and \$1,101, respectively.

We do not use H J & Associates for financial information system design and implementation. These services, which include designing or implementing a system that aggregates source data underlying the financial statements or generates information that is significant to our financial statements, are provided internally or by other service providers. We do not engage H J & Associates to provide compliance outsourcing services.

The board of directors has considered the nature and amount of fees billed by H J & Associates and believes that the provision of services for activities unrelated to the audit is compatible with maintaining H J & Associates' independence.

-26-

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANS ENERGY, INC.

BY: /S/ JAMES K. ABCOUWER

James K. Abcouwer,
President and C.E.O.

Dated: May 22, 2006

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature

Title

/S/ JAMES K. ABCOUWER

President, C.E.O. and Director

Edgar Filing: TRANS ENERGY INC - Form 10KSB

James K. Abcouwer

/S/ LOREN E. BAGLEY

Vice President and Director

Loren E. Bagley Principal Financial Officer

/S/ JOHN G. CORP

Director

John G. Corp

/S/ WILLIAM F. WOODBURN

Secretary ,Treasurer,
C.O.O. and Director
Principal Accounting Officer

William F. Woodburn

/S/ ROBERT L. RICHARDS

Director

Robert L. Richards

-27-

TRANS ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

TRANS ENERGY, INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005

F-1

Edgar Filing: TRANS ENERGY INC - Form 10KSB

C O N T E N T S

Report of Independent Registered Public Accounting Firm	3
Consolidated Balance Sheet	4
Consolidated Statements of Operations	6
Consolidated Statements of Stockholders' Equity (Deficit).....	7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	10

F-2

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Trans Energy, Inc. and Subsidiaries
St. Mary's, West Virginia

We have audited the accompanying consolidated balance sheet of Trans Energy, Inc. and Subsidiaries (the Company) as of December 31, 2005 and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the years ended December 31, 2005 and 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and the results of their operations and their cash flows for the years ended December 31, 2005 and 2004, in conformity with United States generally accepted accounting principles.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 8 to the consolidated financial statements, the Company has generated significant losses from operations, has an accumulated deficit of \$30,684,681 and has a working

Edgar Filing: TRANS ENERGY INC - Form 10KSB

capital deficit of \$3,079,443 at December 31, 2005, which together raises substantial doubt about the Company's ability to continue as a going concern. Management's plans in regards to these matters are also described in Note 8. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

HJ & Associates, LLC

Salt Lake City, Utah
May 17, 2006

F-3

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheet

ASSETS

	December 31, 2005
CURRENT ASSETS	
Cash	\$ 439,258
Accounts receivable, net (Note 1)	1,396,696
Other current assets	9,617

Total Current Assets	1,845,571

PROPERTY AND EQUIPMENT, NET (Note 2)	2,160,256

OTHER ASSETS	
Assets of discontinued operations (Note 13)	7,410,571
Deposits	4,914
Investments	175,000
Life insurance, cash surrender value	75,995

Total Other Assets	7,666,480

TOTAL ASSETS	\$ 11,672,307
	=====

The accompanying notes are an integral part of

Edgar Filing: TRANS ENERGY INC - Form 10KSB

these consolidated financial statements.

F-4

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	December 31, 2005
CURRENT LIABILITIES	
Accounts payable - trade	\$ 2,607,130
Related party payables (Note 4)	855,502
Accrued expenses	860,368
Judgments payable (Note 7)	77,767
Debentures payable (Note 9)	50,000
Notes payable - current portion (Note 3)	474,247

Total Current Liabilities	4,925,014

LONG-TERM LIABILITIES	
Notes payable (Note 3)	191,830
Liabilities of discontinued operations (Note 13)	5,665,468
Asset retirement obligation (Note 1)	799,393

Total Long-Term Liabilities	6,656,691

Total Liabilities	11,581,705

COMMITMENTS AND CONTINGENCIES (Note 7)	
STOCKHOLDERS' EQUITY (DEFICIT) (Note 6)	
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; 4,952,148 shares issued and 4,707,515 outstanding	4,952
Capital in excess of par value	30,856,798
Treasury stock	(286,467)
Accumulated deficit	(30,484,681)

Total Stockholders' Equity (Deficit)	90,602

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	\$ 11,602,307
	=====

Edgar Filing: TRANS ENERGY INC - Form 10KSB

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

F-5

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Operations

	For the Years December 2005

REVENUES	\$ 4,797,201

COSTS AND EXPENSES	
Cost of oil and gas	4,553,758
Salaries and wages	295,164
Depreciation, depletion and amortization	265,866
Selling, general and administrative	496,758

Total Costs and Expenses	5,611,546

LOSS FROM OPERATIONS	(814,345)

OTHER INCOME (EXPENSE)	
Other income	721
Gain on disposition of debt	7,306
Interest expense	(129,034)
Loss on extinguishments of debt	-
Gain (Loss) on disposition of assets	(176,037)

Total Other Income (Expense)	(297,044)

LOSS BEFORE INCOME TAXES	(1,111,389)
INCOME TAXES	-

LOSS FROM CONTINUING OPERATIONS	(1,111,389)
LOSS FROM DISCONTINUED OPERATIONS	(345,204)

NET LOSS - attributed to common shareholders	\$ (1,456,593)
	=====

Edgar Filing: TRANS ENERGY INC - Form 10KSB

BASIC LOSS PER SHARE

Continuing operations	\$ (0.24)
Discontinued operations	(0.07)

Total Basic Loss Per Share	\$ (0.31)
	=====

WEIGHTED AVERAGE NUMBER OF COMMON SHARES
OUTSTANDING

4,678,294

=====

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

F-6

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

	Preferred Stock		Common Stock		Capital Excess Par Val
	Shares	Amount	Shares	Amount	
Balance, December 31, 2003	--	\$ --	1,793,405	\$ 1,793	\$ 23,372
Common stock issued for debt and interest January 2004	--	--	163,704	164	297
Common stock issued for debt and interest October 2004	--	--	1,353,332	1,353	2,434
Common stock issued for Acquisition, December 2004	--	--	344,633	245	403
Contributed capital, December 2004	--	--	--	--	1,346
Net loss for the year ended December 31, 2004	--	--	--	--	
	-----		-----		-----
Balance, December 31, 2004	--	\$ --	3,555,074	\$ 3,555	\$ 2,854
Common stock issued for services, January 2005	--	--	50,000	50	92
Fractional shares issued in reverse stock split	--	--	382	--	
Common stock issued for Acquisition, January 2005	--	--	1,185,024	1,185	2,368

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Contributed services	--	--	--	--	250
Common stock issued for debt, July 2005	--	--	141,668	142	254
Treasury shares, August 2005	--	--	--	--	
Common stock issued for services, December 2005	--	--	20,000	20	35
Net loss for the year ended December 31, 2005	--	--	--	--	
	-----	-----	-----	-----	-----
Balance, December 31, 2005	--	\$ --	4,952,148	\$ 4,952	\$ 30,856
	=====	=====	=====	=====	=====

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

F-7

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

	For the Dece
	----- 2005 -----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (1,313,687)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation, depletion and amortization	265,866
Loss on extinguishments of debt	-
Gain (loss) on disposition of assets	(203,280)
Common stock issued for services and beneficial conversion features	761,750
Gain on disposition of debt	--
Changes in operating assets and liabilities:	
Decrease (increase) in accounts receivable	(742,779)
Decrease (increase) in other receivable	8,825
(Increase) decrease in prepaid and other assets	28,582
(Decrease) increase in accounts payable	1,852,537
(Decrease) increase in advances from related parties	75,081
(Decrease) increase in accrued expenses	15,510
Decrease in judgments payable	--
Increase in environmental remediation	37,650

Net Cash Provided (Used) by Operating Activities	605,392

CASH FLOWS FROM INVESTING ACTIVITIES:	

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Proceeds from sale of property and equipment	203,280
Expenditures for property and equipment	(313,327)
Proceeds from sale of life insurance cash value	--
Payment on other non current assets	--

Net Cash Provided by Investing Activities	(110,047)

CASH FLOWS FROM FINANCING ACTIVITIES:	
Change in cash overdraft	--
Principal payments to related parties	--
Principal payments on notes payable	(135,749)
Principal payments on judgment payable	--

Net Cash (Used) by Financing Activities	(135,749)

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

F-8

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

		For th
		De

		2005

Cash acquired in acquisition of subsidiary	\$	--

NET INCREASE (DECREASE) IN CASH		359,5
CASH, BEGINNING OF YEAR		79,6

CASH, END OF YEAR	\$	439,2
		=====
CASH PAID FOR:		
Interest	\$	129,0
Income taxes	\$	--
NON-CASH ACTIVITIES:		

Edgar Filing: TRANS ENERGY INC - Form 10KSB

The Company disposed of a portion of Cobham Gas Industries, Penine Resources, Inc., and Belmont Energy, Inc. The Company received 244,633 shares of its common stock valued at \$286,467 for net assets of \$857,100.

The Company issued 141,668 shares of common stock for debt relief of \$255,000.

Various key employees of the Company contributed \$250,000 of services.

The Company issued 1,185,024 shares of common stock for Arvilla, Inc. for net assets of \$2,370,048.

The Company issued 70,000 shares of common stock for services valued at \$128,500.

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

F-9

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Organization

The Company was incorporated in the State of Idaho on January 16, 1964. On January 11, 1988, the Company changed its name to Apple Corporation. In 1988, the Company acquired oil and gas leases and other assets from Ben's Run Oil Company (a Virginia limited partnership) and has since engaged in the business of oil and gas production.

On November 5, 1993, the Board of Directors caused to be incorporated in the State of Nevada, a new corporation by the name of Trans Energy, Inc., with the specific intent of effecting a merger between Trans Energy, Inc. of Nevada and Apple Corp. of Idaho, for the sole purpose of changing the domicile of the Company to the State of Nevada. On November 15, 1993, Apple Corp. and the newly formed Trans Energy, Inc. executed a merger agreement whereby the shareholders of Apple Corp. exchanged all of their issued and outstanding shares of common stock for an equal number of shares of Trans Energy, Inc. common stock. Trans Energy, Inc. was the surviving corporation and Apple Corp. was dissolved.

b. Principles of Consolidation

The consolidated financial statements include the Company and its wholly-owned subsidiaries, Prima Oil Company, Inc., Ritchie County Gathering Systems, Inc., Tyler Construction Company, Inc. and Tyler Energy, Inc. In addition, the consolidated financial statements include two of the Company's other subsidiaries, Arvilla Oilfield Services, LLC which was disposed of subsequent to December 31, 2005 and has been presented as "discontinued operations" in these consolidated financial statements. All significant intercompany

Edgar Filing: TRANS ENERGY INC - Form 10KSB

accounts and transactions have been eliminated.

c. Accounting Method

The Company uses the successful efforts method of accounting for oil and gas producing activities. Costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells are capitalized. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproved properties are amortized based on the Company's experience of successful drilling and average holding period. Capitalized costs of producing oil and gas properties, after considering estimated dismantlement and abandonment costs and estimated salvage values, are depreciated and depleted by the unit-of-production method. Support equipment and other property and equipment are depreciated over their estimated useful lives.

On the sale or retirement of a complete unit of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized. On the retirement or sale of a partial unit of proved property, the cost is charged to accumulated depreciation, depletion, and amortization with a resulting gain or loss recognized in income.

F-10

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c. Accounting Method (Continued)

On the sale of an entire interest in an unproved property for cash or cash equivalent, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually.

If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

The Company has elected a December 31 year-end.

d. Basic Loss per Share of Common Stock

The basic loss per share of common stock is based on the weighted average number of shares issued and outstanding at the date of the consolidated financial statements. Fully diluted loss per share of common stock is not disclosed as the common stock equivalents are

Edgar Filing: TRANS ENERGY INC - Form 10KSB

antidilutive in nature. For the Years Ended December 31, 2005 2004

Numerator:		
Loss from operations	\$	(1,111,389)
Discontinued Operations		(345,204)

Net Loss	\$	(1,456,593)
		=====
Denominator - weighted average shares		
		4,678,294
		=====
Net loss per share:		
Continuing operations	\$	(0.24)
Discontinued operations		(0.07)

Total Basic Loss Per Share	\$	(0.31)
		=====

At December 31, 2005, the Company had a convertible debenture and accrued interest which could have been converted into approximately 33,000 shares of common stock, which have been excluded from loss per share because the effect would be anti-dilutive.

d. Provision for Taxes

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

F-11

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Provision for Taxes (Continued)

Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

Net deferred tax assets consist of the following components as of December 31, 2005 and 2004:

2005

2004

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Deferred tax assets:		
NOL carryover	\$ 9,966,065	\$ 9,747,505
Accrued expenses	252,250	246,200
Valuation allowance	(10,218,315)	(9,993,705)
Net deferred tax asset	\$ --	\$ --

The income tax provision differs from the amount of income tax determined by applying the U.S. federal and state income tax rates of 39% to pretax income from continuing operations for the years ended December 31, 2005 and 2004 due to the following:

	2005	2004
Book income	\$ (512,338)	\$ (196,110)
Other	--	50
Discontinued operations	60,836	-
Officer insurance	--	1,460
Stock for services	50,115	--
Contributed services	97,500	--
Loss on debt	--	299,490
Loss on disposal of assets	79,279	--
Accrued expenses	6,049	2,198
Valuation allowance	218,559	(107,088)
	\$ --	\$ --

At December 31, 2005, the Company had net operating loss carryforwards of approximately \$24,560,000 that may be offset against future taxable income from the year 2005 through 2025. No tax benefit has been reported in the December 31, 2005 consolidated financial statements since the potential tax benefit is offset by a valuation allowance of the same amount.

Due to the change in ownership provisions of the Tax Reform Act of 1986, net operating loss carryforwards for Federal income tax reporting purposes are subject to annual limitations. Should a change in ownership occur, net operating loss carryforwards may be limited as to use in future years.

F-12

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Edgar Filing: TRANS ENERGY INC - Form 10KSB

e. Asset Retirement Obligation

The following is a description of the changes to the Company's asset retirement obligation from January 1 through December 31, 2005:

Reclamation obligation (asset retirement obligation) as reported at December 31, 2004	\$ 1,571,749
Disposition of subsidiary	(810,006)
Accretion expense:	
Revision in reclamation cost estimates	-
Accretion expense - January 1, 2005 through December 31, 2005	37,650

Reclamation obligation at December 31, 2005	\$ 799,393
	=====

f. Depreciation

Fixed assets are stated at cost. Depreciation on vehicles, machinery and equipment is provided using the straight line method over expected useful lives of five years. Depreciation on pipelines and well equipment is provided using the straight-line method over the expected useful lives of fifteen years. Wells are being depreciated using the units-of-production method on the basis of total estimated units of proved reserves.

g. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

h. Long Lived Assets

The Company reviews long-lived assets and identifiable intangibles whenever events or circumstances indicate that the carrying amounts of such assets may not be fully recoverable. The Company evaluates the recoverability of long-lived assets by measuring the carrying amounts of the assets against the estimated undiscounted cash flows associated with these assets. At the time such evaluation indicates that the future undiscounted cash flows of certain long-lived assets are not sufficient to recover the assets' carrying value, the assets are adjusted to their fair values (based upon discounted cash flows).

F-13

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Edgar Filing: TRANS ENERGY INC - Form 10KSB

i. Accounts Receivable

Accounts receivable are carried at the expected net realizable value. The allowance for doubtful accounts is based on management's assessment of the collectibility of specific customer accounts and the aging of the accounts receivables. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than historical experience, our estimates of the recoverability of the amounts due to us could be overstated, which could have a negative impact on operations.

j. New Accounting Pronouncements

In May 2005, the Financial Accounting Standards Board, issued Statement of Financial Accounting Standards ("SFAS, No. 154"), "Accounting Changes and Error Corrections," which replaces Accounting Principles Board Opinion No. 20, "Accounting Changes," and SFAS No. 3, "Reporting Accounting Changes in Interim Financial Statements -- An Amendment of APB Opinion No. 28". SFAS No. 154 provides guidance on accounting for and reporting changes in accounting principle and error corrections. SFAS No. 154 requires that changes in accounting principle be applied retrospectively to prior period financial statements and is effective for fiscal years beginning after December 15, 2005. The Company does not expect SFAS No. 154 to have a material impact on our consolidated financial position, results of operations, or cash flows.

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 153. This statement addresses the measurement of exchanges of nonmonetary assets. The guidance in APB Opinion No. 29, "Accounting for Nonmonetary Transactions," is based on the principle that exchanges of nonmonetary assets should be measured based on the fair value of the assets exchanged. The guidance in that opinion; however, included certain exceptions to that principle. This statement amends Opinion 29 to eliminate the exception for nonmonetary exchanges of similar productive assets and replaces it with a general exception for exchanges of nonmonetary assets that do not have commercial substance. A nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. This statement is effective for financial statements for fiscal years beginning after June 15, 2005. Earlier application is permitted for nonmonetary asset exchanges incurred during fiscal years beginning after the date of this statement is issued. Management believes the adoption of this statement will have no impact on the financial statements of the Company.

In December 2004, the Financial Accounting Standards Board issued a revision to Statement of Financial Accounting Standards No. 123R, "Accounting for Stock Based Compensations." This statement supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and its related implementation guidance. This statement establishes standards for the accounting for transactions in which an entity exchanges its equity instruments for goods and services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. This statement focuses primarily on accounting for transactions in which an

Edgar Filing: TRANS ENERGY INC - Form 10KSB

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j. New Accounting Pronouncements (Continued)

entity obtains employee services in share-based payment transactions. This statement does not change the accounting guidance for share based payment transactions with parties other than employees provided in Statement of Financial Accounting Standards No. 123. This statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Employee Stock Ownership Plans." Management believes the adoption of this statement will have no impact on the financial statements of the Company.

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 151, "Inventory Costs-- an amendment of ARB No. 43, Chapter 4". This statement amends the guidance in ARB No. 43, Chapter 4, "Inventory Pricing," to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). Paragraph 5 of ARB 43, Chapter 4, previously stated that ". . . under some circumstances, items such as idle facility expense, excessive spoilage, double freight, and rehandling costs may be so abnormal as to require treatment as current period charges. . . ." This statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of "so abnormal." In addition, this Statement requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. Management believes the adoption of this statement had no material impact on the Company.

The implementation of the provisions of these pronouncements is not expected to have a significant effect on the Company's consolidated financial statement presentation.

k. Stock Split

On November 29, 2004 the board of directors and stockholders holding a majority of outstanding common stock of the Company approved a one share for 150 shares reverse split of the common stock. All references to per share data and common stock have been restated to reflect the effect of this reverse split.

F-15

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

NOTE 2 - PROPERTY AND EQUIPMENT

Edgar Filing: TRANS ENERGY INC - Form 10KSB

At December 31, 2005, property and equipment consisted of:

Vehicles	\$	60,724
Machinery and equipment		1,600
Furniture and Fixtures		1,847
Pipelines		1,392,648
Well equipment		87,009
Leasehold acreage		64,004
Accumulated depreciation		(1,370,199)

Total Fixed Assets	\$	237,633
		=====

Depreciation expense was \$239,595 and \$195,150 for the years ended December 31, 2005 and 2004, respectively.

At December 31, 2005 the Company's proved properties consist of costs in the following:

Wells, Wyoming	\$	3,079,481
Wells, West Virginia		1,575,345
Less: accumulated depletion		(2,732,203)

	\$	1,922,623

Depletion expense was \$113,390 and \$125,965 for the years ended December 31, 2005 and 2004.

Productive Gas Wells

The following summarizes the Company's productive oil and gas wells as of December 31, 2005. Productive wells are producing wells and wells capable of production. Gross wells are the total number of wells in which the Company has an interest. Net wells are the sum of the Company's fractional interests owned in the gross wells.

	Gross	Net
	-----	-----
Productive oil wells, Wyoming	6	2
Oil and gas wells, West Virginia	93	93
	-----	-----
	99	95
	=====	=====

The Company operates its West Virginia wells and does not operate its Wyoming wells.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

December 31, 2005 and 2004

NOTE 2 - PROPERTY AND EQUIPMENT (Continued)

Oil and Gas Acreage

The following table sets forth the undeveloped leasehold acreage, by area, held by the Company as of December 31, 2005. Undeveloped acres are acres on which wells have not been drilled or completed to a point that would permit the production of commercial quantities of oil and gas, regardless of whether or not such acreage contains proved reserves. Gross acres are the total number of acres in which the Company has a working interest. Net acres are the sum of the Company's fractional interests owned in the gross acres. In certain leases, the Company's ownership varies at different depths; therefore, the net acres in these leases are calculated using the lowest ownership interest at any depth.

	Gross	Net
Wyoming, approximately	2,800	2,530
West Virginia, approximately	10,000	8,750
	12,800	11,280
	12,800	11,280

NOTE 3 - LONG-TERM DEBT

The Company had the following debt obligations at December 31, 2005:

Note payable to an individual, due on demand, bearing interest at 9.25%, interest payments due monthly, secured by equipment. \$

Union Bank of Tyler County, principal and interest payments of \$1,740 due monthly with interest at 9.5%, unsecured

New York Life, 5.87% interest rate, due upon demand, secured by life insurance cash value.

Note payable to a Company, due on demand, unsecured, non interest bearing.

Wesbanco, principal and interest payments of \$3,500 due monthly, interest at prime +1%, secured by officers' personal assets. 267,229

Union Bank of Tyler County, principal and interest payments of \$326 due monthly, interest at 5.0%, secured by a vehicle.

Note due to a individual, unsecured with interest at 7.00%, due upon demand.

Total

Less Current Portion

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Total Long-Term Debt

\$
==

F-17

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

NOTE 3 - LONG-TERM DEBT (Continued)

Future maturities of long-term debt are as follows:

2006
2007
2008
2009
2010
2011 and thereafter

\$

Total

\$
==

At December 31, 2005, total interest accrued for these debt obligations was \$0.

NOTE 4 - RELATED PARTY TRANSACTIONS

a. 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, at the industrial facilities near Sistersville, West Virginia, or 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.

b. Well Drilling and Operating Agreement

In June 2000, the Company entered into a well drilling and operating agreement with Sancho Oil and Gas Corporation ("Sancho"), a company controlled by the Vice President of the Company, on an on-going basis. Sancho provided seven drill-down wells located in Tyler County, West Virginia and the Company was to pay 100% of the cost of drilling and completing the well including any topside equipment needed and other related equipment. The Company will receive 75% of the working

Edgar Filing: TRANS ENERGY INC - Form 10KSB

interest in each of the wells competed.

c. Receivables and Payables

The Company has various payables to the officers and companies of the officers. These amounts have been grouped together with a net payable of \$794,280 and receivable of \$0 at December 31, 2005. At December 31, 2005, total interest accrued in the net related party payable was \$16,024, which is included in the total owed to the related parties.

F-18

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

NOTE 5 - ECONOMIC DEPENDENCE AND MAJOR CUSTOMERS

The Company's marketing arrangement with Sancho accounted for approximately 100% and 82% of the Company's revenue for the years ended December 31, 2005 and 2004, respectively in Tyler Construction Company. This marketing agreement is in effect until December 1, 2008. Another customer also generated sales of 100% and 99% of Ritchie County total sales in 2005 and 2004, respectively.

NOTE 6 - STOCKHOLDERS' EQUITY

Preferred Stock -The Company has authorized 10,000,000 shares of \$.001 par value preferred stock. The preferred stock shall have preference as to dividends and to liquidation of the Company.

Common Stock - The Company has authorized 500,000,000 shares of \$.001 par value common stock.

In January 2004, the Company issued 163,704 shares of common stock for debt relief of \$297,859.

In December 2004, the Company issued 1,353,332 shares of common stock for debt relief of \$2,436,000.

In December 2004, key employees of the Company contributed \$1,346,529 of accrued payroll and services.

In December 2004, the Company issued 244,633 shares of common stock for an acquisition of a subsidiary valued at \$403,645.

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

In January 2005, the Company issued 1,185,024 shares of common stock for an acquisition of a subsidiary valued at \$ 2,370,048.

In 2005, key employees of the Company contributed services valued at \$250,000.

In July 2005, the Company issued 141,668 shares of the common stock for debt relief of \$255,000.

In August 2005, the Company received 244,633 shares of the common stock of the Company in return for the sale of certain assets of the

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Company. These shares have been accounted for as treasury stock.

In December 2005, the Company issued 20,000 shares of common stock for consulting services valued at \$36,000.

F-19

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

NOTE 7 - JUDGMENTS PAYABLE

Core Laboratories, Inc.

On July 28, 1999, Core Laboratories, Inc. (Core) obtained a judgment against the Company for non-payment of an account payable. The judgment calls for monthly payments of \$351 and is bearing interest at 10.00% per annum. At December 31, 2005, the Company had accrued a balance of \$19,983 including interest of \$8,348(5,932) which is included in judgments payable and accrued expenses, respectively.

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 December 31, 2005, the Company has accrued a balance of \$90,286 including interest of \$26,581 which is included in judgment payable and accrued expenses, respectively.

Tioga Lumber Company

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.

Arvilla Debt Doventants

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

NOTE 8 - GOING CONCERN

The Company's consolidated financial statements are prepared using United States 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 December 31, 2005 of \$30,341,775, and has a working capital deficit at December 31, 2005 of \$3,018,221.

Revenues have not been sufficient to cover its operating costs and to allow it to continue as a going concern. The potential proceeds from

Edgar Filing: TRANS ENERGY INC - Form 10KSB

the sale of common stock, sale of drilling programs, and other contemplated debt and equity financing, and increases in operating revenues from new development and business acquisitions 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. The Company's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

F-20

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

NOTE 9 - CONVERTIBLE DEBENTURES

On September 10, 1998, the Company completed a debenture issue of \$4,625,400 face value, 8% Secured Convertible Debentures due March 31, 1999 (the "Debentures"). Pursuant to the terms of the Debentures, the Company had agreed to file a registration statement with the Commission to register the shares of the Company's Common Stock into which the Debentures may be converted. Upon effectiveness of the registration statement, the shares of the Company's Common Stock underlying the Debentures, when issued, will be deemed registered securities and will not be restricted as to the resale of such securities.

Because the Company failed to file its registration statement within forty-five (45) days from the closing of the Debenture offering, the Company was obligated to increase by up to fifteen percent (15%) the number of shares issuable upon conversion to each holder.

At December 31, 2005, the Company owed a remaining \$50,000 on the debentures plus \$24,853 in accrued interest and \$2,500 in penalties.

Convertible debenture dated 2001 bearing interest at 10% with interest and principal due upon demand; unsecured; convertible into the Company's common stock at \$0.035 per share: \$ 50,000

Less current portion	(50,000)

Long-term portion	\$ --
	=====

NOTE 10 - BUSINESS SEGMENTS

The Company has adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." The Company conducts its operations principally as oil and gas sales with Trans Energy, Prima Oil, and Cobham Gas & Oil, Inc., Penine Resources, Inc., and Belmont Energy, inc. and pipeline transmission with Ritchie County and Tyler Construction.

F-21

TRANS ENERGY, INC. AND SUBSIDIARIES

Edgar Filing: TRANS ENERGY INC - Form 10KSB

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

NOTE 10 - BUSINESS SEGMENTS (Continued)

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

	For the Years Ended December 31, -----	Oil and Gas Sales -----	Pipeline Transmission -----	Corpo Unall -----
Oil and gas revenue	2005	\$ 271,165	\$ 3,853,243	\$
	2004	986,220	1,403,879	
Operating (loss) income applicable to industry segment	2005	(868,484)	35,076	
	2004	523,857	68,155	
Interest expense	2005	(98,981)	(30,053)	
	2004	(156,277)	(37,407)	
Other income (expenses)	2005	(141,358)	(58,395)	
	2004	--	--	
Assets (net of intercompany accounts)	2005	2,569,239	1,605,263	1,
	2004	2,033,346	680,956	
Depreciation and amortization	2005	161,824	191,161	
	2004	220,836	74,043	
Property and equipment acquisitions	2005	313,327	--	2,
	2004	2,613,460	--	

NOTE 11 - OUTSTANDING STOCK OPTIONS

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

Under FASB Statement 123, the Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model with the following weighted average assumptions used for grants, respectively; dividend yield of zero percent for all years; expected volatility of 68.72%; risk-free interest rate of 4.08 and expected lives of 10 years for the three months ended March 31, 2006 and 2005.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

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

NOTE 11 - OUTSTANDING STOCK OPTIONS (Continued)

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, pertaining to the vested portion of the options, for the year ended December 31, 2005. Also under these same provisions, the Company's net loss would have been changed by the pro forma amounts indicated below:

	For the Year Ended December 31,	
	2005	2004
Net loss:		
As reported	\$ (1,313,687)	\$ (502,8
Pro forma	\$ (2,151,103)	\$ (502,8
Basic loss per share:		
As reported	\$ (0.28)	\$ (0.2
Pro forma	\$ (0.46)	\$ (0.2

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

	December 31, 2005		December 31, 2004	
	Weighted Average Shares	Exercise Price	Weighted Average Shares	Exerci Pric
Outstanding at beginning of year	--	\$ --	--	\$
Granted	553,324	1.95	--	
Exercised	--	--	--	
Forfeited	--	--	--	
Expired	--		--	
Outstanding at end of year	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	\$ 1.95	--	\$

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

NOTE 11 - OUTSTANDING STOCK OPTIONS (Continued)

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

Range of Exercise Prices	Number Outstanding	Options Outstanding		Option Number Exercisable
		Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	
\$1.95	553,324	8.75 years	\$ 1.95	553,324
	553,324			553,324

NOTE 12- SUBSEQUENT EVENTS

On January 3, 2006 the Company entered into a definitive agreement to sell its well servicing and maintenance business, Arvilla Oilfield Services, LLC, a West Virginia limited liability company, to Clarence E. Smith and Rebecca L. Smith, both directors of the Company. As a result of consummating the definitive agreement, Clarence and Rebecca Smith returned to the Company 521,411 shares of Trans Energy common stock. Clarence and Rebecca Smith also conveyed to the Company all of their interest in and to five oil and gas wells located in Tyler County, West Virginia. Upon execution of the definitive agreement, Clarence Smith resigned as our Chief Executive Officer, but remained on our board of directors until the closing on April 7, 2006. On April 7, 2006 both Clarence and Rebecca Smith resigned from the board of directors. The closing of the transaction was expressly conditioned on the receipt of a fairness opinion from a qualified independent party stating that the transactions contemplated by the definitive agreement were fair to the Company and its stockholders. The Company has accounted for the financial statements of Arvilla Oilfield Services, LLC as discontinued operations and recorded a loss from discontinued operations of \$155,992, which is included in the statement of operations for the year ended December 31, 2005.

On January 6, 2006, the board of directors elected James K. Abcouwer as President and Chief Executive Officer of the Company. On April 27, 2006 Mr. Abcouwer was elected to the board of directors of the Company.

On April 12, 2006 the Company finalized a definitive agreement for sale of certain wells, overriding royalties and undeveloped acreage located in Campbell County, Wyoming. The assets were sold at public

Edgar Filing: TRANS ENERGY INC - Form 10KSB

auction through the Oil & Gas Asset Clearinghouse in Houston, Texas. The gross sales price for the properties is \$1,003,000.

On April 21, 2006, the Company received a letter from the NASD notifying the Company that it is not in compliance with NASD Rule 6530, which obligates issuers to timely file those reports and other documents required to be filed with the Securities and Exchange Commission. The Company has until May 23, 2006 to file its Form 10-KSB for the year ended December 31, 2005 or its securities will be delisted from the OTCBB.

F-24

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

NOTE 13 - DISCONTINUED OPERATIONS

Arvilla Oil Field Services, LLC

In 2006 the Company discontinued the operations of its wholly owned subsidiary Arvilla Oil Field Services, LLC. The accompanying financial statements have been presented to reflect the operations of Arvilla Oil Field Services, LLC as discontinued.

For the Years Ended

	December 31, 2005	2004
	-----	-----
Revenues	\$ 10,670,703	\$ --
Cost of sales	(7,425,123)	--
General and administrative	(3,108,699)	--
Other income (expense)	(292,873)	--
	-----	-----
Net loss before income taxes	(155,992)	--
Income tax expense	--	--
	-----	-----
Net loss	\$ (155,992)	\$ --
	=====	=====

The net assets of the discontinued operations were composed of the following:

Cash	\$ 169,325	\$ --
Accounts receivable	769,824	--
Other current assets	5,346	--
Property and equipment	5,319,101	--
Other assets	453,020	--
Accounts payable and accrued expenses	(525,257)	--
	-----	-----
Notes payable	(4,216,115)	--
	-----	-----
Net assets	\$ 1,975,244	\$ --
	=====	=====

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Cobham Gas Industries, Inc.

In 2006 the Company discontinued the operations of its wholly owned subsidiary Cobham Gas Industries, Inc.. The accompanying financial statements have been presented to reflect the operations of Cobham Gas Industries, Inc. as discontinued. Cobham Gas Industries.

F-25

TRANS ENERGY, INC. AND SUBSIDIARIES
S.F.A.S. 69 Supplemental Disclosures
December 31, 2005 and 2004
(Unaudited)

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES

- (1) Capitalized Costs Relating to
Oil and Gas Producing Activities

	December 2005

Proved oil and gas producing properties and related lease and well equipment	\$ 3,403,421
Unproved oil and gas properties	64,004
Accumulated depreciation and depletion	(1,394,403)

Net Capitalized Costs	\$ 2,073,022
	=====

- (2) Costs Incurred in Oil and Gas Property
Acquisition, Exploration, and Development Activities

	For the Year December 2005

Acquisition of Properties	
Proved	\$ --
Unproved	--
Exploration Costs	--
Development Costs	313,327

The Company does not have any investments accounted for by the equity method.

- (3) Results of Operations for

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Producing Activities

	For the Year December 2005

Sales	\$ 1,547,696
Production costs	(1,154,841)
Depreciation and depletion	(258,144)
Income tax expenses	--

Results of operations for producing activities (excluding the activities of the pipeline transmission operations, corporate overhead and interest costs)	\$ 392,855
	=====

F-26

TRANS ENERGY, INC. AND SUBSIDIARIES
S.F.A.S. 69 Supplemental Disclosures
December 31, 2005 and 2004
(Unaudited)

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES (CONTINUED)

(4) Reserve Quantity Information

	Oil BBL

Proved developed and undeveloped reserves	
End of the year 2004	106,649
Revisions of previous estimates	121,926
Improved recovery	--
Purchases of minerals in place	--
Extensions and discoveries	--
Production	(12,731)
Sales of minerals in place	--

End of the year 2005	215,844
	=====
Proved developed reserves:	
	Oil BBL

End of the year 2004	106,649
End of the year 2005	215,844

Edgar Filing: TRANS ENERGY INC - Form 10KSB

During the years ended December 31, 2005 and 2004, the Company had reserve studies and estimates prepared on its various properties. The difficulties and uncertainties involved in estimating proved oil and gas reserves makes comparisons between companies difficult. Estimation of reserve quantities is subject to wide fluctuations because it is dependent on judgmental interpretation of geological and geophysical data.

F-27

TRANS ENERGY, INC. AND SUBSIDIARIES
S.F.A.S. 69 Supplemental Disclosures
December 31, 2005 and 2004
(Unaudited)

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES (CONTINUED)

(5) Standardized Measure of Discounted
Future Net Cash Flows Relating to
Proved Oil and Gas Reserves

At December 31, 2005

Future cash inflows	\$
Future production and development costs	
Future income tax expense	--
Future net cash flows	
Discounted for estimated timing of cash flows	--
Standardized measure of discounted future net cash flows	\$ ===

At December 31, 2004

Future cash inflows	\$
Future production and development costs	
Future income tax expense	--
Future net cash flows	
10% annual discount for estimated timing of cash flows	--
Standardized measure of discounted future net cash flows	\$ ==

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Future income taxes were determined by applying the statutory income tax rate to future pre-tax net cash flow relating to proved reserves.

F-28

TRANS ENERGY, INC. AND SUBSIDIARIES
S.F.A.S. 69 Supplemental Disclosures
December 31, 2005 and 2004
(Unaudited)

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES (CONTINUED)

(5) Standardized Measure of Discounted
Future Net Cash Flows Relating to
Proved Oil and Gas Reserves (Continued)

The following schedule summarizes changes in the standardized measure of discounted future net cash flow relating to proved oil and gas reserves:

	For the Years Ended December 2005		
Standardized measure, beginning of year	\$	4,438,836	\$
Oil and gas sales, net of production costs		(392,855)	
Sales of mineral in place		--	
Purchases		--	
Net change due to revisions in quantity estimates		18,998,260	
Accretion of discount items		--	

Standardized measure, end of year	\$	23,044,241	\$
		=====	

The above schedules relating to proved oil and gas reserves, standardized measure of discounted future net cash flows and changes in the standardized measure of discounted future net cash flows have their foundation in engineering estimates of future net revenues that are derived from proved reserves and prepared using the prevailing economic conditions. These reserve estimates are made from evaluations conducted by independent geologists, of such properties and will be periodically reviewed based upon updated geological and production data. Estimates of proved reserves are inherently imprecise. The above standardized measure does not include any restoration costs due to the fact the Company does not own the land.

Subsequent development and production of the Company's reserves will necessitate revising the present estimates. In addition, information provided in the above schedules does not provide definitive information as the results of any particular year but, rather, helps explain and demonstrate the impact of major factors affecting the Company's oil and gas producing activities. Therefore, the Company suggests that all of the aforementioned factors concerning assumptions and concepts should be taken into consideration when reviewing and analyzing this information.

