TRANS ENERGY INC
Form 10-Q
November 15, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to _______________

Commission File Number 0-23530

TRANS ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada	93-0997412
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

210 Second Street, P.O. Box 393, St. Marys, West Virginia 26170
(Address of principal executive offices)

Registrant's telephone no., including area code: (304) 684-7053

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	o	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	x
(Do not check if a smaller reporting company)			

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

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

Class	Outstanding as of November 12, 2010
Common Stock, $0.001 par value	12,531,078

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PART I

Item 1. Financial Statements

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

	September 30, 2010 Unaudited	December 31, 2009 Audited
ASSETS		
CURRENT ASSETS		
Cash	$1,296,415	$4,602,170
Accounts receivable, trade	1,347,126	1,370,029
Accounts receivable, related parties	18,500	18,500
Advance Royalties	109,381	94,381
Accounts receivable due from non-operator, net	4,063,910	687,515
Note receivable	135,014	289,149
Deferred financing costs, net	-	105,413
Derivative assets	281,515	227,961
Total Current Assets	7,251,861	7,395,118
PROPERTY AND EQUIPMENT, net of accumulated depreciation of $609,931 and $469,957, respectively	1,147,608	1,140,406
OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING		
Proved properties	32,498,479	24,662,761
Unproved properties	4,397,583	1,242,144
Pipelines	1,387,440	1,387,440
Accumulated depreciation, depletion and amortization	(6,743,280)	(4,983,747)
Oil and gas properties, net	31,540,222	22,308,598
OTHER ASSETS		
Note receivable	-	54,444
Derivative assets	42,913	166,705
Advances to operator	9,000	9,000
Other assets	50,952	52,098
Total Other Assets	102,865	282,247
TOTAL ASSETS	$40,042,556	$31,126,369

See notes to unaudited consolidated financial statements.

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

	September 30, 2010 Unaudited	December 31, 2009 Audited
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable, trade	$3,379,519	$1,483,743
Accounts and notes payable, related party	2,150	581,008
Accrued expenses	509,372	891,641
Income tax payable	450,000	-
Notes payable – current, net of unamortized discount of $0 and $145,677, respectively	15,064,347	29,876,521
Total Current Liabilities	19,405,388	32,832,913
LONG-TERM LIABILITIES		
Notes payable	31,546	66,832
Asset retirement obligations	215,200	202,366
Total Long-Term Liabilities	246,746	269,198
Total Liabilities	19,652,134	33,102,111
COMMITMENTS AND CONTINGENCIES	-	-
STOCKHOLDERS' EQUITY (DEFICIT)		
Preferred stock; 10,000,000 shares authorized at $0.001 par value; -0- shares issued and outstanding	-	-
Common stock; 500,000,000 shares authorized at $0.001 par value; 12,531,078 and 11,628,027 shares issued, respectively, and 12,529,078 and 11,626,027 shares outstanding, respectively	12,531	11,628
Additional paid-in capital	37,717,388	36,734,675
Treasury stock, at cost, 2,000 shares	(1,950)	(1,950)
Accumulated deficit	(17,337,547)	(38,720,095)
Total Stockholders' Equity (Deficit)	20,390,422	(1,975,742)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$40,042,556	$31,126,369

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
REVENUES	$ 2,033,236	$ 1,111,891	$ 4,643,306	$ 4,148,925
COSTS AND EXPENSES				
Production costs	601,853	454,479	1,799,567	1,471,862
Depreciation, depletion, amortization and accretion	783,143	286,363	1,926,863	1,220,908
Selling, general and administrative	1,258,749	722,753	2,517,724	2,129,790
Total Costs and Expenses	2,643,745	1,463,595	6,244,154	4,822,560
LOSS FROM OPERATIONS	(610,509)	(351,704)	(1,600,848)	(673,635)
OTHER INCOME (EXPENSES)				
Interest income	2,252	13,132	12,051	27,092
Interest expense	(182,259)	(614,122)	(1,551,237)	(1,969,105)
Gain (loss) on derivative contracts	22,000	(318,971)	175,796	(127,504)
Gain (loss) on sale of assets	24,796,970	522	24,796,786	(1,290)
Total Other Income (Expenses)	24,638,963	(919,439)	23,433,396	(2,070,807)
NET INCOME (LOSS) BEFORE INCOME TAXES	24,028,454	(1,271,143)	21,832,548	(2,744,442)
INCOME TAXES	450,000	-	450,000	-
NET INCOME (LOSS)	$ 23,578,454	$ (1,271,143)	$ 21,382,548	$(2,744,442)
EARNINGS (LOSS) PER SHARE – BASIC	$ 1.88	$ (0.12)	$ 1.73	$ (0.26)
				$ (0.26)

EARNINGS (LOSS) PER SHARE - DILUTED	$ 1.66	$ (0.12)	$ 1.65	
WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC	12,531,078	10,809,065	12,383,783	10,682,897
WEIGHTED AVERAGE SHARES OUTSTANDING –DILUTED	14,186,089	10,809,065	12,935,453	10,682,897

See notes to unaudited consolidated financial statements.

TRANS ENERGY, INC. AND SUBSIDIAR
Consolidated Statement of Stockholders' Equity (Deficit)
For the Nine Months Ended September 30, 2010
(Unaudited)

	Common Stock		Additional Paid in	Treasury	Accumulated	
	Shares	Amount	Capital	Stock	Deficit	Total
Balance, December 31, 2009	11,628,027	$ 11,628	$36,734,675	$(1,950)	$(38,720,095)	$(1,975,742)
Stock issued for services	12,500	12	14,363	-	-	14,375
Stock Option Compensation Expense	-	-	79,939	-	-	79,939
Warrants issued for outside services	-	-	310,444	-	-	310,444
Stock issued for note conversion	890,551	891	577,967	-	-	578,858
Net income	-	-	-	-	21,382,548	21,382,548
Balance, September 30,2010	12,531,078	$12,531	$ 37,717,388	$(1,950)	$(17,337,547)	$20,390,422

See notes to unaudited consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$21,382,548	$(2,744,442)
Adjustments to reconcile net income (loss)		
to net cash used by operating activities:		
Depreciation, depletion, amortization and accretion	1,926,863	1,220,908
Amortization of financing cost and debt discount	251,092	405,161
Warrants issued for outside services	310,444	-
Share-based compensation	94,314	902,585
(Gain) loss on sale of assets	(24,796,786)	1,290
(Gain) loss on derivative contracts	(175,796)	127,504
Changes in operating assets and liabilities:		
Accounts receivable, trade	22,903	(496,065)
Accounts receivable, related parties	-	1,215,036
Accounts receivable due from non-operator, net	(3,376,395)	557,032
Advance royalties and other assets	(13,854)	(84,381)
Accounts payable and accrued expenses	(1,039,954)	(1,363,508)
Income tax payable	450,000	-
Net cash used by operating activities	(4,964,621)	(258,880)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase in note receivable	-	(311,440)
Collections on note receivable	208,579	194,205
Proceeds from sale of assets	23,501,500	13,700
Expenditures for oil and gas properties	(7,153,890)	(3,109,370)
Expenditures for property and equipment	(150,218)	(232,018)
Net cash provided (used) by investing activities	16,405,971	(3,444,923)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from derivative contracts	246,034	483,600
Proceeds from notes payable	76,215	2,047,274
Payments on notes payable	(15,069,350)	(77,945)
Net cash (used) provided by financing activities	(14,747,105)	2,452,929
NET CHANGE IN CASH	(3,305,755)	(1,250,874)
CASH, BEGINNING OF PERIOD	4,602,170	1,806,008
CASH, END OF PERIOD	$1,296,415	$555,134
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Cash paid for interest	$1,561,848	$1,613,831

Cash paid for income taxes	$-	$-
Non-cash investing and financing activities:		
Accrued expenditures for oil and gas properties	$2,553,461	$2,439,449
Conversion of related party debt to common stock	$578,858	$-
Increase in asset retirement obligation	$3,091	$2,749

See notes to unaudited consolidated financial statements.

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements have been prepared by Trans Energy, Inc., (Trans Energy or the Company), pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted in accordance with such rules and regulations. The information furnished in the interim consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim consolidated financial statements be read in conjunction with Trans Energy's most recent audited consolidated financial statements and notes thereto included in its December 31, 2009 Annual Report on Form 10-K. Operating results for the nine months ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

Certain reclassifications have been made to amounts in prior periods to conform to the current period presentation.

Nature of Operations and Organization

Trans Energy is an independent energy company engaged in the acquisition, exploration, development, exploitation and production of oil and natural gas. Its operations are presently focused in the State of West Virginia.

Principles of Consolidation

The consolidated financial statements include Trans Energy and its wholly-owned subsidiaries, Prima Oil Company, Inc., Ritchie County Gathering Systems, Inc., Tyler Construction Company, Inc, and Tyler Energy, Inc. All significant inter-company balances and transactions have been eliminated in consolidation.

Use of 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. The Company's financial statements are based on a number of significant judgments, assumptions, and estimates, including estimates of gas and oil reserve quantities, which are the basis for the calculation of depreciation, depletion, amortization and impairment of oil and gas properties and affect the asset retirement obligations. Reserve estimates are by their nature inherently imprecise.

Cash

Financial instruments that potentially subject the Company to a concentration of credit risk include cash. At times, amounts may exceed federally insured limits and may exceed reported balances due to outstanding checks. Management does not believe it is exposed to any significant credit risk on cash.

Receivables

Accounts receivable and notes receivable are carried at their expected net realizable value. The allowance for doubtful accounts is based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivables. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than historical experience, estimates of the recoverability of the amounts due could be overstated, which could have a negative impact on operations. No allowance for doubtful accounts is deemed necessary at September 30, 2010 and December 31, 2009 by management and no bad debt expense was incurred during the nine months ended September 30, 2010 and 2009.

Asset Retirement Obligations

Trans Energy records the fair value of a liability for legal obligations associated with the retirement obligations of long-lived assets in the period in which it is incurred if a reasonable estimate of fair value can be made. For Trans Energy, these obligations include dismantlement, and plugging and abandonment of oil and gas wells and their associated pipelines and equipment. The fair value of asset retirement obligation liabilities has been calculated using an expected present value technique. Significant assumptions used in determining such obligations include estimates of future plugging and abandonment costs, future inflation rates and well lives. When the liability is initially recorded, the entity increases the carrying amount of the related long-lived asset. Over time, accretion of the liability is recognized each period, and the capitalized cost is depleted over the estimated 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.

The following is a description of the changes to Trans Energy's asset retirement obligations for the nine months ended September 30:

	2010	2009
Asset retirement obligations at beginning of period	$ 202,366	$ 178,954
Liabilities incurred during the period	3,091	2,749
Accretion expense	9,743	16,385
Asset retirement obligations at end of period	$ 215,200	$ 198,088

At September 30, 2010 and December 31, 2009, the Company's current portion of the asset retirement obligation was $0.

Income Taxes

At December 31, 2009, the Company had net operating loss carry forwards (NOLs) of approximately $34 million that will be offset against 2010 and future taxable income through 2029. The current tax provision of $450,000 for the three months ended September 30, 2010 is an estimate of the alternative minimum tax that will not be offset by the NOLs. No tax benefit has been reported in the consolidated financial statements for the remaining NOLs or AMT credit since the potential tax benefit is offset by a valuation allowance of the same amount.

The Company has provided a valuation allowance equal to 100% of the total net deferred asset in recognition of the uncertainty regarding the ultimate amount of the net deferred tax asset that will be realized.

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Commitments and Contingencies

The Company operates exclusively in the United States, entirely in West Virginia, in the business of oil and gas acquisition, exploration, development, exploitation and production. The Company operates in an environment with many financial risks, including, but not limited to, the ability to acquire additional economically recoverable oil and gas reserves, the inherent risks of the search for, development of and production of oil and gas, the ability to sell oil and gas at prices which will provide attractive rates of return, the volatility and seasonality of oil and gas production and prices, and the highly competitive and, at times, seasonal nature of the industry and worldwide economic conditions. The Company's ability to expand its reserve base and diversify its operations is also dependent upon the Company's ability to obtain the necessary capital through operating cash flow, borrowings or equity offerings. Various federal, state and local governmental agencies are considering, and some have adopted, laws and regulations regarding environmental protection which could adversely affect the proposed business activities of the Company. The Company cannot predict what effect, if any, current and future regulations may have on the results of operations of the Company.

The Company has natural gas delivery commitments to Dominion Field Services, Inc. Management believes the Company can meet its delivery commitments based on estimated production. If, however, the Company cannot meet its delivery commitments, it will purchase gas at market prices to meet such commitments which will result in a gain or loss for the difference between the delivery commitment price and the price at which the Company is able to purchase the gas for redelivery (resale) to its customers.

Revenue and Cost Recognition

Trans Energy recognizes gas revenues upon delivery of the gas to the customers' pipeline from Trans Energy's pipelines when recorded as received by the customer's meter. Trans Energy recognizes oil revenues when pumped and metered by the customer. Trans Energy recognized $4,338,966 and $3,809,546 in oil and gas revenues for the nine months ended September 30, 2010 and 2009, respectively. Trans Energy uses the sales method to account for sales and imbalances of natural gas. Under this method, revenues are recognized based on actual volumes sold to purchasers. The volumes sold may differ from the volumes to which Trans Energy is entitled based on our interest in the properties. These differences create imbalances which are recognized as a liability only when the imbalance exceeds the estimate of remaining reserves. Trans Energy had no imbalances as of September 30, 2010 and December 31, 2009. Costs associated with production are expensed in the period incurred.

Transportation revenue is recognized when earned and we have a contractual right to receive payment. We recognized $241,013 and $329,306 of transportation revenue for the nine months ended September 30, 2010 and 2009, respectively.

Fair Value of Financial Instruments

The Financial Accounting Standard Board ("FASB") established a framework for measuring fair value and expands disclosures about fair value measurements by establishing a fair value hierarchy that prioritizes the inputs and defines valuation techniques used to measure fair value. The hierarchy gives the highest priority to Level 1 inputs and lowest priority to Level 3 inputs. The three levels of the fair value hierarchy are described below:

Basis of Fair Value Measurement

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Unobservable inputs reflecting Trans Energy's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Trans Energy believes that the fair value of its financial instruments comprising cash, certificates of deposit, accounts receivable, note receivable, accounts payable, and notes payable approximate their carrying amounts. The interest rates payable by Trans Energy on its notes payable approximate market rates. The fair values of Trans Energy's Level 2 financial assets consist of derivative assets, which are based on quoted commodity prices of the underlying commodity, market approach. As of September 30, 2010 and December 31, 2009, Trans Energy did not have any Level 1 or 3 financial assets or liabilities.

The following tables summarize fair value measurement information for Trans Energy's financial assets:

			As of September 30, 2010 Fair Value Measurements Using:		
	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Derivative assets	$ 324,428	$ 324,428	$ -	$ 324,428	$ -

			As of December 31, 2009 Fair Value Measurements Using:		
	Carrying Amount	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Derivative assets	$ 394,666	$ 394,666	$ -	$ 394,666	$ -

New Accounting Standards

Accounting Standards Update No. 2010-06 "Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements" ("ASU No. 2010-06")

We adopted certain provisions of ASU No. 2010-06 as of January 1, 2010. These provisions require additional disclosures for transfers in and out of Level 1 and Level 2 fair value measurements, as well as requiring additional fair value measurement disclosures. The adoption did not have a material impact on our financial statements or our disclosures, as we did not have any transfers between Level 1 and Level 2 fair value measurements and did not have material classes of assets and liabilities that required additional disclosure.

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

Certain provisions of ASU No. 2010-06 are effective for fiscal years beginning after December 15, 2010, which for us will be our 2011 first quarter. These provisions of ASU No. 2010-06, which amended Subtopic 820-10, will require us to present as separate line items all purchases, sales, issuances, and settlements of financial instruments valued using significant unobservable inputs (Level 3) in the reconciliation for fair value measurements, whereas currently these are presented in aggregate as one line item. Although this may change the appearance of our reconciliation, we do not believe the adoption will have a material impact on our financial statements or disclosures.

Accounting Standards Update No. 2010-20 “Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses” (“ASU No. 2010-20”)

In July 2010, the FASB issued ASU 2010-20. ASU 2010-20 amends disclosure requirements with respect to the credit quality of financing receivables and the related allowance for credit losses. Entities will be required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures will be effective for financial statements issued for fiscal years ending on or after December 15, 2010. Since ASU 2010-20 will only amend disclosure requirements, not current accounting practice, the Company does not anticipate that adoption of this ASU will have any impact on the Company’s balance sheets, statements of income or statements of cash flows.

Trans Energy reviewed all other recently issued, but not yet effective, accounting pronouncements and does not believe any such pronouncement will have a material impact on the financial statements.

NOTE 2 – GOING CONCERN

Trans Energy’s unaudited interim consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Trans Energy has incurred cumulative operating losses through September 30, 2010 of $17,337,547. At September 30, 2010, Trans Energy had a stockholders’ surplus of $20,390,422 but a working capital deficit of $12,153,527, including its note payable which was due in June 2010 (See Note 7 for additional discussion). Revenues from operations during the nine months ended September 30, 2010, were not sufficient to cover operating costs and interest expense to allow it to continue as a going concern. During the three months ended September 30, 2010, the Company received $23,500,000 from the sale of certain acreage. Additional proceeds from the sale of common stock, sale of drilling programs, and other contemplated debt and equity financing, and increases in operating revenues from new development would enable Trans Energy to continue as a going concern. There can be no assurance that Trans Energy can or will be able to complete any debt or equity financing to fund operations in the future. Trans Energy’s unaudited interim consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 – NOTE RECEIVABLE

Trans Energy holds a promissory note agreement with Warren Drilling Co., Inc., an Ohio Corporation. The purpose of the promissory note was to fund certain drilling equipment necessary to equip the rig for horizontal drilling. An initial advance in the amount of $302,280 was made on December 22, 2008, with a second advance in the amount of $311,440 made on February 4, 2009. The note bears interest in the amount of 6.5% per annum, payable in monthly installments of $27,443 for 24 months. As of September 30, 2010, the outstanding balance was $135,014, of which all was classified as current. The note is secured by equipment of Warren Drilling, Co., for which an executed security agreement was filed with the promissory note. Trans Energy has evaluated their relationship with Warren Drilling

and has determined that Trans Energy does not have a controlling financial interest in Warren Drilling which would require consolidation.

NOTE 4 - PROPERTY AND EQUIPMENT

Total additions for property and equipment for the nine months ended September 30, 2010 and 2009 were $150,218 and $232,018, respectively. Depreciation, depletion and amortization expenses for property and equipment were $141,332 and $124,181 for the nine months ended September 30, 2010 and 2009, respectively.

NOTE 5 – OIL AND GAS PROPERTIES

Total additions for oil and gas properties for the nine months ended September 30, 2010 and 2009 were $9,707,351 and $3,109,370, respectively. Depreciation, depletion, and amortization expenses on oil and gas properties were $1,775,788 and $1,080,342 for the nine months ended September 30, 2010 and 2009, respectively.

NOTE 6 – SALE OF OIL AND GAS ACREAGE

On July 16, 2010, Trans Energy expanded its joint venture with Republic Energy Ventures, LLC into Marion and Tyler Counties in West Virginia, building upon its already successful operating areas in Wetzel and Marshall Counties.

As part of this expansion, the Company sold to Republic a 50% interest in certain Marion County, West Virginia acreage. The total acreage consists of 2,539.25 acres, of which 284 acres are subject to pooling provisions, and 2,545.25 acres of undeveloped leases and 189.56 acres of other mineral leases. For the 50% interest, Republic paid the Company $5,500 per net acre. Republic required that all the Marion leases have pooling provision included, but because it was not possible to secure the necessary pooling amendments prior to the closing, Republic withheld 20% of the proceeds of the sale until the pooling provisions are secured. Accordingly, the total purchase price paid by Republic, less the 20% holdback, was $13,263,284.

The Company also sold to Republic a 50% interest in 2,613.28 acres located in Tyler County for $4,000 per net acre. Republic also withheld 20% of the purchase price on 1,325.97 acres not subject to pooling provisions as insurance that pooling provisions will be added to the leases. The total purchase price paid by Republic, less the 20% holdback, was $4,696,164.

In addition, Republic purchased all overriding royalty interests previously reserved by the Company in a prior assignment of leasehold working interests in Wetzel County, West Virginia under a Farm-Out and Area of Joint Development Agreement with Republic entered in April 2007. The purchase price paid by Republic was $9,000,000. As a result of this transaction, both the Company and Republic now have the same net royalty interest in the Wetzel County property.

Finally, the Company assigned to Republic, certain production purchase or sale agreements, net profits agreements, farm out agreements, operating agreements, poling and other agreements relating to properties being sold. Republic also received an undivided 50% interest in all of the Company's surface interests, rights-of-way, easements, leases, permits, licenses and other similar rights and interests in connection with the properties being sold.

The total purchase price for the above properties was $26,959,448. Republic paid to the Company $23,500,000 in cash and the balance of $3,459,448 was deemed a drilling credit. The Company applied $15,000,000 of the cash proceeds

to reduce its credit facility with CIT Capital USA Inc. (See Note 7 for additional discussion) and retained approximately $5,000,000.

The balance of the proceeds of $3,500,000 was used to satisfy a certain option agreement with Sancho Oil and Gas Corporation. Previously, the Company acquired an option to purchase from Sancho 2,613.28 net acres located in Tyler County, West Virginia. Under the terms of the Agreement, Republic agreed to pay to Sancho $3,500,000 to acquire the acreage and satisfy the option. Loren E. Bagley, a director of the Company, is the President of Sancho Oil & Gas.

NOTE 7 – DERIVATIVE AND OTHER HEDGING INSTRUMENTS

Trans Energy entered into derivative commodity price contracts to provide a measure of stability in the cash flows associated with Trans Energy's oil and gas production and to manage exposure to commodity price fluctuations. Trans Energy does not designate its derivative financial instruments as hedging instruments for financial accounting purposes, and as a result, recognizes the change in the respective instruments' fair value in earnings.

On July 13, 2007, as required by the CIT Creditor Agreement, Trans Energy purchased a commodity put option on natural gas. In addition, on May 22, 2008, Trans Energy entered into a participating commodity put and call option on oil as a costless collar.

Natural Gas Derivatives

Trans Energy entered into participating commodity put options on natural gas whereby Trans Energy receives a floor price. The natural gas commodity put options are indexed to NYMEX Henry Hub prices. The following table shows the monthly volumes and the floor price.

Start Month	End Month	Volume MMBTU/Month	Average Floor $/MMBTU
Oct. '10	Dec. '10	5,560	$ 7.350
Jan. '11	Dec. '11	5,244	$ 7.350

As of September 30, 2010 and December 31, 2009 the natural gas derivative had a total fair value of $225,112 and $219,314, respectively. Current portions consisted of $198,490 and $121,133, respectively.

Oil Derivatives

Trans Energy entered into participating commodity put and call options on crude oil as a costless collar. The oil costless collar is indexed to NYMEX WTI Oil prices. The following table shows the monthly volumes, the floor and ceiling prices.

Start Month	End Month	Volume BBL/Month	Floor $/BBL	Ceiling $/BBL
Oct. '10	Dec. '10	488	$100	$172
Jan. '11	Dec. '11	449	$100	$172

As of September 30, 2010 and December 31, 2009 the oil derivative had a fair value of $99,316 and $175,352, respectively. Current portions consisted of $83,025 and $106,828, respectively.

For the nine months ended September 30, 2010, Trans Energy had net gains on the derivative contracts of $175,796, of which $246,033 was a realized gain and $70,237 was an unrealized loss. During the nine months ended September 30, 2009, Trans Energy had a net loss on the derivative contracts of $127,504, of which $483,600 was a realized gain and $611,104 was an unrealized loss.

Gas Purchase Agreements

Trans Energy has various agreements with Dominion Field Services, Inc. for fixed prices for gas transported through its pipeline. The monthly volume ranges from 10,000 to 20,000 decatherm ("Dth") per month, and fixed prices vary

from $6.11/Dth to $10.81/Dth through April 2012. A decatherm is equal to one MMBTU.

NOTE 8 – NOTES PAYABLE

On June 22, 2007, Trans Energy finalized a financing agreement with CIT Capital USA Inc. ("CIT") Under the terms of the agreement, CIT would lend up to $18,000,000 to Trans Energy in the form of a senior secured revolving credit facility with the ability to increase the credit facility to $30,000,000 with increased oil and gas reserves. During the quarter ended September 30, 2008, CIT increased the credit facility to $30,000,000 due to increased reserves.

During the nine months ended September 30, 2010, Trans Energy had no additional borrowings from CIT. During the nine months ended September 30, 2009, Trans Energy borrowed $2,000,000 from CIT which increased the total outstanding credit balance to $30,000,000, leaving no available credit facility. The interest rate on this credit facility at September 30, 2010 was 9.5%. Interest payment due dates are elected at the time of borrowing and range from monthly to six months. Principal payments were due at maturity on June 15, 2010 for all borrowings outstanding on that date.

On June 15, 2010 the Company received a written notice of maturity / reservation of rights from CIT with respect to the Company's credit agreement in the form of a senior secured revolving credit facility. The credit facility matured on June 15, 2010 and CIT advised the Company that no further loans will be made under the agreement and that all indebtedness under the agreement is due and payable.

On June 18, 2010, CIT and the Company executed a forbearance letter agreement whereby CIT rescinded its June 15, 2010 notice of maturity. CIT agreed to forebear from exercising its rights and remedies against the Company and its property until June 25, 2010. The forbearance is subject to the conditions that the Company engages a financial restructuring consultant, reasonably acceptable to CIT, and pays to CIT an initial forbearance fee of $150,000 on or before June 25, 2010.

On June 18, 2010, the Company entered into an agreement with Oppenheimer & Co. Inc. whereby Oppenheimer will act as the Company's financial advisor and investment banker to assist in a possible restructuring plan and/or refinancing of the CIT credit agreement. On June 25, 2010, CIT and the Company executed a second forbearance agreement that extended the forbearance until July 2, 2010 and postpones the initial forbearance fee for one week. Under the extended forbearance agreement, the Company is obligated to pay the initial forbearance fee and an additional forbearance fee of $50,000 on or before July 2, 2010. The extended forbearance agreement expressly reserves CIT's right to exercise any and all rights and remedies available to it under the credit agreement. If the Company is unable to restructure the credit agreement or arrange for alternative financing, the agreement will be in default and the principal amount and accrued interest and fees would become immediately due.

On July 9, 2010, the Company and CIT entered into a forbearance letter agreement (the "July Forbearance Letter") whereby CIT agreed to forebear from exercising its rights and remedies against the Company and its property until October 29, 2010. The July Forbearance Letter provides as follows: 1) The Company must submit to CIT an operating budget on a weekly basis and conduct bi-weekly status calls with CIT to review its operating budget and discuss any variances therefrom; 2) The Company must provide CIT with an updated monthly budget for calendar year 2010 on or before July 15, 2010 and an updated reserve report by July 31, 2010; 3) All outstanding forbearance fees, including outstanding delinquency charges payable pursuant to the forbearance letters of June 18, 2010 and June 25, 2010 and an additional delinquency charge of $100,000, are payable on the earlier of (i) July 31, 2010 or (ii) upon the closing of the sale of certain assets by the Company. At the election of CIT, the forbearance fees are payable in either cash or five-year warrants to purchase shares of the Company's common stock; 4) The Company shall retain Oppenheimer &

Co. Inc. as its restructuring advisor during the forbearance period; 5) If the Company sells assets, it shall be permitted to retain the first $5 million of cash proceeds and all additional amounts realized would be applied to the outstanding debt to CIT; 6) If any portion of the debt remains outstanding, the Company will be obligated to pay an additional forbearance fee of $150,000 on September 15, 2010 and $150,000 on October 29, 2010, payable in either cash or five-year warrants to purchase shares of the Company's common stock; 7) The outstanding debt will continue to accrue interest until paid. The aggregate indebtedness, including accrued interest, fees and expenses, was $32,320,239.

NOTE 8 – NOTES PAYABLE (continued)

On July 16, 2010, Trans Energy expanded its joint venture with Republic Energy Ventures, LLC into Marion and Tyler counties in West Virginia, building upon its already successful operating areas in Wetzel and Marshall counties. As part of this expansion, the Company sold Republic a 50% working interest in approximately 5,000 net acres in Marion County and approximately 2,600 net acres in Tyler County and a small overriding royalty position on over 6,000 net acres in Wetzel County for cash proceeds of $23,500,000 and drilling credits of approximately $3,500,000. The Company repaid $15,000,000 on its senior credit facility and retained $5,000,000 for working capital to develop its position in the Marcellus shale and for general corporate purposes. The remaining $3,500,000 was paid to Sancho Oil & Gas Corporation ("Sancho") to satisfy the Company's option to purchase approximately 2,600 acres in Tyler County, West Virginia. Loren E. Bagley, a director of the Company, is the President of Sancho.

The Company is working with its financial advisor and investment banker in an effort to restructure the credit agreement, sell certain assets or arrange for alternative financing. If the Company is unable to restructure the credit agreement or arrange for alternative financing, the agreement will be in default and the principal amount and accrued interest and fees would become immediately due.

On July 16, 2010, in order to settle the forbearance fees with CIT, the Company issued a warrant to CIT to purchase up to 96,138 shares of the Company's common stock at $3.12 per share. The warrant is immediately exercisable.

On September 15, 2010, in order to settle the forbearance fees with CIT, the Company issued a warrant to CIT to purchase up to 46,577 shares of the Company's common stock at $3.22 per share. The warrant is immediately exercisable.

On October 29, 2010, the Company and CIT entered into a forbearance letter agreement (the "October Forbearance Letter"), whereby CIT agreed to forebear from exercising its rights and remedies against the Company and its property until December 31, 2010. The October Forbearance Letter extends the terms and provisions of the earlier forbearance agreement between the parties entered into on July 9, 2010 (the "July Forbearance Letter") that extended the forbearance period to October 29, 2010.

In addition, the October Forbearance Letter requires the Company to pay CIT a deferral fee of $50,000 on November 15, 2010, November 30, 2010, December 15, 2010 and December 31, 2010 if, on any such date, any of the principal of and interest on the Credit Agreement have not been repaid in full. In the event the Company enters into a firm commitment for financing with a third party to repay the debt under the Credit Agreement, each deferral fee not then due will be reduced to $25,000. Any deferral fee paid prior to receiving such firm commitment for financing will not be reduced retroactively. At the option of CIT, each deferral fee is payable in either cash or five-year warrants to purchase shares of the Company's common stock.

For the nine months ended September 30, 2010, Trans Energy received three additional loans that totaled $76,215 for the purchase of property and equipment. These loans have interest rates of 4.95% to 6.5%, and are payable over 24 to 36 months. The collateral securing the notes include the related assets purchased.

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NOTE 9 – EQUITY

On January 1, 2008, Trans Energy granted 450,000 common stock options to an officer and an employee under the long term incentive bonus program. The options vest quarterly over two years and have a five year term. The stock options were granted at an exercise price of $0.80 per common share, which was equal to the fair market value of the common stock at the date of grant and were valued at $315,886 using the Black Scholes valuation model. The options are being amortized to share-based compensation expense quarterly over the vesting period, for which $0 and $118,457 of share-based compensation expense was recorded during the nine months ended September 30, 2010 and 2009, respectively.

On January 1, 2008, Trans Energy granted 260,000 shares of common stock to three employees under the long term incentive bonus program. The 260,000 shares are not performance based and vest quarterly over two years, subject to ongoing employment. These shares were valued at $208,000 using the fair market value of the common stock at the date of grant and will be amortized to compensation expense quarterly over two years. On January 1, 2009, Trans Energy granted 345,000 shares of common stock to four employees under the long term incentive bonus program. The 345,000 shares are not performance based and vest quarterly over one year, subject to ongoing employment. These shares were valued at $690,000 using the fair market value of the common stock at the date of grant and will be amortized to compensation expense quarterly over one year. During the nine months ended September 30, 2010 and 2009, we recorded $0 and $595,500 of share-based compensation related to these shares, respectively.

On April 8, 2009, Trans Energy granted 375,000 common stock options to four key employees under the long term incentive bonus program. These options are being amortized to share-based compensation expense quarterly over the vesting period, for which $70,534 and $141,068 of share-based compensation expense was recorded during the nine month period ended September 30, 2010 and 2009, respectively. As of March 31, 2010, these options have been fully expensed.

On May 14, 2009, Trans Energy granted 50,000 shares of common stock to one key employee under the long term incentive bonus program. The 50,000 shares are not performance based and vest quarterly over one year, subject to ongoing employment. These shares were valued at $57,500, using the fair market value of the common stock at the date of grant and are amortized to compensation expense quarterly over one year. During the nine months ended September 30, 2010 and 2009, Trans Energy recorded $14,375 and $28,750, respectively, of share-based compensation related to these shares. As of March 31, 2010, this award has been fully expensed. Also on May 14, 2009, Trans Energy granted 50,000 common stock options to this employee under the long term incentive bonus program. The options are being amortized to share-based compensation expense quarterly over the vesting period, for which $9,405 and $18,810 of share-based compensation expense was recorded during the nine month period ended September 30, 2010 and 2009, respectively. As of March 31, 2010, these options have been fully expensed.

As a result of the above stock and option transactions, Trans Energy recorded total share-based compensation of $94,314 and $902,585 for the nine months ended September 30, 2010 and 2009, respectively.

NOTE 10 – EARNINGS PER SHARE

Basic income (loss) per share of common stock for the periods ended September 30, 2010 and 2009 is determined by dividing net income (loss) by the weighted average number of shares of common stock during the period.

The following table reconciles the weighted average shares outstanding used for basic and diluted earnings per share for the periods ended September 30, 2010 and 2009. The stock options were anti-dilutive in 2009 and had no effect on diluted earnings per share. The warrants were just issued this quarter.

The Company paid no cash distributions to its stockholders during the nine months ended September 30, 2010 and 2009.

	For the nine months ended September 30,	
	2010	2009
Weighted average number of common shares outstanding used in the basic earnings per common share calculations	12,383,783	10,682,897
Dilutive effect of stock options	548,399	-
Dilutive effect of warrants	3,271	-
Weighted average number of common shares outstanding adjusted for effective of dilutive options and warrants	12,935,453	10,682,897

	For the three months ended September 30,	
	2010	2009
Weighted average number of common shares outstanding used in the basic earnings per common share calculations	12,531,078	10,809,065
Dilutive effect of stock options	1,645,196	-
Dilutive effect of warrants	9,815	-
Weighted average number of common shares outstanding adjusted for effective of dilutive options and warrants	14,186,089	10,809,065

NOTE 11 – SUBSEQUENT EVENTS

On October 29, 2010, the Company and CIT entered into a forbearance letter agreement (the "October Forbearance Letter"), whereby CIT agreed to forebear from exercising its rights and remedies against the Company and its property until December 31, 2010. The October Forbearance Letter extends the terms and provisions of the earlier forbearance agreement between the parties entered into on July 9, 2010 (the "July Forbearance Letter") that extended the forbearance period to October 29, 2010.

In addition, the October Forbearance Letter requires the Company to pay CIT a deferral fee of $50,000 on November 15, 2010, November 30, 2010, December 15, 2010 and December 31, 2010 if, on any such date, any of the principal of and interest on the Credit Agreement have not been repaid in full. In the event the Company enters into a firm commitment for financing with a third party to repay the debt under the Credit Agreement, each deferral fee not then due will be reduced to $25,000. Any deferral fee paid prior to receiving such firm commitment for financing will not be reduced retroactively. At the option of CIT, each deferral fee is payable in either cash or five-year warrants to purchase shares of the Company's common stock.

On October 31, 2010, Trans Energy completed drilling of the Groves 1H, a horizontal joint venture well with Republic Partners in Marshall County, West Virginia to an approximate total vertical depth of 7,500 feet, with the primary target being the Marcellus Shale. Republic Partners elected to obtain a 50% paid working interest in this well as permitted by the terms of the joint venture contract.

On November 7, Trans Energy began drilling the Keaton 1H, a horizontal joint venture well with Republic Partners in Marshall County, West Virginia to an approximate total vertical depth of 7,500 feet, with the primary target being the Marcellus Shale. Republic Partners elected to obtain a 50% paid working interest in this well as permitted by the terms of the joint venture contract.

NOTE 12 – BUSINESS SEGMENTS

Trans Energy’s principal operations consist of oil and gas sales with Trans Energy and Prima Oil Company, and pipeline transmission with Ritchie County Gathering Systems and Tyler Construction Company.

Certain financial information concerning Trans Energy’s operations in different segments is as follows:

	For the Three Months Ended September 30,	Oil and Gas Sales	Pipeline Transmission	Corporate	Total
Revenue	2010	$1,966,747	$ 59,147	$7,342	$2,033,236
	2009	1,053,006	51,004	7,881	1,111,891
Income (loss) from operations	2010	700,063	(59,207)	(1,251,365)	(610,509)
	2009	546,119	(182,399)	(715,424)	(351,704)
Interest expense	2010	182,259	--	--	182,259
	2009	614,122	--	--	614,122
Depreciation, depletion, amortization and accretion	2010	780,434	2,709	--	783,143
	2009	245,732	40,631	--	286,363
Property and equipment acquisitions, including oil and gas properties	2010	4,146,239	--	--	4,146,239
	2009	444,386	--	--	444,386

	For the Nine Months Ended September 30,	Oil and Gas Sales	Pipeline Transmission	Corporate	Total
Revenue	2010	$4,338,966	$ 241,013	$63,327	$4,643,306
	2009	3,809,546	329,306	10,073	4,148,925
Income (loss) from operations	2010	1.057,614	(200,384)	(2,458,078)	(1,600,848)
	2009	1,847,477	(402,685)	(2,118,427)	(673,635)
Interest expense	2010	1,551,237	--	--	1,551,237
	2009	1,969,105	--	--	1,969,105
Depreciation, depletion, amortization and accretion	2010	1,918,738	8,125	--	1,926,863
	2009	1,101,121	119,787	--	1,220,908
Property and equipment acquisitions, including	2010	9,857,569	--	--	9,857,569
	2009	5,747,551	30,307	--	5,777,858

oil and gas properties

Total assets, net of intercompany accounts:				
September 30, 2010	$39,600,458	$442,098	$--	$40,042,556
December 31, 2009	$30,554,379	$571,990	$--	$31,126,369

Property and equipment acquisitions include accrued amounts and reclassifications.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion will assist in the understanding of our financial position and results of operations. The information below should be read in conjunction with the consolidated financial statements, the related notes to consolidated financial statements and our 2009 Form 10-K. Our discussion contains both historical and forward-looking information. We assess the risks and uncertainties about our business, long-term strategy and financial condition before we make any forward-looking statements but we cannot guarantee that our assessment is accurate or that our goals and projections can or will be met. Statements concerning results of future exploration, development and acquisition expenditures as well as revenue, expense and reserve levels are forward-looking statements. We make assumptions about commodity prices, drilling results, production costs, administrative expenses and interest costs that we believe are reasonable based on currently available information.

Our primary focus will continue to be the development of the Marcellus Shale through directional drilling. We believe that our acreage position will allow us to grow organically through drilling in the near term. This position continues to present attractive opportunities to expand our reserve base through field extensions.

We expect to maintain and utilize our technical and operations teams' knowledge to enhance our growth prospects and reserve potential. We will employ the latest drilling, completion and fracturing technology in all of our wells to enhance recoverability and accelerate cash flows associated with these wells.

We continually review opportunities to acquire producing properties, leasehold acreage and drilling prospects that are in core operating areas.

Results of Operations

Three months ended September 30, 2010 compared to September 30, 2009

The following table sets forth the percentage relationship to total revenues of principal items contained in our unaudited consolidated statements of operations for the three months ended September 30, 2010 and 2009. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended September 30,			
	2010		2009	
Total revenues	100	%	100	%
Total costs and expenses	(130	%)	(132	%)
Loss from operations	(30	%)	(32	%)
Total other income (expenses)	1,189	%	(82	%)
Net income (loss)	1,159	%	(114	%)

Total revenues of $2,033,236 for the three months ended September 30, 2010 increased $921,345 or 83% compared to $1,111,891 for the three months ended September 30, 2009, primarily due to an increase in production as a result of drilling, offset by a decrease in commodity prices. We focused our efforts during the first nine months of 2010 on our Marcellus Shale directional drilling program in Marshall County, West Virginia. We expect production to increase from the drilling program throughout 2010.

Production costs increased $147,374 or 32% for the three months ended September 30, 2010 as compared to the same period for 2009, primarily due to an increase in production.

Depreciation, depletion, amortization and accretion expense increased $496,780 or 173% for the three months ended September 30, 2010 as compared to the same period for 2009, primarily due to an increase in our asset depreciation base.

Selling, general and administrative expense increased $535,996 or 74% for the three months ended September 30, 2010 as compared to the same period for 2009, primarily due to the increased fees associated with refinancing our debt, including the issuance of warrants.

Interest expense decreased $431,863 or 70% for the three months ended September 30, 2010 as compared to the same period for 2009, primarily due to the pay down of our note to CIT.

The gain on derivative contracts was $22,000 for the three months ended September 30, 2010 compared to a loss of $318,971 for the same period in 2009. This increase in gain was primarily due to a decrease in commodity prices at September 30, 2010.

Net income for the three months ended September 30, 2010 was $23,578,454 compared to a net loss of $1,271,143 for the same period of 2009. This increase in income is primarily due to the gain on the sale of certain acreage to Republic for $24.8 million as well as an increase in production from new drilling.

Nine months ended September 30, 2010 compared to September 30, 2009

The following table sets forth the percentage relationship to total revenues of principal items contained in our unaudited consolidated statements of operations for the nine months ended September 30, 2010 and 2009. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Nine Months Ended September 30,			
	2010		2009	
Total revenues	100	%	100	%
Total costs and expenses	(134	%)	(116	%)
Loss from operations	(34	%)	(16	%)
Total other income (expenses)	495	%	(50	%)
Net income (loss)	461	%	(66	%)

Total revenues of $4,643,306 for the nine months ended September 30, 2010 increased $494,381 or 12% compared to $4,148,925 for the nine months ended September 30, 2009, primarily due to an increase in production as a result of drilling, offset by a decrease in commodity prices. We focused our efforts during the first nine months of 2010 on our Marcellus Shale directional drilling program in Marshall County, West Virginia. We expect production to increase from the drilling program throughout 2010.

Production costs increased $327,705 or 22% for the nine months ended September 30, 2010 as compared to the same period for 2009, primarily due to an increase in production.

Depreciation, depletion, amortization and accretion expense increased $705,955 or 58% for the nine months ended September 30, 2010 as compared to the same period for 2009, primarily due to an increase in our asset depreciation base.

Selling, general and administrative expense increased $387,934 or 18% for the nine months ended September 30, 2010 as compared to the same period for 2009 primarily due to the increased fees associated with refinancing our debt, including the issuance of warrants.

Interest expense decreased $417,868 or 21% for the nine months ended September 30, 2010 as compared to the same period for 2009, primarily due to the pay down of our note to CIT.

The gain on derivative contracts was $175,796 for the nine months ended September 30, 2010 compared to a loss of $127,504 for the same period in 2009. This increase in gain was primarily due to a decrease in commodity prices at September 30, 2010.

Net income for the nine months ended September 30, 2010 was $21,382,548 compared to a net loss of $2,744,442 for the same period of 2009. This increase in income is primarily due to the gain on the sale of certain acreage to Republic for $24.8 million as well as an increase in production from new drilling.

Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At September 30, 2010, we had a working capital deficit of $12,153,527 compared to a deficit of $25,437,795 at December 31, 2009. This improvement in working capital is primarily attributed to the pay down of our notes payable.

During the first nine months of 2010, net cash used by operating activities was $4,964,621 compared to $258,880 for the same period of 2009. This change in cash flow from operating activities is primarily due to an increase in accounts receivable due from non-operator and related parties.

We expect our cash flow provided by operations for 2010 to improve because of higher projected production from the drilling program and acquisitions, in addition to steady general and administrative expenses.

Excluding the effects of significant unforeseen expenses or other income, our cash flow from operations fluctuates primarily because of variations in oil and gas production and prices (subject to commodity price contracts), or changes in working capital accounts and actual well performance. In addition, our oil and gas production may be curtailed due to factors beyond our control, such as downstream activities on major pipelines causing us to shut-in production for various lengths of time.

During the first nine months of 2010, net cash provided by investing activities was $16,405,971 compared to cash used of $3,444,923 in the same period of 2009. The increase in cash in 2010 is due to the proceeds from the sale of oil and gas acreage for $23,500,000. We used $7,153,890 for the purchase of oil and gas properties and $150,218 to purchase property and equipment for the nine month period ended September 30, 2010 compared to $3,109,370 for the purchase of oil and gas properties and $232,018 to purchase property and equipment for the nine month period ended September 30, 2009.

During the first nine months of 2010, net cash used by financing activities was $14,747,105 compared to cash provided of $2,452,929 in the same period of 2009. During the nine months ended September 30, 2010, we borrowed $76,215 and repaid $15,069,350 in notes payable. During the nine months ended September 30, 2009, we borrowed $2,047,274 and repaid $77,945 in notes payable.

We anticipate meeting our working capital needs with revenues from our ongoing operations, particularly from our wells in Wetzel, Marshall, Marion and Doddridge Counties, West Virginia and new transportation of gas for third parties on our 6-inch pipeline located in West Virginia. In the event revenues are not sufficient to meet our working capital needs, we will explore the possibility of additional funding from either the sale of debt or equity securities, sale of assets, or through an increase in the available credit facility. There can be no assurance such funding will be available to us or, if available, it will be on acceptable or favorable terms.

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Because of our continued losses, limited working capital, and need for additional funding, there is substantial doubt about our ability to continue as a going concern. Historically, our revenues have not been sufficient to cover operating costs. We will need to rely on increased operating revenues from new development, proceeds from the sale of assets, or debt or equity financings to allow us to continue as a going concern. There can be no assurance that we can or will be able to complete any debt or equity financing.

Critical accounting policies

We consider accounting policies related to our estimates of proved reserves, accounting for derivatives, share-based payments, accounting for oil and natural gas properties, asset retirement obligations and accounting for income taxes as critical accounting policies. The policies include significant estimates made by management using information available at the time the estimates are made. However, these estimates could change materially if different information or assumptions were used. These policies are summarized in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2009.

Inflation

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

Recent Events

On July 16, 2010, Trans Energy expanded its joint venture with Republic Energy Ventures, LLC into Marion and Tyler counties in West Virginia, building upon its already successful operating areas in Wetzel and Marshall counties. As part of this expansion, the Company sold Republic a 50% working interest in approximately 5,000 net acres in Marion County and approximately 2,600 net acres in Tyler County and a small overriding royalty position on over 6,000 net acres in Wetzel County for cash proceeds of $23,500,000 and drilling credits of approximately $3,500,000. The Company repaid $15,000,000 on its senior credit facility and retained $5,000,000 for working capital to develop its position in the Marcellus shale and for general corporate purposes. The remaining $3,500,000 was paid to Sancho Oil & Gas Corporation ("Sancho") to satisfy the Company's option to purchase approximately 2,600 acres in Tyler County, West Virginia. Loren E. Bagley, a director of the Company, is the President of Sancho. (See Note 5 for additional discussion)

On September 21, 2010, Trans Energy completed drilling of the Stout 2H, a horizontal joint venture well with Republic Partners in Marshall County, West Virginia to an approximate total vertical depth of 7,500 feet, with the primary target being the Marcellus Shale. Republic Partners elected to obtain a 50% paid working interest in this well as permitted by the terms of the joint venture contract. On October 31, 2010, Trans Energy completed drilling of the Groves 1H, a horizontal joint venture well with Republic Partners in Marshall County, West Virginia to an approximate total vertical depth of 7,500 feet, with the primary target being the Marcellus Shale. Republic Partners elected to obtain a 50% paid working interest in this well as permitted by the terms of the joint venture contract. Both wells are expected to be completed and in production during the fourth quarter.

On October 29, 2010, Trans Energy, Inc. (the "Company") and CIT Capital USA Inc. ("CIT") entered into a forbearance letter agreement (the "October Forbearance Letter"), whereby CIT agreed to forebear from exercising its rights and remedies against the Company and its property until December 31, 2010. The forbearance relates to a certain credit agreement in the form of a senior secured revolving credit facility (the "Credit Agreement"). The October Forbearance Letter extends the terms and provisions of the earlier forbearance agreement between the parties entered into on July 9, 2010 (the "July Forbearance Letter") that extended the forbearance period to October 29, 2010.

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In addition, the October Forbearance Letter requires the Company to pay CIT a deferral fee of $50,000 on November 15, 2010, November 30, 2010, December 15, 2010 and December 31, 2010 if, on any such date, any of the principal of and interest on the Credit Agreement have not been repaid in full. In the event the Company enters into a firm commitment for financing with a third party to repay the debt under the Credit Agreement, each deferral fee not then due will be reduced to $25,000. Any deferral fee paid prior to receiving such firm commitment for financing will not be reduced retroactively. At the option of CIT, each deferral fee is payable in either cash or five-year warrants to purchase shares of the Company's common stock.

On November 7, Trans Energy began drilling the Keaton 1H, a horizontal joint venture well with Republic Partners in Marshall County, West Virginia to an approximate total vertical depth of 7,500 feet, with the primary target being the Marcellus Shale. Republic Partners elected to obtain a 50% paid working interest in this well as permitted by the terms of the joint venture contract.

Forward-looking and Cautionary Statements

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products and services, anticipated market performance and similar matters. When used in this report, the words “may,” “will,” “expect,” “anticipate,” “continue,” “estimate,” “project,” “intend,” and similar expressions are intended to identify forward-loo statements regarding events, conditions, and financial trends that may affect our future plans of operations, business strategy, operating results, and our future plans of operations, business strategy, operating results, and financial position. We caution readers that a variety of factors could cause our actual results to differ materially from the anticipated results or other matters expressed in forward-looking statements. These risks and uncertainties, many of which are beyond our control, include:

- the ability to continue as a going concern;
- the sufficiency of existing capital resources and our ability to raise additional capital to fund cash requirements for future operations;
- uncertainties involved in the rate of growth of our business and acceptance of any products or services;
- success of our drilling activities;
- production volumes;
- realized natural gas and oil prices;
- volatility of the stock market, particularly within the energy sector; and
- general economic conditions.

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

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to be effective in providing reasonable assurance that information required to be disclosed in our reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC, and that such information is accumulated and communicated to our management to allow timely decisions regarding required disclosure.

In designing and evaluating disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, not absolute assurance of achieving the desired objectives. Also, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. The design of any system of controls is based, in part, upon certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our principal executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, management concluded that our disclosure controls and procedures were effective to cause the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by SEC, and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

During the period ended, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

We may be engaged in various lawsuits and claims, either as plaintiff or defendant, in the normal course of business. In the opinion of management, based upon advice of counsel, the ultimate outcome of these lawsuits will not have a material impact on our financial position or results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 31.1 Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANS ENERGY, INC.

Date: November 15, 2010

By /S/ JOHN G. CORP
JOHN G. CORP
Principal Executive Officer

Date: November 15, 2010

By /S/ LISA A. CORBITT
LISA A. CORBITT
Chief Financial Officer