

Edgar Filing: TRANS ENERGY INC - Form 10KSB

TRANS ENERGY INC  
Form 10KSB  
April 12, 2002

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, 2001

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.

State the issuer's revenues for its most recent fiscal year. \$ 1,278,227

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. \$2,515,749 (Based on price of \$0.013 on April 8, 2002)

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

Class	Outstanding as of December 31, 2001
-----	-----

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Common Stock, Par Value  
\$.001 per share

176,683,189

DOCUMENTS INCORPORATED BY REFERENCE  
NONE

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

1

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.....

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.....

PART IV

Item 13. Exhibits and Reports on Form 8-K.....

Signatures.....

PART I

Item 1. Description of Business

History

Trans Energy, Inc., a Nevada corporation (the "Company" or "TSRG"), is primarily engaged in the transportation, marketing and production of natural gas and oil, and also conducts exploration and development activities. The Company owns an interest in seven oil and gas wells in West Virginia, owns and operates one oil well in Wyoming, and owns an interest in seven oil wells in Wyoming that it does not operate. It also owns and operates an aggregate of over 100 miles of three-inch, four-inch and six-inch gas transmission lines located within West Virginia in the Counties of Ritchie, Tyler and Pleasants. This pipeline system gathers the natural gas produced from these wells and from wells owned by third parties. TSRG also has approximately 16,500 gross acres under lease in the Powder River Basin in Campbell, Crook and Weston Counties, Wyoming. In 2001, the Company participated in the drilling of three drill downs to the Benson Sand in West Virginia.

On March 6, 1998, the Company entered into an agreement to purchase from GCRL Energy, Ltd. ("GCRL") all of GCRL's 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. The Company made an initial payment for the properties of \$332,500 and the balance of \$2,987,962 was paid for with proceeds from the sale of Convertible Debentures. During 1999, the Sagebrush 3 well was drilled in the Sagebrush field in Campbell County Wyoming. It will be used as a water disposal well for the Sagebrush #1 and #2. It is anticipated that the Sagebrush #3 will be put into operation as a disposal well during the summer of 2002.

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

Business Development

In 2001, management continued its interest in the Trenton - Black River deep gas field in the Appalachian Basin in West Virginia. Management believes that this area may become active in the counties in which the Company operates. The Company continues to focus much of its efforts in this area to take advantage of the situation if the opportunity becomes available. In 1999, the Company sold many of its Appalachian Basin assets and purchased 51% of a producing well in the Powder River Basin in Wyoming. The Company then focused its attention toward developing its acreage in the Powder River Basin in Wyoming and drilling for deep gas in the Trenton-Black River area.

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

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

In September 1993, the Company acquired certain oil and gas assets including wells and pipelines, in exchange solely for shares of the Company's authorized but previously unissued common stock. These acquisitions are summarized below:

-3-

### Tyler Construction Company, Inc.

In September 1993, the Company acquired an interest equal to 65% of the total outstanding shares of Tyler Construction Company ("Tyler Construction") from Loren E. Bagley and William F. Woodburn, both of whom are directors of the Company. Tyler Construction owns and operates a natural gas gathering

pipeline system serving the industrialized Ohio Valley. Tyler Construction also owns and operates 27 miles of six-inch pipeline and 10 miles of four-inch pipeline.

Tyler Construction's trunk line system consists of a six-inch pipeline that begins at the town of St. Marys, West Virginia, located on the Ohio River in the County of Pleasants in western West Virginia, and proceeds twenty-seven miles due east to Bradden Station, West Virginia. Near Bradden Station, the pipeline intercepts major transmission lines of Equitable Natural Gas, Dominion Transmission, Inc. and Eastern American Energy. An intercepting line consisting of ten miles of four-inch pipeline begins at a point eight miles east of St. Marys and proceeds north 10 miles to an industrial park located seven miles south of Sistersville, West Virginia. At this point, gas is delivered to OSI Specialties (formerly Union Carbide) and Consolidated Aluminum Corporation of America under a marketing agreement with Sancho. Pursuant to its agreement 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 Hope Gas, Inc. ("Hope") in 1988. This agreement is a flexible volume supply agreement whereby the Company receives 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 residential gas index and the Inside F.E.R.C. CNG Index.

### Spencer Wells

Also in September 1993, the Company acquired from Dennis L. Spencer all rights, title and interest to six producing oil and gas wells located in West Virginia, in exchange for the Company shares. Five of the wells identified as "Fowler," "Goff," "Locke," "McGill" and "Workman" are situated in Ritchie County in a proven reservoir field. The remaining well identified as "Spencer," is located in Tyler County. All six wells were completed in 1991 and have been producing oil and gas through the date hereof. In 1999, five of these wells were sold to an unaffiliated third party and in 2000, the sixth well was sold to an unaffiliated third party.

### The Pipeline, Ltd.

Also in September 1993, the Company acquired from Tyler Pipeline, Inc. ("Tyler Pipeline") all rights, title and interest in the natural gas gathering pipeline system known as The Pipeline, Ltd. (the name of the pipeline, not a legal entity), a four-inch pipeline that begins at Twiggs, West Virginia, nine miles east of St. Marys, West Virginia where it intercepts Tyler Construction's trunk line system and proceeds due south for a distance of six miles. The Pipeline, Ltd. system is used for purchasing gas from third party producers. Mr.

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

Woodburn, Secretary / Treasurer and a director of the Company, is also President and owns 50% of Tyler Pipeline. Mr. Bagley, Vice President and a director of the Company, also owns 50% of Tyler Pipeline.

Ritchie County Gathering Systems, Inc.

In September 1993, the Company acquired all the issued and outstanding capital stock of Ritchie County Gathering Systems, Inc., a West Virginia corporation ("Ritchie County Gathering"). Ritchie County Gathering owns and operates a four-inch natural gas gathering line which begins five miles south of Cairo, West Virginia at Rutherford, and proceeds due south for 4.6 miles, crossing Mellon Ridge and ending at Macfarlan Creek approximately 1/2 mile north of the South Fork of the Hughes River. The Ritchie County Gathering pipeline is used for purchasing gas from third party producers and delivering such gas to Hope.

-4-

Powder River Basin Wyoming

On March 6, 1998, the Company entered into an agreement to purchase from GCRL Energy, Ltd. ("GCRL") all of GCRL's 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. The Company 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 the Company's 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 TSRG
Sagebrush Fed #1	51	48.8%
Sagebrush Fed #2	37	47.5%
Pinon Fee #1	28	51.2%
Sandbar Boley 31-36 includes Sandbar State 1-36 and 2-36	11	27.8%
Wolff 1-35	6	68%
	--	-----
TOTAL	133	

### Current Business Activities

The Company is operates its oil and natural gas properties and transports and markets natural gas through its 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 the Company 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.

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

Although the Company will continue to transport and market natural gas through its various pipelines, there are no current plans to acquire or to lay any additional pipeline systems in 2002. Apart from one well drilled in the Powder River basin in Wyoming (Sagebrush #3) and the seven re-entry Benson wells drilled in West Virginia, the Company has not participated in any new wells in the last three years.

### Powder River Basin Wyoming - Prima

On December 28, 1996, the Company purchased 420 acres in the Powder River basin in the State of Wyoming for \$50,000 from an unaffiliated third party. Included in the purchase price was a condition that the previous owners would provide all of the geologic and geophysical work as part of the purchase price. On February 3, 1997 the Company leased an additional 480 acres that joined with its acreage position. The target formation is the Minnelusa "B1" sand. There presently are no producing wells on such acreage and no proved reserves located on the acreage owned by the Company.

Five two-dimensional ("2-D") seismic lines and a 6-square mile three-dimensional ("3-D") seismic program have been shot across the acreage now held by the Company. Unlike 2-D seismic testing which provides a cross-sectional view of the subsurface of the Earth, 3-D testing provided a full, three-dimensional view of the subsurface. Such views allow for greater precision in the location of potential drilling sites. 3-D testing allows potential drillers to obtain accurate estimates of the size of oil and gas bearing structures and the profile of the structure. 2-D testing only informs the driller that an oil and gas bearing structure is in a particular area, without giving information as to size and shape. Without an accurate estimate of the size of the oil and gas bearing structures, it is difficult to accurately

-5-

estimate the reserves in the structure, and, thus, the economic viability of drilling into a particular structure. Without an accurate profile of the structure, a driller may not hit the most economic portion of the structure.

Water pressure primarily is responsible for the movement of oil within the area of the Company's acreage. Where water pressure is the cause of oil movement, finding the apex of the oil bearing structure is critical. Drilling into the apex of such a structure usually assures that a maximum amount of oil, and a minimal amount of water, will be recovered from a well. Hitting such a zone elsewhere than at the apex will result in a lower proportion of oil to water and reduced rates of recovery.

The Company completed the drilling of the Fowler 22-8 in January 1998 and determined the well to be a dry hole and was plugged. The Company did not drill additional wells on this acreage during 1999, 2000, or 2001.

### Powder River Basin Wyoming - Wolfe Prospect

On May 27, 1997, the Company purchased a 30% working interest in the Wolfe Prospect in the Powder River Basin in Campbell County, Wyoming for \$65,000 from an unaffiliated third party. Included in the purchase price was a 30% working interest in the Wolfe #1-35 well and 30% interest in 240 acres. In October 1997, the Company participated in its share of the drilling of the Horizon 32-35 well. The target formation was the Minnelusa "B1" sand. The well was determined to be a dry hole and plugged. On November 15, 1999, the Company purchased for \$16,000 an additional 51% working interest in the Wolfe 1-35 well from Renor Exploration Limited.

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

### Sistersville

Effective June 1, 1995, the Company purchased approximately 2,200 acres in a known producing field located near Sistersville, West Virginia for \$100,000. The Sistersville field has been in operation since the 1890's, although at a very low level for the past ten years. To date the field has produced over 13 million barrels of oil. The field contains portions of the Big Injun and Keener sands formations, both well known oil and gas bearing formations, which are the zones the Company intends to explore. These formations are approximately 1,700 feet deep. Recoverable reserves of oil in the field are estimated at several million barrels. The Company drilled a well on its Sistersville acreage in April 1997. On December 3, 1999, the Company sold the Sistersville field for \$125,000 to an unaffiliated third party.

Vulcan Energy Corporation.

During March 1997, the Company ceased operations of Vulcan Energy Corporation ("Vulcan"), its 80% owned subsidiary, engaged in the lease crude oil gathering and marketing in Southeast Texas.

### Research and Development

The Company has not allocated funds for conducting research and development activities and, due to the nature of the Company's business, it is not anticipated that funds will be allocated for research and development in the immediate future.

### Marketing

The Company operates exclusively in the oil and gas industry. Natural gas production from wells owned by the Company is generally sold to various intrastate and interstate pipeline companies and natural gas marketing

-6-

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 the Company's pipeline network is sold through the Sancho Oil and Gas Corporation ("Sancho") contract to the industrial facilities near Sistersville, West Virginia, or to Hope, 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 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 Hope 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 \$.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 and published Inside F.E.R.C. Index, at the Company's option, for the first 1,500 Mcf purchased per day by Hope 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 the Company there can be no assurance that prices paid by the Company to suppliers will be lower than the price which the Company would receive under the Hope arrangement. Prior

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

to June 1, 1996, the price was the residential gas commodity index and when the market price of gas rose above such index, the Company's ability to purchase gas from third parties was adversely effected.

The Company sells its 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 the Company is not dependent upon any one customer, its marketing arrangement with Sancho Oil and Gas Corporation accounted for approximately 49% of the Company's revenue for the year ended December 31, 2001, and approximately 30% for the year ended December 31, 2000. This marketing agreement is in effect until September 1, 2008.

In addition to the natural gas produced by the Company's wells, it also purchased approximately 250 Mcf of natural gas per day in 2001.

### Competition

TSRG is in direct competition with numerous oil and natural gas companies, drilling and income programs and partnerships exploring various areas of the Appalachian and Powder River Basins and elsewhere, and 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 TSRG's competitors possess greater financial and personnel resources enabling them to identify and acquire more economically desirable energy producing properties and drilling prospects than TSRG. 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.

Under its contract with Sancho, TSRG 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 Hope in 1988. This agreement is a flexible volume supply agreement whereby TSRG receives 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 indices that include the residential gas commodity charge of Hope and the Inside F.E.R.C. CNG Index. Were it not for the relationship between Hope and Sancho, Hope would compete directly with TSRG for the sale of gas to certain customers, specifically OSI Specialities, Inc. and Ormet Aluminum Company.

-7-

### 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 the Company's capital expenditures, earnings or competitive position.

Legislation and implementing regulations adopted or proposed to be adopted by the Environmental Protection Agency ("EPA") and by comparable state agencies, directly and indirectly affect the Company's operations. The Company is required to operate in 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



## Edgar Filing: TRANS ENERGY INC - Form 10KSB

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.

TSRG 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 the Company to comply with all environmental regulations. It is conceivable that future legislation or regulations may significantly increase environmental protection requirements and, as a consequence, TSRG's 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 the Company is in compliance with all present environmental regulations. Further, the Company believes that its oil and gas explorations do not pose a threat of introducing hazardous substances into the environment. If such event should occur, the Company could be liable under certain environmental protection statutes and laws. The Company does presently carry insurance for environmental liability.

TSRG's 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 of surface and subsurface owners.

The Company is 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 the Company's aggregate production expenses. Nevertheless, the Company is 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 the Company, may have an indirect effect on the cost of, or the demand for, natural gas and oil.

### Employees

As of the date hereof the Company employs eight people full-time, consisting of three executives, two marketing and clerical persons, and three production persons. Management presently anticipates hiring additional employees as the business warrants and as funds are available.

-8-

### Facilities

The Company's operations currently occupy approximately 4,000 square feet of office space in St. Marys, West Virginia, which it shares with its subsidiary Tyler Construction Company, Inc. and Ritchie County Gathering Systems, Inc. The Company leases 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. Management believes that its present office

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

facilities are adequate for the Company's current business operations.

### Industry Segments

No information is presented as to industry segments. The Company is 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 Company's financial statements included herewith for a statement of the Company's revenues and operating profit (loss) for the past two fiscal years.

### Item 2. Description of Property

The Company's properties consist essentially of the working and royalty interests owned by the Company in various oil and gas wells and leases located in West Virginia. The Company's proved reserves for the years ended December 31, 2001, 2000 and 1999 are set forth below:

-9-

	December 31,		
	2001	2000	1999
Natural Gas (MMcf)			
Developed	1,133,839	-	-
Undeveloped	-	-	-
Total Proved	1,133,839	356,196	-
Crude Oil (MBbl)			
Developed	147,876	1,138,144	1,225,648
Undeveloped	-	210,610	210,610
Total Proved	147,876	1,348,754	1,436,258

These estimates are based primarily on the reports of Donald C. Kasterson, Certified Petroleum Geologist for natural gas, and Robert L. Richards, Geologist for oil. 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 Securities and Exchange Commission. See SFAS 69 Supplemental Disclosures included as part of the Consolidated Financial Statements of the Company.

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 the Company for the past three fiscal years.

Years ended December 31,

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Average sales price:	2001	2000
Gas (per mcf)	\$ 5.22	\$ -
Oil (per bbl)	16.22	24.67
Average cost of production:		
Gas (per mcf)	-	\$ -
Oil (per bbl)	4.05	3.38

The Company has not filed any estimates of total, proved net oil and gas reserves with any federal authority or agency since the beginning of the Company's last fiscal year.

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

	Years ended December 31,	
	2001	2000
Proved oil and gas producing properties and related lease and well equipment	\$ 3,617,505	\$ 3,372,880
Unproved oil and gas properties	114,426	180,000
Accumulated depreciation and depletion	(1,009,429)	(269,365)
Net Capitalized Costs	\$ 2,722,502	\$ 3,283,515

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

-10-

	Years ended December	
	2001	2000
Standardized measure, beginning of year	\$4,425,778	\$5,216,987
Oil and gas sales, net of production costs	-	-
Sales of mineral in place	(1,039,658)	(1,611,730)
Purchases		820,521
Net change due to revisions		

Edgar Filing: TRANS ENERGY INC - Form 10KSB

in quantity estimates	263,874	-
	-----	-----
Standardized measure, end of year	\$3,649,994	\$4,425,778
	=====	=====

The Company does not anticipate investing in or purchasing assets and/or property for the purpose of capital gains. It is the Company's intention to purchase assets and/or property for the purpose of enhancing its primary business operations. The Company is not limited as to the percentage amount of the Company's assets it may use to purchase any additional assets or properties.

Item 3. Legal Proceedings

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

(a) On February 7, 2001, the United States Bankruptcy Court, Southern District of Texas, entered an Order Granting Motion to Dismiss Chapter 7 Case in the action entitled In Re: Trans Energy, Inc., Case No. 00-39496-H4-7. The Order dismissed the involuntary bankruptcy action instituted against the Company on October 16, 2000. The sole petitioning creditor named in the Involuntary Petition was Western Atlas International, Inc. ("Western"). An Order for Relief Under Chapter 7 was entered by the Court on November 22, 2000.

On April 23, 2000, the 189th District Court of Harris County, Texas entered an Agreed Final Judgment in favor of Western against the Company in the amount of \$600,665.36, together with post judgment interest at 10% per annum. Following the judgment, Western and the Company entered into settlement negotiations concerning the Company's satisfaction of the judgment through payments over a four to five month period together with the pledge of collateral on certain unencumbered assets. Previously, on or about July 9, 1998, a judgment had been entered in the 152nd District Court of Harris County, Texas against the Company in favor of Baker Hughes Oilfield Operations, Inc. d/b/a/ Baker Hughes Inteq. Western Geophysical ("Baker"), a division of Western Atlas International, Inc., in the amount of \$41,142.00, together with interest and attorney fees. This judgment was outstanding at the time of the filing of the Involuntary Petition.

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

On January 19, 2001, the Company filed with the Bankruptcy Court the Motion to Dismiss Chapter 7 Case. The reasons cited by the Company in support of its Motion to Dismiss included, but were not limited to, (i) the Texas Court being an improper venue for the action, and (ii) the Company never receiving the Involuntary Petition and Summons notifying it of the action. In anticipation of the Bankruptcy Court dismissing the Involuntary Petition, on February 2, 2001, the

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

Company entered into a Settlement Agreement with Baker Hughes Oilfield Operation, Inc., d/b/a/ Baker Hughes Inteq. Western Geophysical, a division of Western Atlas International, Inc. (the "Baker Entities"). In entering its order on February 7, 2001 to dismiss the action, the Court ordered the Trustee to retain \$17,694.80 for satisfaction of administrative fees and expenses, and to pay to Western and Baker the sum of \$182,736.66, on behalf of the Company and pursuant to the terms of the Settlement Agreement.

The Settlement Agreement provided that, subject to the approval of the Bankruptcy Court, the Company agreed to pay to the Baker Entities \$759,664.31, plus interest at 10%. In addition to the \$200,000 payable from the escrow, the Company pledged as collateral certain properties, personal property and fixtures and two directors each pledged 750,000 shares of the Company's common stock which they personally own. Subsequently, the Company assigned the income stream from the sale of oil in the Pinon Fee #1, Sagebrush #1 and Sagebrush #2 to the Baker Entities as payments toward the amounts owed. Management believes that this payment will satisfy the Baker Entities until the obligation can be paid in full.

(b) On April 10, 2000, Bellevue Resources, Inc. recorded and served a Notice and Statement of Lien in the Sixth Judicial District, Campbell County, Wyoming, against the Company for non-payment of services. The Company recorded a liability of \$78,651 in its financial statements under accounts payable for the year ended December 31, 2000 to reflect this claim. Bellevue Resources has agreed to take certain lease acreage in Campbell County, Wyoming held by the Company as payment for this liability. The Company has agreed to this settlement and management anticipates the transaction will be finalized during the second quarter of 2002.

(c) On September 22, 2000, Tioga Lumber Company obtained a judgment of \$43,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler Construction Company for breach of contract. The Company has accrued \$47,741 which is included in the Company's financial statements for the year ended December 31, 2000 under accounts payable. Management has represented that the Company has reached a negotiated payment schedule with Tioga. The Company has made the initial payment pursuant to the settlement and management expects the full amount will be paid by the third quarter 2002.

(d) On April 16, 2001, Ross Forbus obtained a judgment of \$428,018 against the Company to satisfy a promissory note previously entered into by the Company with Mr. Forbus on April 8, 1996. The Company has agreed to payment terms and has made small payments to Mr. Forbus. Management is currently attempting to extend the term of the payments.

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

(f) In September 2001, the Securities and Exchange Commission filed a civil action in the United States District Court for the District of

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

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

-12-

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

(g) In January 2002, a suit entitled Dennis L. Spencer vs. Trans Energy, Inc. and Messrs. Woodburn and Bagley was filed in the Circuit Court of Ritchie County, West Virginia ( Civil Action No. 02-C-02). The complaint alleges that the Company sold certain assets which Mr. Spencer claims to be the beneficial owner. The complaint seeks \$1,000,000 in damages. Management believes the suit is without merit and intends to vigorously defend the action. The Company has not accrued any amounts for these claims as of December 31, 2001 because the Company feels that the based on its defenses against the claims it will have no additional liability. Due to the early stage of the litigation, it is not possible to evaluate the likelihood of an unfavorable outcome or estimate the extent of potential loss.

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

No matters were submitted to a vote of the Company's Securities Holders during the fourth quarter of the Company's fiscal year ending December 31, 2001.

## PART II

#### Item 5. Market for Common Equity and Related Stockholder Matters

The Company's common stock is quoted on the OTC Bulletin Board under the symbol "TSRG." Set forth in the table below are the quarterly high and low prices of the Company's common stock as obtained from the Nasdaq Small-Cap Market and the OTC Bulletin Board for the past two fiscal years obtained from published quotations.

	High	Low
	----	---
2001		
First Quarter	\$ .07	\$ .043
Second Quarter	\$ .051	.023
Third Quarter	\$ .03	\$ .01
Fourth Quarter	\$ .02	\$ .007
2000		
First Quarter	\$ .35	\$ .065
Second Quarter	\$ .22	\$ .10
Third Quarter	\$ .155	\$ .0156
Fourth Quarter	\$ .31	\$ .04

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

As of December 31, 2001, there were approximately 290 holders of record of the 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.

-13-

### Dividend Policy

The Company has not declared or paid cash dividends or made distributions in the past, and the Company does not anticipate that it will pay cash dividends or make distributions in the foreseeable future. The Company currently intends to retain and reinvest future earnings to finance its operations.

### Recent Sales of Unregistered Securities

During 1999, the Company issued 440,000 shares of its common stock in exchange for services rendered to the Company valued at an average of \$.59 per share, or an aggregate of \$260,000. The Company also issued 94,000 shares for services and conversion of debt valued at an average of \$.98 per share, or an aggregate of \$92,200. The Company further issued 4,398,929 shares upon conversion of convertible debentures valued at \$529,166, or an average of \$.12 per share.

In 2000, the Company issued 1,691,287 share of its common stock for cash at \$.05 per share, or an aggregate of \$83,000. The Company also issued 11,722,383 shares for services and conversion of debt valued at an average of \$.12 per share, or an aggregate of \$1,422,923. The Company further issued 151,930,606 shares upon conversion of convertible debentures valued at \$5,653,991, or an average of \$.04 per share.

In 2001, the Company issued 4,655,000 shares of its common stock for services and conversion of debt valued at an average of \$.03 per share, or an aggregate of \$141,305. All of these shares were issued pursuant to registration statements on Form S-8.

Except for the conversion of debentures pursuant to registration statements, issuances of securities by the Company were made in reliance upon the exemption from registration under the Securities Act of 1933, as amended, provided by Section 4(2) thereunder. Issuances of shares conversion of debentures was pursuant to the exemption provided by Section 3(a)(9) of said Act.

### 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 Company's Statements of Operations for the two most recent fiscal years ended December 31, 2001, and 2000. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

	Fiscal Years E
	December
	2001
	----
Total revenues.....	100%
Total costs and expenses.....	192
Total other income (expenses).....	(26)
Loss before taxes and extraordinary item .....	(118)
Extraordinary item - gain on disposal of debt.....	3
Income taxes.....	-
Net (loss).....	115

-14-

For the Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

Total revenues of \$1,278,227 for the year ended December 31, 2001 ("2001") increased 14% when compared to \$1,125,257 for the year ended December 31, 2000 ("2000"). In 2001, oil made up 30% of total revenues compared to 70% in 2000. Accordingly, gas sales increased from 30% of sales in 2000 to 70% in 2001. This increase in gas revenues was due to higher gas prices and four wells drilled in 2000 and three wells in 2001.

The Company had a net loss of \$1,473,744 for 2001 compared to a net loss of \$3,807,071 in 2000. The Company's total costs and expenses decreased 35% in 2001 and, as a percentage of revenues, decreased from 335% in 2000 to 192% in 2001. The cost of oil and gas increased 96% in 2001 due to increased production costs and the addition of wells. As a percentage of revenues, cost of oil increased from 30% in 2000 to 52% in 2001, due to higher production costs. Selling, general and administrative expenses decreased 77% in 2001 when compared to 2000, primarily due to fewer stock issuances for services in 2001. Salaries and wages decreased 29% in 2001 due to the elimination of one full time employee. Depreciation, depletion and amortization increased 171% in 2001 from 2000 due to the re-evaluation of reserves. Interest expense in 2001 decreased 18% from 2000 due to the pay-off of certain notes and the reduction of interest rates.

#### Net Operating Losses

The Company has accumulated approximately \$18,246,000 of net operating loss carryforwards as of December 31, 2001, which may be offset against future taxable income through 2021. The use of these losses to reduce future income taxes will depend on the generation of sufficient taxable income prior to the expiration of the net operating loss carryforwards. In the event of certain changes in control of the Company, there will be an annual limitation on the amount of net operating loss carryforwards which can be used. No tax benefit has been reported in the financial statements for the year ended December 31, 2001 because the potential tax benefits of the loss carryforward is offset by valuation allowance of the same amount.

#### Liquidity and Capital Resources

Historically, the Company's working capital needs have been satisfied through its operating revenues and from borrowed funds. Working capital at December 31, 2001 was a negative \$5,470,698 compared with a negative \$4,550,117 at December 31, 2000. This change was primarily attributed to increases in



## Edgar Filing: TRANS ENERGY INC - Form 10KSB

accrued interest and accounts payable. The Company anticipates meeting its working capital needs during the 2002 fiscal year with revenues from operations and possibly from capital raised through the sale of either equity or debt securities. The Company has no other current agreements or arrangements for additional funding and there can be no assurance such funding will be available to the Company or, if available, it will be on acceptable or favorable terms to the Company.

As of December 31, 2001, the Company had total assets of \$3,641,470 and stockholders' deficit of \$2,305,796 compared to total assets of \$4,299,654 and total stockholders' deficit of \$974,095 at December 31, 2000.

In 1998, the Company issued \$4,625,400 face value of 8% Secured Convertible Debentures Due March 31, 1999. A portion of the proceeds were used to acquire the GCRL properties and interest in Wyoming. During 2000, all but one of the remaining outstanding debentures were converted into commons stock. At December 31, 2001, the Company owed \$331,462 in connection with the debentures consisting of \$50,000 for a debenture and \$281,462 in penalties and interest.

-15-

Because the Company has generated significant losses from operations through December 31, 2001, and has a working capital deficit at December 31, 2001, there exists substantial doubt about its ability to continue as a going concern. Revenues have not been sufficient to cover operating costs and to allow the Company 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 the Company to continue as a going concern. There can be no assurance that the Company can or will be able to complete any debt or equity financing. If these endeavors are not successful, management is committed to meeting the operational cash flow needs of the Company.

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

### Forward-looking and Cautionary Statements

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

### Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards (SFAS) 133, Accounting for Derivative Instruments and Hedging Activities. The new standard establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires companies to record derivatives on the balance sheet as assets or liabilities, measured at fair value. Accounting for changes in the values of those derivatives depends on the intended use of the derivatives and whether they qualify for hedge accounting. SFAS 133, as amended by SFAS 137 and SFAS

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

138, was adopted as of April 1, 2001. Management believes the adoption of this statement will have no material impact on the Company's financial statements.

In June 2001, the FASB issued SFAS 141, Business Combinations, and SFAS 142, Goodwill and Other Intangible Assets. SFAS 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001 as well as all purchase method business combinations completed after June 30, 2001. SFAS 141 also specifies criteria intangible assets acquired in a purchase method business combination must meet to be recognized and reported apart from goodwill, noting that any purchase price allocatable to an assembled workforce may not be accounted for separately. SFAS 142 requires that goodwill and intangible assets with indefinite useful lives no longer be amortize, but instead tested for impairment at least annually in accordance with the provisions of SFAS 142. SFAS 142 also requires that intangible assets with estimatable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of. The Company adopted SFAS 141 upon issuance and SFAS 142 effective April 1, 2001. The adoption of SFAS 141 and 142 did not affect the Company's consolidated financial statements.

-16-

On August 16, 2001, the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations," which is effective for fiscal years beginning after June 15, 2002. It requires that obligations associated with the retirement of a tangible long-lived asset be recorded as a liability when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognizing an accrued retirement obligation, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. Although management has not completed the process of determining the effect of this new accounting pronouncement, it currently expects that the effect of SFAS No. 143 on the Company's financial statements, when it becomes effective, will not be significant.

In October 2001, the FASB issued SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Although SFAS 144 supersedes SFAS 121, it retains many of the fundamental provisions of SFAS 121. SFAS 144 also supersedes the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting-the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business. However, it retains the requirement in APB 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of, by sale, abandonment, or in a distribution to owners, or is classified as held for sale. SFAS 144 is effective for fiscal years beginning after December 15, 2001 and interim periods within those fiscal years. Management believes the adoption of SFAS 144 will not have a significant effect on the Company's financial statements.

-17-

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

The Company's financial statements as of and for the fiscal years ended December 31, 2001 and 2000 have all 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.

### 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 with the Company by it's directors and executive officers:

Name ----	Position -----	Director Since -----	Age ---
Robert L. Richards	President, C.E.O. and Director	September 2001	56
Loren E. Bagley	Vice President and Director	August 1991	59
William F. Woodburn	Secretary / Treasurer and Director	August 1991	60
John B. Sims	Director	January 1988	76

On July 2, 2001, Gary F. Lawyer tendered his resignation as a director, effective June 29, 2001, for personal reasons and to pursue other ventures. Mr. Lawyer agreed to continue to work with Trans Energy on a consulting basis as needed. Mr. Lawyer served as a director of Trans Energy since February 1998.

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. The Company has not compensated its 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 of Directors and any committee of the Board of Directors. Executive officers are appointed annually by the Board of Directors and each executive officer serves at the discretion of the Board of Directors. 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 of Directors in the management of the business and affairs of the Company between meetings of the Board of Directors.

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

Robert L. Richards became a director and was appointed President and C.E.O. of the Company in September 2001. From 1982 to the present, he has been President of Robert L. Richards, Inc. as a consulting geologist 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

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

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.

-18-

Loren E. Bagley served as President and C.E.O. of the Company 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 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.

William F. Woodburn has served as Vice President of the Company from August 1991 to September 2001, at which time he resigned as Vice President and was appointed Secretary / Treasurer. 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.

John B. Sims served as President, C.E.O. and a director of the Company from 1988 to September, 1993 and currently is a director. Prior to joining the Company and from 1984 to 1988, Mr. Sims was the General Partner of Ben's Run Oil Company which was acquired by the Company in January, 1988. Mr. Sims has also been the general partner for fourteen limited partnerships from 1977 to 1984 drilling a total of twenty eight wells. Prior to his involvement in the oil and gas business, Mr. Sims was a real estate developer for twenty years as well as an exclusive real estate broker for Ednam Forrest in Charlottesville, Virginia. During 1994, Mr. Sims voluntarily initiated a personal bankruptcy proceeding pursuant to Chapter 7 of the United States Bankruptcy Code. Pursuant to the terms of such proceeding, Mr. Sims was discharged of certain of his debts which were incurred as a consequence of his personal guarantees of certain business related debts, not related to the Company, upon which the primary obligor defaulted.

### Item 10. Executive Compensation

The Company does not have a bonus, profit sharing, or deferred compensation plan for the benefit of its employees, officers or directors, nor has the Company entered into employment contracts with any of the aforementioned persons.

#### Cash Compensation

The following table sets forth all cash compensation paid by the

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

Company for services rendered to the Company for the years ended December 31, 2001, 2000 and 1999, to the Company's Chief Executive Officer. No executive officer of the Company has earned a salary greater than \$100,000 annually for any of the periods depicted.

-19-

Summary Compensation Table

Name and Principal Position -----	Year -----	Salary -----	Bonus -----	Other Annual Compen- sation -----	All Other Compen- sation -----
Robert L. Richards President and C.E.O.	2001	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Loren E. Bagley, President and C.E.O.	2001	\$ -0-	\$ -0-	\$ -0-	\$ -0-
	2000	\$ -0-	\$ -0-	\$ -0-	\$ -0-
	1999	\$ -0-	\$ -0-	\$ -0-	\$ -0-

### Item 11. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth information, to the best knowledge of the Company as December 31, 2001, with respect to each person known by the Company to own beneficially more than 5% of the Company's outstanding common stock, each director and all directors and officers as a group.

Name and Address of Beneficial Owner -----	Amount and Nature of Beneficial Ownership -----	Percent of Class(1) -----
Robert L. Richards 210 Second Street St. Marys, WV 26170	1,691,287 (2)	1.0%
Loren E. Bagley * 210 Second Street St. Marys, WV 26170	2,074,527 (3)	1.2%
William F. Woodburn * 210 Second Street St. Marys, WV 26170	2,067,394 (4)	1.2%
John B. Sims * 210 Second Street St. Marys, WV 26170	302,614 (5)	0.2%
All directors and executive officers as a group (4 persons in group)	6,135,822 (6)	3.5%

\* Director and/or executive officer

Note: Unless otherwise indicated in the footnotes below, TSRG has been advised that each person above has sole voting power over the shares indicated above.

(1) Based upon 176,683,189 shares of common stock outstanding on December 31, 2001, but does not take into consideration stock options owned by certain officers and directors entitling the holders to purchase an aggregate of 650,000 shares of common stock and which are currently exercisable. Therefore, for purposes of the table above, 177,333,189 shares of common stock are deemed to be issued and outstanding in accordance with Rule 13d-3 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Percentage ownership is calculated separately for each person on the

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

basis of the actual number of outstanding shares as of December 31, 2001 and assumes the exercise of stock options held by such person (but not by anyone else) exercisable within sixty days.

- (2) Includes 1,012,670 shares held in the name of Argene Richards, wife of Mr. Richards.

-20-

- (3) Includes 312,500 shares that may be acquired by Mr. Bagley pursuant to stock options exercisable at \$.50 per share and 50,000 shares of common stock held in the name of Carolyn S. Bagley, wife of Mr. Bagley, over which Ms. Bagley retains voting power.
- (4) Includes 312,500 shares that may be acquired by Mr. Woodburn pursuant to stock options exercisable at \$.50 per share and 31,250 shares of common stock in the name of Janet L. Woodburn, wife of Mr. Woodburn, over which shares Ms. Woodburn retains voting power.
- (5) Includes 25,000 shares that may be acquired by Mr. Sims pursuant to stock options exercisable at \$.50 per share and 13,807 shares of common stock held jointly with Virginia Sims, wife of Mr. Sims.
- (6) Includes 650,000 shares that may be acquired by certain directors pursuant to stock options exercisable at \$.50 per share.

### Item 12. Certain Relationships and Related Transactions

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

(a) Loren E. Bagley is President of Sancho, a principal purchaser of The Company's natural gas. Mr. Bagley's wife, Carolyn S. Bagley is a director and owner of 33% of the outstanding capital stock of Sancho. 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 Hope in 1988. This agreement is a flexible volume supply agreement whereby the Company receives 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 The Company's option, for the first 1,500 Mcf purchased per day by Hope 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 the Company there can be no assurance that prices paid by the Company to suppliers will be lower than the price which the Company would receive under the Hope arrangement. During 2001, the Company paid Sancho an aggregate of approximately \$3,180 pursuant to such contract.

(b) On May 7, 1996, the Company 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 the Company 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 loan remains outstanding.

The Company occupies approximately 4,000 square feet of office space in St. Marys, West Virginia, which it shares with its subsidiaries Tyler Construction Company, Inc. and Ritchie County Gathering Systems, Inc. Prior to 1997, the office space was paid for by Sancho and the Company used the office

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

space rent free. The Company believes that the foregoing transactions with Sancho were made on terms no less favorable to the Company than those available from unaffiliated third parties.

It is the Company's policy that any future material transactions between it and members of its management or their affiliates shall be on terms no less favorable than those available from unaffiliated third parties.

-21-

### PART IV

Item 13. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	Exhibit Name
*2.1	Stock Acquisition Agreement between the Company and Loren E. Bagley and William F. Woodburn
*2.2	Asset Acquisition Agreement between the Company and Dennis L. Spencer
*2.3	Asset Acquisition Agreement between the Company and Tyler Pipeline, Inc.
*2.4	Stock Exchange Agreement between the Company and Ritchie County Gathering Systems, Inc.
*2.5	Plan and Agreement of Merger between Trans Energy, Inc. (Nevada) and Apple Corp. (Idaho), to facilitate the change of the Company's corporate domicile to Nevada
**2.6	Agreements related to acquisition of Vulcan Energy Corporation
*3.1	Articles of Incorporation and all amendments pertaining thereto, for Apple Corp., an Idaho corporation
*3.2	Articles of Incorporation for Trans Energy, Inc., a Nevada corporation
*3.3	Articles of Merger for the States of Nevada and Idaho
*3.4	By-Laws
*4.1	Specimen Stock Certificate
*10.1	Marketing Agreement with Sancho Oil and Gas Corporation
*10.2	Gas Purchase Agreement with Central Trading Company
*10.3	Price Agreement with Key Oil Company
*21.1	Subsidiaries Schedule
*99.1	Reserve Estimate and Evaluation of oil and gas properties
*99.2	Reserve Estimate and Evaluation for Dennis L. Spencer wells

\* Previously filed as Exhibit to Form 10-SB. \*\* Previously filed as Exhibit to Form 8-K dated August 7, 1995.

(b) Reports on Form 8-K

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

-22-

TRANS ENERGY, INC.  
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2001

F-1

C O N T E N T S

Independent Auditors' Report .....	F-3
Consolidated Balance Sheet .....	F-4
Consolidated Statements of Operations .....	F-6
Consolidated Statements of Stockholders' Equity (Deficit).....	F-7
Consolidated Statements of Cash Flows .....	F-8
Notes to the Consolidated Financial Statements .....	F-10

F-2

McGLADREY NETWORK  
-----  
An Independently Owned Member  
Worldwide Services

American Institute of  
Certified Public  
Accountants



Edgar Filing: TRANS ENERGY INC - Form 10KSB

Through RSM International

Utah Association of  
Certified Public  
Accountants

SEC Practice Section  
Private Companies  
Practice Section

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Trans Energy, Inc. and Subsidiaries  
St. Marys, West Virginia

We have audited the accompanying consolidated balance sheet of Trans Energy, Inc. and Subsidiaries as of December 31, 2001 and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for the years ended December 31, 2001 and 2000. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 consolidated financial position of Trans Energy, Inc. and Subsidiaries as of December 31, 2001 and the consolidated results of their operations and their cash flows for the years ended December 31, 2001 and 2000, in conformity with accounting principles generally accepted in the United States of America.

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 financial statements, the Company has generated significant losses from operations, has an accumulated deficit of \$25,251,849 and has a working capital deficit of \$5,471,698 at December 31, 2001, which together raises substantial doubt about its 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 these uncertainties.

/s/HJ & Associates, LLC

-----  
HJ & Associates, LLC  
Salt Lake City, Utah  
March 15, 2002

50 South Main Street, Suite 1450 \* Salt Lake City, Utah 84144 \*  
Telephone (801) 328-4408 \* Facsimile (801) 328-4461

Edgar Filing: TRANS ENERGY INC - Form 10KSB

F-3

TRANS ENERGY, INC. AND SUBSIDIARIES  
Consolidated Balance Sheet

ASSETS

	December 31, 2001
	-----
CURRENT ASSETS	
Cash	\$ 1,491
Accounts receivable, net (Note 1)	186,478
	-----
Total Current Assets	187,969
	-----
PROPERTY AND EQUIPMENT (Note 2)	
Vehicles	59,013
Machinery and equipment	10,092
Pipelines	2,254,908
Well equipment	49,155
Wells	3,559,644
Leasehold acreage	114,426
Accumulated depreciation	(2,602,528)
	-----
Total Fixed Assets	3,444,710
	-----
OTHER ASSETS	
Cash surrender value - life insurance (net)	8,791
	-----
Total Other Assets	8,791
	-----
TOTAL ASSETS	\$ 3,641,470
	=====

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

F-4

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

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Edgar Filing: TRANS ENERGY INC - Form 10KSB

December 31,  
2001

CURRENT LIABILITIES

Accounts payable - trade	\$	754,552
Notes payable - convertible (Note 12)		41,575
Accrued expenses		619,678
Salaries payable		642,662
Notes payable - current portion (Note 3)		1,311,695
Judgments payable (Note 7)		1,228,964
Related party payables (Note 4)		704,829
Debentures payable (Note 9)		331,462
Dividends payable (Note 1)		23,250

Total Current Liabilities 5,658,667

LONG-TERM LIABILITIES

Judgments payable (Note 7)		6,434
Notes payable (Note 3)		282,165

Total Long-Term Liabilities 288,599

Total Liabilities 5,947,266

COMMITMENTS AND CONTINGENCIES (Note 7)

STOCKHOLDERS' EQUITY (DEFICIT) (Note 6)

Preferred stock; 10,000,000 shares authorized at \$0.001 par value; 300 shares issued and outstanding		--
Common stock; 500,000,000 shares authorized at \$0.001 par value; 176,683,189 shares issued and outstanding		176,682
Capital in excess of par value		22,769,371
Accumulated deficit		(25,251,849)

Total Stockholders' Equity (Deficit) (2,305,796)

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT) \$ 3,641,470

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

# Edgar Filing: TRANS ENERGY INC - Form 10KSB

## TRANS ENERGY, INC. AND SUBSIDIARIES Consolidated Statements of Operations

	For the Years Ended December 31,	
	2001	2000
	(Restated)	
REVENUES	\$ 1,278,227	\$ 1,125,257
Cost of oil and gas	668,893	340,950
Salaries and wages	275,931	383,142
Depreciation, depletion and amortization	895,884	330,469
Selling, general and administrative	617,120	2,712,591
Total Costs and Expenses	2,457,828	3,767,152
LOSS FROM OPERATIONS	(1,179,601)	(2,641,895)
OTHER INCOME (EXPENSE)		
Other income	16,026	14,850
Interest expense	(348,920)	(425,930)
Loss on sale and valuation of assets (Note 1 and 2)	(2,151)	(1,020,188)
Total Other Income (Expense)	(335,045)	(1,431,268)
LOSS FROM OPERATIONS BEFORE INCOME TAXES, EXTRAORDINARY ITEM AND MINORITY INTERESTS	(1,514,646)	(4,073,163)
INCOME TAXES (Note 1)	--	--
EXTRAORDINARY ITEM		
Gain on disposition of debt	40,902	266,092
MINORITY INTERESTS	--	--
NET LOSS - attributed to common shareholders	\$ (1,473,744)	\$ (3,807,071)
DIVIDEND ON PREFERRED STOCK	\$ 23,250	--
BASIC LOSS PER SHARE		
Operations	\$ (0.01)	\$ (0.05)
Gain on disposition of debt	\$ --	\$ 0.00

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Total Basic Loss Per Share	\$ (0.01)	\$ (0/05)
	=====	=====
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	175,981,559	77,197,928
	=====	=====

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	
	Shares	Amount	Shares	Amount
	-----	-----	-----	-----
Balance, December 31, 1999	--	\$ --	7,107,746	\$ 7,107
Common stock issued for cash at \$0.05 per share	--	--	1,691,287	1.691
Common stock issued for services and conversion of debt to equity at \$0.12 per share	--	--	11,722,383	11,722
Common stock issued for conversion of debentures, penalty and interest at \$0.04 per share	--	--	151,930,806	151,931
Cancellation of common stock	--	--	(423,833)	(424)
Preferred stock issued for acquisition	300	--	--	--
Discount for beneficial conversion feature of preferred stock	--	--	--	--
Warrants granted below market value	--	--	--	--
Net loss for the year ended December 31, 2000 (Restated)	--	--	--	--
	-----	-----	-----	-----
Balance, December 1, 2000	300	\$ --	172,028,189	\$ 172,027
Common stock issued for				

Edgar Filing: TRANS ENERGY INC - Form 10KSB

services at \$0.03 per share	--	--	4,655,000	6,655
Discount on beneficial conversion feature of notes payable	--	--	--	--
Dividend on preferred stock at 7.75%	--	--	--	--
Net loss for the year ended December 31, 2001	--	--	--	--
	-----	-----	-----	-----
Balance, December 31, 2001	300	\$ --	176,683,189	\$ 176,682
	=====	=====	=====	=====

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

F-7

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

	-----
	2001
	-----
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss	\$ (1,473,74
Adjustments to reconcile net loss to net cash (used) by operating activities:	
Depreciation, depletion and amortization	895,88
Loss on valuation of wells	36,57
Loss on impairment of leases	60,75
Loss (gain) on disposition of assets	(95,18
Common stock issued for services and beneficial conversion features	165,29
Gain on disposition of debt	(40,90
Changes in operating assets and liabilities:	
Decrease (increase) in accounts receivable	(115,47
Decrease in restricted cash	65,68
Decrease in prepaid and other current assets	1,42
Increase in accounts payable and accrued expenses	472,92
(Decrease) in judgments payable	(154,62
	-----
Net Cash (Used) by Operating Activities	(181,37
	-----

Edgar Filing: TRANS ENERGY INC - Form 10KSB

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of property and equipment	100,00
Expenditures for property and equipment	(281,20)
	-----
Net Cash (Used) by Investing Activities	(181,20)
	-----

CASH FLOWS FROM FINANCING ACTIVITIES:

Increase (decrease) in cash overdraft	(11,60)
Common stock issued for cash	-
Proceeds from related parties	401,69
Principal payments on notes payable	(110,87)
Proceeds from notes payable	43,28
Proceeds from convertible notes payable	41,57
	-----
Net Cash Provided by Financing Activities	\$ 364,07

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)

	-----
	2001
	-----
NET INCREASE IN CASH	\$ 1,49
CASH AND CSH EQUIVALENTS, BEGINNING OF YEAR	-
	-----
CASH AND CASH EQUIVALENTS, DNE OF YEAR	\$ 1,4
	=====
CASH PAID FOR:	
Interest	\$ 87,9
Income taxes	\$ -
NON-CASH FINANCING ACTIVITIES:	
Common stock issued for services and beneficial conversion features	\$ 165,2
Common stock issued for debt	\$ 597,6
Note payable issued for vehicle	\$ -

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

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, 2001 and 2000

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### a. Organization

The Company was originally 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. 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.



## Edgar Filing: TRANS ENERGY INC - Form 10KSB

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.

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.

F-10

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

b. Accounting Method (Continued)

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. During the year ended December 31, 2001, the Company sold 100% of a tract of leasehold acreage for \$100,000. The sale resulted in a gain of \$95,182. During the year ended December 31, 2001, the Company recognized a loss of \$60,756 relating to leasehold acreage for which the leases had expired.

The Company has elected a calendar year end.

c. 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 antidilutive in nature.

All references to shares have been retroactively restated to reflect a 1-for-4 reverse stock split.

2001  
-----

Numerator:

Loss from operations	\$	(1,514,646)
Gain on disposition of debt	\$	40,902

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Denominator - weighted average shares		175,981,559
Net loss per share:		
Loss from Operations	\$	(0.01)
Gain on disposition of debt		--
Total Basic Loss Per Share	\$	(0.01)

d. Provision for Taxes

At December 31, 2001, the Company had net operating loss carryforwards of approximately \$18,246,000 that may be offset against future taxable income through 2021. No tax benefit has been reported in the consolidated financial statements as the Company believes that the carryforwards will expire unused. Accordingly, the potential tax benefits of the net operating loss carryforwards are offset by a valuation allowance of the same amount.

F-11

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

d. Provision for Taxes (Continued)

The income tax benefit differs from the amount computed at federal statutory rates of approximately 38% as follows:

	For the Years Ended December 31,	
	2001	2000
Income tax benefit at statutory rate	\$ 515,161	\$ 384,508
Change in valuation allowance	(515,161)	( 384,508)
	\$ --	\$ --
	=====	=====

Deferred tax assets (liabilities) are comprised of the following:

Edgar Filing: TRANS ENERGY INC - Form 10KSB

	For the Years Ended December 31,	
	2001	2000
Income tax benefit at statutory rate	\$ 6,933,470	\$ 6,418,309
Change in valuation allowance	(6,933,470)	(6,418,309)
	\$ --	\$ --

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.

e. Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

f. Principles of Consolidation

The consolidated financial statements include the Company and its wholly owned subsidiaries, Prima Oil Company, Inc., Ritchie County Gathering Systems, Inc. and its 65% owned subsidiary, Tyler Construction Company, Inc. All significant intercompany accounts and transactions have been eliminated.

g. Presentation

Certain 2000 balances have been reclassified to conform to the presentation of the 2001 consolidated financial statements.

F-12

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

h. 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

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

being depreciated using the units-of-production method on the basis of total estimated units of proved reserves.

### i. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

### j. Long Lived Assets

All long lived assets are evaluated yearly for impairment per SFAS 121. Any impairment in value is recognized as an expense in the period when the impairment occurs.

### k. Changes in Accounting Principles

The Company has adopted the provisions of FASB Statement No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125.)@ This statement provides accounting and reporting standard for transfers and servicing of financial assets and extinguishments of liabilities. Those standards are based on consistent application of a financial- components approach that focuses on control. Under that approach, the transfer of financial assets, the Company recognized the financial and servicing assets it controls and the liabilities it has incurred, derecognizes financial assets when control has been surrendered, and derecognizes liabilities when extinguished. This statement provides consistent standards for distinguishing transfers of financial assets that are sales from transfers that are secured borrowings. This statement is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001.

This statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. The adoption of this principle had no material effect on the Company's consolidated financial statements.

F-13

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Changes in Accounting Principles  
(Continued)

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

The Company has adopted the provisions of FIN 44 "Accounting for Certain Transactions Involving Stock Compensation (an interpretation of APB Opinion No. 25.)" This interpretation is effective July 1, 2000. FIN 44 clarifies the application of Opinion No. 25 for only certain issues. It does not address any issues related to the application of the fair value method in Statement No. 123. Among other issues, FIN 44 clarifies the definition of employee for purposes of applying Opinion 25, the criteria for determining whether a plan qualifies as a noncompensatory plan, the accounting consequence of various modifications to the terms of a previously fixed stock option or award, and accounting for an exchange of stock compensation awards in a business combination. The adoption of this principle had no material effect on the Company's consolidated financial statements.

SFAS No.'s 141 and 142 -- In June 2001, the Financial Accounting Standards Board (FASB) adopted Statement of Financial Accounting Standards SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 is effective as to any business combination occurring after June 30, 2001 and certain transition provisions that affect accounting for business combinations prior to June 30, 2001 are effective as of the date that SFAS No. 142 is applied in its entirety, which will be January 1, 2002 for the Company. SFAS No. 142 is effective, generally, in fiscal years beginning after December 15, 2001, which will be the fiscal year ending December 31, 2002 for the Company.

SFAS No. 141 provides standards for accounting for business combinations. Among other things, it requires that only the purchase method of accounting be used and that certain intangible assets acquired in a business combination (i.e. those that result from contractual or other legal rights or are separable) be recorded as an asset apart from goodwill. The transition provisions require that an assessment be made of previous business combinations and, if appropriate, reclassifications be made to or from goodwill to adjust the recording of intangible assets such that the criteria for recording intangible assets apart from goodwill is applied to the previous business combinations.

SFAS No. 142 provides, among other things, that goodwill and intangible assets with indeterminate lives shall not be amortized. Goodwill shall be assigned to a reporting unit and annually assessed for impairment. Intangible assets with determinate lives shall be amortized over their estimated useful lives, with the useful lives reassessed continuously, and shall be assessed for impairment under the provisions of SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of." Goodwill is also assessed for impairment on an interim basis when events and circumstances warrant. Upon adoption of SFAS No. 142, the Company will assess whether an impairment loss should be recognized and measured by comparing the fair value of the "reporting unit" to the carrying value, including goodwill.

F-14

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

Notes to the Consolidated Financial Statements  
December 31, 2001 and 2000

### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### k. Changes in Accounting Principles (Continued)

If the carrying value exceeds fair value, then the Company will compare the implied fair value of the goodwill" (as defined in SFAS No. 142) to the carrying amount of the goodwill. If the carrying amount of the goodwill exceeds the implied fair value, then the goodwill will be adjusted to the implied fair value.

While the Company has not completed the process of determining the effect of these new accounting pronouncements on its consolidated financial statements, the Company currently expects that there will be no reclassification in connection with the transition provisions of SFAS No. 141 based on clarifications of the transition provisions issued by the FASB in October 2001. Accordingly, the Company expects that, after implementation of SFAS No. 142, all intangible assets will be amortizable and the goodwill will not be amortizable.

SFAS No. 143 -- On August 16, 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which is effective for fiscal years beginning after June 15, 2002. It requires that obligations associated with the retirement of a tangible long-lived asset be recorded as a liability when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognizing a liability for an accrued retirement obligation, an entity must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. Over time, the liability is accreted to its present value each period, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. While the Company has not completed the process of determining the effect of this new accounting pronouncement on its consolidated financial statements, the Company currently expects that the effect of SFAS No. 143 on the Company's consolidated financial statements, when it becomes effective, will not be significant.

SFAS No. 144 - On October 3, 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" which is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, its provisions are to be applied prospectively. SFAS 144 supercedes SFAS Statement No. 121 (FAS 121), "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." SFAS 144 applies to all long-lived assets (including discontinued operations) and consequently amends Accounting Principles Board Opinion No. 30 (APB 30), "Reporting Results of Operations Reporting the Effects of Disposal of a Segment of a Business."

SFAS 144 develops one accounting model (based on the model in SFAS 121) for long-lived assets that are to be disposed of by sale, as well as addresses the principal implementation issues.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k. Changes in Accounting Principles (Continued)

SFAS 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. That requirement eliminates the requirement of APB 30 that discontinued operations be measured at net realizable value or that entities include under "discontinued operations" in the financial statements amounts for operating losses that have not yet occurred.

Additionally, FAS 144 expands the scope of discontinued operations to include all components of an entity with operations that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction.

While the Company has not completed the process of determining the effect of this new accounting pronouncement on its consolidated financial statements, the Company currently expects that the effect of SFAS No. 144 on the Company's consolidated financial statements, when it becomes effective, will not be significant.

l. Accounts Receivable

Accounts receivable are shown net of an allowance for bad debt of \$1,800 at December 31, 2000.

m. Preferred Stock

The Company has authorized 10,000,000 shares of \$0.001 par value preferred stock. The preferred stock shall have preference as to dividends and to liquidation of the Company. The board of directors has determined that the 300 preferred shares outstanding at December 31, 2000 valued at \$300,000 are convertible into common stock at a 20% discount from the closing price of the common stock on the date of conversion and bears interest at prime plus 1% (9% at December 31, 2000). The conversion discount of \$60,000 has been recorded and is included in retained deficit at December 31, 2000. During the year ended December 31, 2001, the Company declared a dividend of \$23,250 on the preferred stock. Subsequent to year end, the Company converted the preferred stock and accrued dividend payable into 16,835,938 shares of common stock. The common stock was valued at 80% of the closing price on August 31, 2001 which was the dividend declaration date.

NOTE 2 - OIL AND GAS PROPERTY

At December 31, the Company's proved properties consist of costs in the following areas net of accumulated depletion of \$995,661

Edgar Filing: TRANS ENERGY INC - Form 10KSB

	2001
Wyoming	\$ 2,050,167
West Virginia	513,816
	-----
	\$ 2,563,983

F-16

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

NOTE 2 - OIL AND GAS PROPERTY (Continued)

Productive Gas Wells

The following summarizes the Company's productive oil and gas wells as of December 31, 2001. 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	6	1.93
Productive gas wells	7	5.25
	-----	-----
	13	7.18
	=====	=====

The Company does not operate any of these wells.

Oil and Gas Acreage

The following table sets forth the undeveloped leasehold acreage, by area, held by the Company as of December 31, 2001. 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	16,678	13,687
West Virginia	424	424
	-----	-----



Edgar Filing: TRANS ENERGY INC - Form 10KSB

Total acres	17,102	14,111
	=====	=====

NOTE 3 - LONG-TERM DEBT

2001: The Company had the following debt obligations at December 31,

First National Bank of St. Marys, \$9,244 payable monthly, 12.5% interest rate, secured by equipment and personal guarantee of officers.	\$	430,167
Union Bank of Tyler County, interest at 11.5% due quarterly, renewable, due on demand, secured by equipment and personal guarantee of officers.		19,733
		-----
Balance forward	\$	449,900
		-----

F-17

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

NOTE 3 - LONG-TERM DEBT (Continued)

Balance forward

Union Bank of Tyler County, principal and interest payments of \$799 due monthly, interest rate of 14%, due September 25, 2004, secured by vehicle and personal guarantee of officers.

Wesbanco, interest payable quarterly, prime +2%, due on demand, secured by officers' personal assets.

Note payable to an individual, due on demand, bearing interest at 9.75%, interest payments due monthly, unsecured.

Union Bank of Tyler County, principal and interest payments of \$230 due monthly, interest at 16.0%, secured by vehicle of the Company.

Note due to a private individual, due on demand with interest at 20%, secured by personal guarantee of officers.

Note payable to Raven Group, interest imputed at 10%, due on demand, unsecured.

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Total  
Less Current Portion  
  
Total Long-Term Debt

Future maturities of long-term debt are as follows:

2002  
2003  
2004  
2005  
2006  
2007 and thereafter

Total

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 owned by the President of the Company, at the industrial facilities near Sistersville, West Virginia, or to Hope, a local utility, on a year long basis ending January 31, 2002 at a variable price per month per Mcf.

F-18

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

NOTE 4 - RELATED PARTY TRANSACTIONS (Continued)

a. Marketing Agreement - Sancho (Continued)

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 Hope 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. Receivables

The Company has various receivables from and payables to the officers and companies of the officers. These amounts have been grouped together with a net payable of \$704,829 at December 31, 2001. The net payable bears interest at 10%, is due on demand and is unsecured.

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

### NOTE 5 - ECONOMIC DEPENDENCE AND MAJOR CUSTOMERS

The Company's marketing arrangement with Sancho accounted for approximately 82% and 84% of the Company's revenue for the years ended December 31, 2001 and 2000, respectively in Tyler Construction Company. This marketing agreement is in effect until December 1, 2008. Another customer also generated sales of 99% and 99% of Ritchie County total sales in 2001 and 2000, respectively.

### NOTE 6 - STOCKHOLDERS' EQUITY

In 2000, the Company issued 1,691,287 shares of common stock for cash of \$83,000. The Company issued 11,722,383 shares of common stock for services and conversion of debt at approximately \$0.12 per share or a total of \$1,422,923. The shares for services were issued after the services had been performed and were valued at the closing prices on the dates of issue. The Company also issued 151,930,606 shares of common stock to convert debentures, interest and penalties at approximately \$0.04 per share or \$5,653,991 (See Note 9). Additionally, the Company canceled 423,833 shares of common stock that had been previously authorized but never issued, the Company does believe it has any further obligation related to these shares.

In 2001, the Company issued 4,655,000 shares of common stock for services rendered. The shares were valued at an average price of \$0.03 per share for total consideration of \$141,305. The shares were issued after the services were rendered and were valued at the closing price on the dates of issue.

A foreign judgment has been filed with the circuit court in Pleasants County, West Virginia for a judgment against the Company by Tioga Lumber Company (Tioga) rendered by the District Court in Harris County, Texas for non-payment of an accounts payable. The judgment is for \$46,375 plus prejudgment interest at 10.00%.

F-19

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

### NOTE 7 - JUDGMENTS PAYABLE (Continued)

On February 28, 2002, the Company and Tioga reached an agreement wherein the Company would pay Tioga \$10,000 by March 5, 2002 and \$8,000 per month thereafter. The court appointed a special commissioner to act as an arbitrator if the Company defaults. The special commissioner would attach a lien if property is found which does not have a lien attached. At December 31, 2001, the balance due to Tioga was \$47,234 and is included in judgments payable and is classified as a current liability.

In January 2002, Dennis L. Spencer filed suit against the Company and William F. Woodburn and Loren E. Bagley in the Circuit Court of Ritchie County, West Virginia (Civil Action No. 02-C-02). The complaint alleges that the Company sold certain assets that Mr.

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

Spencer claims to be the beneficial owner. The complaint seeks \$1,000,000 in damages. Management believes the suit is without merit and intends to vigorously defend the action. The Company has not accrued any amounts for these claims as of December 31, 2001 because the Company feels that based on its defenses against the claims that the Company will have no additional liability. Due to the early stage of litigation, it is not possible to evaluate the likelihood of an unfavorable outcome or estimate the extent of potential loss.

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

On April 16, 2001, Ross O. Forbus obtained a judgment against the Company for \$428,018 plus post judgment interest at 10.00% per annum. The judgment was obtained to satisfy a previous note payable. The Company has accrued the balance of \$428,018 plus accrued interest of \$25,372. The total amount of \$453,390 is included in judgments payable and is classified as a current liability.

On July 28, 1999, Core Laboratories, Inc. (Core) obtained a judgment against the Company for non-payment of an accounts payable. The judgment calls for monthly payments of \$351 and is bearing interest at 10.00% per annum. At December 31, 2001, the Company had accrued a balance of \$14,669 which is included in judgments payable. \$6,434 has been classified as a long-term liability.

On July 1, 1998, RR Donnelly (RR) obtained a judgment against the Company for non-payment of accounts payable. The judgment calls for monthly payments of \$3,244 and is bearing interest at 10.00% per annum. The Company has accrued a balance of \$62,880 which is included in judgment payable as a current liability.

F-20

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

NOTE 7 - JUDGMENTS PAYABLE (Continued)

On April 10, 2000, Bellevue Resources recorded and served its Notice and Statement of Lien in the Sixth Judicial District, Campbell County, Wyoming, against the Company for non-payment of services. The Company had recorded a liability of \$78,651 at

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

December 31, 2000. During 2001, the Company entered into a settlement agreement wherein the Company transferred a portion of the Powder River Basin leasehold acreage in Campbell County, Wyoming. At December 31, 2001, the balance was \$55,259 that is included judgments payable as a current liability.

On February 7, 2001, the United States Bankruptcy Court, Southern District of Texas, entered an Order Granting Motion to Dismiss Chapter 7 Case in the action entitled In Re: Trans Energy, Inc., Case No. 00-39496-H4-7. The Order dismissed the involuntary bankruptcy action instituted against the Company on October 16, 2000. The sole petitioning creditor named in the Involuntary Petition was Western Atlas International, Inc. ("Western"). An Order for Relief Under Chapter 7 was entered by the Court on November 22, 2000.

On April 23, 2000, the 189th District Court of Harris County, Texas entered an Agreed Final Judgment in favor of Western against the Company in the amount of \$600,665, together with post judgment interest at 10% per annum. Following the judgment, Western and the Company entered into settlement negotiations concerning the Company's satisfaction of the judgment through payments over a four to five month period together with the pledge of collateral on certain unencumbered assets.

Previously, on or about July 9, 1998, a judgment had been entered in the 152nd District Court of Harris County, Texas against the Company in favor of Baker Hughes Oilfield Operations, Inc. d/b/a/ Baker Hughes Inteq. Western Geophysical ("Baker"), a division of Western Atlas International, Inc., in the amount of \$41,142, together with interest and attorney fees. This judgment was outstanding at the time of the filing of the Involuntary Petition.

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

On January 19, 2001, the Company filed with the Bankruptcy Court the Motion to Dismiss Chapter 7 Case. The reasons cited by the Company in support of its Motion to Dismiss included, but were not limited to, (i) the Texas Court being an improper venue for the action, and (ii) the Company never receiving the Involuntary Petition and Summons notifying it of the action.

In anticipation of the Bankruptcy Court dismissing the Involuntary Petition, on February 2, 2001, the Company entered into a Settlement Agreement with Baker Hughes Oilfield Operations, Inc. d/b/a/ Baker Hughes Inteq. Western Geophysical, a division of Western Atlas International, Inc. (the "Baker Entities"). In entering its order on February 7, 2001 to dismiss the action, the Court ordered the Trustee to retain \$17,695 for satisfaction of administrative fees and expenses, and to pay to Western and Baker the sum of \$182,737, on behalf of the Company and pursuant to the terms of the Settlement Agreement.

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

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

NOTE 7 - JUDGMENTS PAYABLE (Continued)

The Settlement Agreement provided that, subject to the approval of the Bankruptcy Court, the Company agreed to pay to the Baker Entities \$759,664, plus interest at 10%. In addition to the \$200,000 payable from the escrow, the Company agreed to pay to the Baker Entities an initial payment of \$117,261 within fifteen days from the date of the Dismissal Order (due February 21, 2001).

The Company also agreed to make additional payments of \$100,000 every thirty days following the initial payment, with the first payment due beginning no later than March 23, 2001, continuing until the total obligation plus interest is paid in full. Further, the Company pledged as collateral certain properties, personal property and fixtures and two directors each pledged 750,000 shares of the Company's common stock which they personally own. At December 31, 2001, the Company has a remaining liability of \$601,966 which is included in judgments payable as a current liability.

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

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

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

The Company's consolidated financial statements are prepared using generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred cumulative operating losses through December 31, 2001 of \$25,251,849, and has a working capital deficit at December 31, 2001 of \$5,471,698.

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

Revenues have not been sufficient to cover its operating costs and to allow it to continue as a going concern. The potential proceeds from the sale of common stock, other contemplated debt and equity financing, and increases in operating revenues from new development would enable the Company to continue as a going concern. There can be no assurance that the Company can or will be able to complete any debt or equity financing. If these are not successful, management is committed to meeting the operational cash flow needs of the Company. (See also Notes 10 and 11).

NOTE 9 - CONVERTIBLE DEBENTURES

On September 10, 1998, the Company completed a debenture issue of \$4,625,400 face value of 8% Secured Convertible Debentures due March 31, 1999 (the "Debentures"). Interest shall accrue from the date of issuance until payment in full of the principal sum has been made or duly provided for. Holders of the Debentures shall have the option, at any time, until maturity, to convert the principal amount of their Debenture, or any portion of the principal amount which is at least \$10,000 into shares of the Company's Common Stock at a conversion price for each share equal to the lower of (a) seventy percent (70%) of the market price of the Company's Common Stock averaged over the five trading days prior to the date of conversion, or (b) the market price on the issuance date of the Debentures. Any accrued and unpaid interest shall be payable, at the option of the Company, in cash or in shares of the Company's Common Stock valued at the then effective conversion price.

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.

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

The Company failed to obtain an effective registration statement.

The Company has accrued and fully amortized a discount on the Debentures of \$1,445,480 to compensate for the seventy percent (70%) market price conversion and contributed this amount to additional paid-in capital. The Company has also accrued an additional amount of \$963,653 as a penalty payable to compensate for the non-filing of the registration statement penalty of 15%

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

and for the 5% discount on the conversion of the debentures penalty and have added these amounts to the debenture payable as of December 31, 1999. In 1999, the Company converted \$469,064 of the debenture and \$60,102 of the penalties and interest into 4,398,929 shares of common stock.

In 2000, the Company converted \$1,547,655 of interest and penalties and \$4,106,337 of the debentures payable into 151,930,606 shares of common stock. At December 31, 2001, the Company owed \$331,462 on the debentures consisting of \$50,000 for a debenture and \$281,462 in penalties and interest.

F-23

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

NOTE 10 - BUSINESS SEGMENTS

Effective December 31, 1998, the Company adopted SFAS No. 131, "Disclosure about Segments of an Enterprise and Related Information." Prior period amounts have been restated to conform to the requirements of this statement. The Company conducts its operations principally as oil and gas sales with Trans Energy and Prima Oil and pipeline transmission with Ritchie County and Tyler Construction.

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

	For the Years Ended December 31, -----	Oil and Gas Sales -----	Pipeline Transmission -----
Oil and gas revenue	2001	\$ 502,264	\$ 775,963
	2000	796,390	328,867
Operating loss applicable to industry segment	2001	1,223,017	250,726
	2000	3,429,277	449,336
General corporate expenses not allocated to industry segments	2001	--	--
	2000	--	--
Interest expense	2001	(232,588)	(85,516)
	2000	(380,165)	(57,305)
Other income (expenses)	2001	16,026	--
	2000	14,850	--



Edgar Filing: TRANS ENERGY INC - Form 10KSB

Assets (net of intercompany accounts)	2001	3,630,556	10,914
Depreciation and amortization	2001	787,142	108,742
		2000	221,705
Property and equipment acquisitions	2001	\$ 281,203	--

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.

F-24

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

NOTE 11 - OUTSTANDING STOCK OPTIONS (Continued)

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

The Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model with the following weighted average assumptions used for grants, respectively; dividend yield of zero percent for all years; expected volatility of 246%; risk-free interest rates of 6.15 percent and expected lives of 0.1 years.

Under the accounting provisions of SFAS No. 123, the Company's net loss would have been changed by the pro forma amounts indicated below:

	December
	-----
	2001
	-----
Net loss:	
As reported	\$ (1,473,744)
Pro forma	\$ (1,473,744)

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Basic loss per share:

As reported	\$	(0.01)
Pro forma	\$	(0.01)

A summary of the status of the Company's stock option plans as of December 31, 2001 and changes during the year is presented below:

	December	
	Shares	
	-----	-----
Outstanding, December 31, 2000	795,057	\$
Granted	--	
Canceled	--	
Exercised	--	
	-----	-----
Outstanding, December 31, 2001	795,057	\$
	=====	=====
Exercisable, December 31, 2001	795,057	\$
	=====	=====

F-25

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

NOTE 11 - OUTSTANDING STOCK OPTIONS (Continued)

Exercise Prices	Outstanding			Exe
	Number Outstanding at 12/31/00	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable at 12/31/01
-----	-----	-----	-----	-----
\$ 0.50	795,057	2.00	\$ 0.50	795,057

The 795,057 options were issued at \$0.50 which is equal to the

## Edgar Filing: TRANS ENERGY INC - Form 10KSB

market price on the date of issuance. All options are fully vested and have a five year period to be exercised. The options were not issued pursuant to an employee stock option plan.

### NOTE 12 - NOTES PAYABLE - CONVERTIBLE

Nine (9) convertible debentures dated between February 21, 2001 and April 27, 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	\$	41,575
		-----
Less current portion		(41,575)
		-----
Long-term portion	\$	-
		=====

The Company recognized an additional expense of \$23,989 because of the additional beneficial feature offered to the debenture holders below the market value. This beneficial conversion feature was expensed currently pursuant to the EITF 96-18 and has been included in the general and administrative expense in the accompanying consolidated statement of operations.

### NOTE 13 - PRIOR PERIOD ADJUSTMENT

The Company has restated its consolidated financial statements for the year ended December 31, 2000 to reflect adjustments related to the preferred stock. The Company inappropriately accrued a dividend payable, when in fact the dividend was not declared until August 2001, and the Company expensed the beneficial conversion feature instead of recording the transaction in the retained deficit. The determination reduced the net loss for the year ended December 31, 2000 by \$71,540 and the current liabilities by \$11,540. Correction of this error had the following effect on the December 31, 2000 consolidated financial statements:

	Originally Reported	As Restated
	-----	-----
Net loss	\$ (3,878,611)	\$ (3,807,071)
Accumulated deficit	(23,766,395)	(23,754,855)
Loss per share	\$ (0.05)	\$ (0.05)

F-26

TRANS ENERGY, INC. AND SUBSIDIARIES  
Notes to the Consolidated Financial Statements  
December 31, 2001 and 2000  
(Unaudited)

Edgar Filing: TRANS ENERGY INC - Form 10KSB

S.F.A.S. 69 SUPPLEMENTAL DISCLOSURES

(1)	Capitalized Costs Relating to Oil and Gas Producing Activities		December
			----- 2001 -----
	Proved oil and gas producing properties and related lease and well equipment	\$	3,372,880
	Unproved oil and gas properties		114,426 (1,009,429)
	Net Capitalized Costs	\$	2,722,502 =====

(2)	Costs Incurred in Oil and Gas Property Acquisition, Exploration, and Development Activities		For the Year December
			----- 2001 -----
	Acquisition of Properties		
	Proved	\$	281,203
	Unproved		--
	Exploration Costs		--
	Development Costs		--

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

(3)	Results of Operations for Producing Activities		For the Year December
			----- 2001 -----
	Sales	\$	502,264
	Production costs		(9,518)
	Depreciation and depletion		(603,731)
	Income tax expenses		--

Edgar Filing: TRANS ENERGY INC - Form 10KSB

Results of operations for producing activities (excluding the activities of the pipeline transmission operations, corporate overhead and interest costs	\$ (110,985)
	=====

F-27

TRANS ENERGY, INC. AND SUBSIDIARIES  
S.F.A.S. 69 Supplemental Disclosures  
December 31, 2001 and 2000  
(Unaudited)

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

(4) Reserve Quantity Information

	Oil BBL
	-----
Proved developed and undeveloped reserves	
End of the year 2000	1,348,754
Revisions of previous estimates	(1,154,569)
Improved recovery	--
Purchases of minerals in place	--
Extensions and discoveries	--
Production	(46,309)
Sales of minerals in place	--
End of the year 2001	147,876
	=====
Proved developed reserves:	
	Oil BBL
	-----
Beginning of the year 2001	1,348,754
End of the year 2001	147,876

During 2001, 2000, 1998, 1996, 1995, 1992, 1991 and 1990, 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-28

Edgar Filing: TRANS ENERGY INC - Form 10KSB

TRANS ENERGY, INC. AND SUBSIDIARIES  
S.F.A.S. 69 Supplemental Disclosures  
December 31, 2001 and 2000  
(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, 2001

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

At December 31, 2000

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

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

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

For the Year

Edgar Filing: TRANS ENERGY INC - Form 10KSB

	December
	----- 2001 -----
Standardized measure, beginning of year	\$ 4,425,778
Oil and gas sales, net of production costs	--
Sales of mineral in place	(1,039,658)
Purchases	--
Net change due to revisions in quantity estimates	263,874
Accretion of discount items	--
Standardized measure, end of year	\$ 3,649,994 =====

F-29

TRANS ENERGY, INC. AND SUBSIDIARIES  
S.F.A.S. 69 Supplemental Disclosures  
December 31, 2001 and 2000  
(Unaudited)

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

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.

F-30

Edgar Filing: TRANS ENERGY INC - Form 10KSB

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/ ROBERT L. RICHARDS

-----  
Robert L. Richards,  
President and C.E.O.

Dated: April 12, 2002

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 -----	Date -----
/S/ ROBERT L. RICHARDS ----- Robert L. Richards	President, C.E.O. and Director	April 12, 2002
/S/ LOREN E. BAGLEY ----- Loren E. Bagley	Vice President and Director  Principal Financial Officer	April 12, 2002
/S/ WILLIAM F. WOODBURN ----- William F. Woodburn	Secretary Treasurer / Treasurer and Director  Chief Accounting Officer	April 12, 2002
/S/ JOHN B. SIMS ----- John B. Sims	Director	April 12, 2002

S-1