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TRANS ENERGY INC  
Form 10-Q  
August 12, 2009  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-23530

TRANS ENERGY, INC.

(Exact name of 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

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(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 ( )

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 ( ) No ( )

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 ( ) Accelerated filer ( )  
Non-accelerated filer ( ) (Do not check if smaller reporting company) Smaller reporting company (X)

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

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

| <u>Class</u>                    | <u>Outstanding as of July 31, 2009</u> |
|---------------------------------|--|
| Common Stock, \$0.001 par value | 10,808,065                             |

See notes to unaudited consolidated financial statements.

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## PART I

## Item 1. Financial Statements

**TRANS ENERGY, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets**

|   | June 30,<br>2009<br>Unaudited | December 31,<br>2008<br>Audited |
|---|-------------------------------|---------------------------------|
| <b>ASSETS</b>   |                               |                                 |
| <b>CURRENT ASSETS</b>   |                               |                                 |
| Cash  | \$ 366,020                    | \$ 1,806,008                    |
| Accounts receivable – trade   | 2,226,263                     | 769,430                         |
| Accounts receivable – related parties   | 33,000                        | 1,233,536                       |
| Accounts receivable due from non-operator, net  | 1,060,836                     | 1,352,681                       |
| Note receivable - current   | 304,560                       | 138,545                         |
| Deferred financing costs  | 215,754                       | 167,429                         |
| Derivative assets – current   | 542,260                       | 513,724                         |
| Prepaid expenses  | 68,764                        | -                               |
| Total Current Assets  | 4,817,457                     | 5,981,353                       |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation<br>of \$382,706 and \$311,769, respectively | 1,155,715                     | 1,094,970                       |
| <b>OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS<br/>ACCOUNTING</b>                              |                               |                                 |
| Proved properties   | 24,432,540                    | 19,799,868                      |
| Unproved properties   | 1,148,111                     | 627,853                         |
| Pipelines   | 4,759,580                     | 4,729,274                       |
| Accumulated depreciation, depletion and amortization  | (3,553,899)                   | (2,711,689)                     |
| Oil and gas properties, net   | 26,786,332                    | 22,445,306                      |
| <b>OTHER ASSETS</b>   |                               |                                 |
| Deferred financing costs, net of amortization of \$413,560 and<br>\$304,399,<br>respectively        | -                             | 157,386                         |
| Note receivable – non-current   | 211,949                       | 163,735                         |

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|                                 |               |               |
|---------------------------------|---------------|---------------|
| Derivative assets – non-current | 512,419       | 703,435       |
| Advances to operator            | 9,000         | 9,000         |
| Other assets                    | 52,098        | 52,098        |
| Total Other Assets              | 785,466       | 1,085,654     |
| TOTAL ASSETS                    | \$ 33,544,970 | \$ 30,607,283 |

See notes to unaudited consolidated financial statements

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

|   | June 30,<br>2009<br>Unaudited | December 31,<br>2008<br>Audited |
|---|-------------------------------|---------------------------------|
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  |                               |                                 |
| <b>CURRENT LIABILITIES</b>  |                               |                                 |
| Accounts payable - trade  | \$ 4,053,760                  | \$ 2,360,076                    |
| Accounts payable – related party  | 2,150                         | 2,150                           |
| Accrued expenses  | 772,886                       | 762,978                         |
| Notes payable – current, net of unamortized discount of \$308,129 and \$0, respectively   | 29,783,257                    | 86,714                          |
| Total Current Liabilities   | 34,612,053                    | 3,211,918                       |
| <b>LONG-TERM LIABILITIES</b>  |                               |                                 |
| Notes payable, net of unamortized discount of \$0 and \$467,932, respectively   | 14,308                        | 27,588,599                      |
| Asset retirement obligations  | 193,810                       | 178,954                         |
| Total Long-Term Liabilities   | 208,118                       | 27,767,553                      |
| Total Liabilities   | 34,820,171                    | 30,979,471                      |
| <b>COMMITMENTS AND CONTINGENCIES</b>  | -                             | -                               |
| <b>STOCKHOLDERS' DEFICIT</b>  |                               |                                 |
| 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; 10,809,065 and 10,559,065 shares issued, respectively, and 10,808,065 and 10,525,815 shares outstanding, respectively | 10,809                        | 10,559                          |
| Additional paid-in capital  | 35,701,094                    | 35,131,058                      |
| Treasury stock, at cost, 1,000 shares   | (750)                         | (750)                           |
| Accumulated deficit   | (36,986,354)                  | (35,513,055)                    |
| Total Stockholders' Deficit   | (1,275,201)                   | (372,188)                       |
| <b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>  | <b>\$ 33,544,970</b>          | <b>\$ 30,607,283</b>            |



See notes to unaudited consolidated financial statements.

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

|  | For the Three Months Ended<br>June 30, |              | For the Six Months Ended<br>June 30, |               |
|--|--|--------------|--------------------------------------|---------------|
|  | 2009                                   | 2008         | 2009                                 | 2008          |
| REVENUES   | \$ 1,504,773                           | \$ 1,229,074 | \$ 3,037,034                         | \$ 1,656,720  |
| COSTS AND EXPENSES   |  |              |                                      |               |
| Production costs   | 492,597                                | 350,788      | 1,017,383                            | 607,852       |
| Dry hole costs   | -                                      | 94,216       | -                                    | 94,216        |
| Depreciation, depletion,<br>amortization and accretion     | 520,901                                | 224,718      | 934,545                              | 376,582       |
| Selling, general and<br>administrative                     | 786,641                                | 435,491      | 1,407,037                            | 1,130,066     |
| Loss (gain) on sale of assets                              | 1,312                                  | (3,152)      | 1,812                                | (1,866)       |
| Total Costs and Expenses                                   | 1,801,451                              | 1,102,061    | 3,360,777                            | 2,206,850     |
| (LOSS) INCOME FROM OPERATIONS                              | (296,678)                              | 127,013      | (323,743)                            | (550,130)     |
| OTHER INCOME (EXPENSES)                                    |  |              |                                      |               |
| Interest income  | 9,786                                  | 2,651        | 13,960                               | 10,042        |
| Other income   | -                                      | 92,396       | -                                    | 92,396        |
| Interest expense   | (618,355)                              | (444,522)    | (1,354,983)                          | (920,715)     |
| Gain (loss) on derivative<br>contracts                     | 86,664                                 | (75,624)     | 191,467                              | (143,389)     |
| Total Other Expenses                                       | (521,905)                              | (425,099)    | (1,149,556)                          | (961,666)     |
| NET LOSS BEFORE INCOME TAXES                               | (818,583)                              | (298,086)    | (1,473,299)                          | (1,511,796)   |
| INCOME TAXES   | -                                      | -            | -                                    | -             |
| NET LOSS   | \$ (818,583)                           | \$ (298,086) | \$(1,473,299)                        | \$(1,511,796) |
| LOSS PER SHARE – BASIC AND<br>DILUTED                      | \$ (0.08)                              | \$ (0.03)    | \$ (0.14)                            | \$ (0.15)     |
| WEIGHTED AVERAGE SHARES<br>OUTSTANDING – BASIC AND DILUTED | 10,677,815                             | 10,442,565   | 10,618,768                           | 10,242,579    |

See notes to unaudited consolidated financial statements.





**TRANS ENERGY, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Stockholders' Deficit**  
**For the Six Months Ended June 30, 2009**  
**(Unaudited)**

|   | <b>Common Stock</b> | <b>Additional</b> |                | <b>Treasury</b> | <b>Accumulated</b> |                |
|---|---------------------|-------------------|----------------|-----------------|--------------------|----------------|
|   | <b>Shares</b>       | <b>Amount</b>     | <b>Paid in</b> | <b>Stock</b>    | <b>Deficit</b>     | <b>Total</b>   |
|   |                     |                   | <b>Capital</b> |                 |                    | <b>\$</b>      |
| Balance, December 31, 2008                            | 10,559,065          | \$ 10,559         | \$ 5,131,058   | \$ (750)        | (5,513,055)        | (372,188)      |
| Shares issued for services                            | 250,000             | 250               | 411,125        | -               | -                  | -411,375       |
| Stock Option<br>Compensation<br>Expense               | -                   | -                 | 158,911        | -               | -                  | -158,911       |
| Net loss for the six<br>months ended June 30,<br>2009 | -                   | -                 | -              | -               | (1,473,299)        | (1,473,299)    |
| Balance, June 30, 2009                                | 10,809,065          | \$ 10,809         | \$35,701,094   | \$ (750)        | (6,986,354)        | \$ (4,275,201) |



See notes to unaudited consolidated financial statements.

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

|  | For the Six Months Ended<br>June 30, |                     |
|--|--------------------------------------|---------------------|
|  | 2009                                 | 2008                |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                   |                                      |                     |
| Net loss   | \$ (1,473,299)                       | \$ (1,511,796)      |
| Adjustments to reconcile net loss<br>to net cash used by operating activities: |                                      |                     |
| Depreciation, depletion, amortization and accretion                            | 934,545                              | 376,582             |
| Amortization of financing cost and debt<br>discount                            | 268,864                              | 244,157             |
| Share-based compensation   | 570,286                              | 330,972             |
| Loss (gain) on sale of assets  | 1,812                                | (1,866)             |
| (Gain) loss on derivative contract   | (191,467)                            | 143,389             |
| Changes in operating assets and liabilities:                                   |                                      |                     |
| Accounts receivable  | (1,456,833)                          | (407,071)           |
| Accounts receivable – related parties  | 1,200,536                            | (407,687)           |
| Accounts receivable due from non-operator, net                                 | 291,845                              | 797,711             |
| Advances to operator, net  | -                                    | 548,715             |
| Prepaid expenses and other assets  | (68,764)                             | 7,552               |
| Accounts payable and accrued<br>expenses                                       | (832,566)                            | 50,862              |
| Accounts payable – related party   | -                                    | (35,972)            |
| Net cash (used) provided by operating activities                               | (755,041)                            | 135,548             |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                   |                                      |                     |
| Investment in note receivable  | (311,440)                            | -                   |
| Proceeds from payments on note receivable                                      | 97,211                               | -                   |
| Proceeds from sale of assets   | 10,200                               | 5,000               |
| Expenditures for oil and gas properties  | (2,644,328)                          | (7,479,647)         |
| Expenditures for property and equipment  | (152,986)                            | (234,235)           |
| Net cash used by investing activities  | (3,001,343)                          | (7,708,882)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                   |                                      |                     |
| Proceeds from derivative contracts   | 353,947                              | -                   |
| Proceeds from notes payable  | 2,014,586                            | 7,286,854           |
| Payments on notes payable  | (52,137)                             | (42,077)            |
| Net cash provided by financing activities                                      | 2,316,396                            | 7,244,777           |
| <b>NET CHANGE IN CASH</b>  | <b>(1,439,988)</b>                   | <b>(328,557)</b>    |
| <b>CASH, BEGINNING OF PERIOD</b>   | <b>1,806,008</b>                     | <b>1,702,373</b>    |
| <b>CASH, END OF PERIOD</b>   | <b>\$ 366,020</b>                    | <b>\$ 1,373,816</b> |



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SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:

|   |              |            |
|---|--------------|------------|
| Cash paid for interest                              | \$ 1,037,729 | \$ 648,828 |
| Cash paid for income taxes                          | \$ -         | \$ -       |
| Non-cash investing and financing activities:        |              |            |
| Accrued expenditures for oil and gas properties     | \$ 2,536,158 | \$ 519,789 |
| Increase in asset retirement obligation             | \$ 2,749     | \$ 6,711   |
| Revision of asset retirement obligation             | \$ -         | \$ 14,282  |
| Common shares issued for stock compensation payable | \$ -         | \$ 516,600 |

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, 2008 Annual Report on Form 10-K. Operating results for the six months ended June 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

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 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.

**Asset Retirement Obligations**

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 143, "Accounting for Asset Retirement Obligations," which requires the fair value of a liability for an asset retirement obligation to be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. For the Company, these obligations include dismantlement, plugging and abandonment of oil and gas wells and associated pipelines and equipment. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted to its then present value each period, and the capitalized cost is depleted over the estimated useful life of the

related asset.

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The following is a description of the changes to Trans Energy's asset retirement obligations for the six months ended June 30, 2009:

|   |               |
|---|---------------|
| Asset retirement obligations at beginning of period | \$ 178,954    |
| Liabilities incurred during the period              | 2,749         |
| Accretion expense                                   | <u>12,107</u> |
| Asset retirement obligations at end of period       | \$ 193,810    |

### Revenue and Cost Recognition

Trans Energy uses the sales method to account for sales of crude oil and natural gas. Under this method, revenues are recognized based on actual volumes of oil and gas 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 June 30, 2009 and December 31, 2008. Costs associated with production are expensed in the period incurred. 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 measured by the customer.

### Note Receivables

Note receivables are carried at the expected net realizable value. No allowance for doubtful accounts is deemed necessary based on management's continued assessment of the collectability of debtors.

### Concentration of Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk include cash. The Company did not have any cash deposits in excess of FDIC insured limits. The Company has not experienced any losses on its deposits of cash.

### 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 estimates, including oil and gas reserve quantities which are the basis for the calculation of depreciation, depletion and impairment of oil and gas properties, and timing and costs associated with its asset retirement obligations.

### Income Taxes

At June 30, 2009, the Company had net operating loss carry forwards (NOLS) for future years of approximately \$36,951,914. These NOLS will expire at various dates through 2029. Utilization of the NOLs could be limited if there is a substantial change in ownership of the Company and is contingent on future earnings.

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.

## 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 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 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 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 the Company is able to purchase the gas for redelivery (resale) to its customers.

## Fair Value of Financial Instruments

Effective January 1, 2008, Trans Energy adopted SFAS No. 157 for financial assets and liabilities. SFAS No. 157 establishes 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 under SFAS No. 157 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.

Trans Energy believes that the fair value of its financial instruments comprising cash, certificates of deposit, accounts receivable, notes 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. As of June 30, 2009 and December 31, 2008, 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:



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As of June 30, 2009

|                          | Carrying<br>Amount | Total<br>Fair Value | Fair Value Measurements Using:    |                                   |                                     |
|--------------------------|--------------------|---------------------|-----------------------------------|-----------------------------------|-------------------------------------|
|                          |                    |                     | Quoted Prices                     | Significant<br>Other              | Significant                         |
|                          |                    |                     | in Active<br>Markets<br>(Level 1) | Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
| <b>Financial Assets:</b> |                    |                     |                                   |                                   |                                     |
| Derivative assets        | \$ 1,077,012       | \$ 1,077,012        | \$-                               | \$ 1,077,012                      | \$-                                 |

As of December 31, 2008

|                          | Carrying<br>Amount | Total<br>Fair Value | Fair Value Measurements Using:    |                                   |                                     |
|--------------------------|--------------------|---------------------|-----------------------------------|-----------------------------------|-------------------------------------|
|                          |                    |                     | Quoted Prices                     | Significant<br>Other              | Significant                         |
|                          |                    |                     | in Active<br>Markets<br>(Level 1) | Observable<br>Inputs<br>(Level 2) | Unobservable<br>Inputs<br>(Level 3) |
| <b>Financial Assets:</b> |                    |                     |                                   |                                   |                                     |
| Derivative assets        | \$ 1,217,159       | \$ 1,217,159        | \$-                               | \$ 1,217,159                      | \$-                                 |

**New Accounting Standards**

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*, or SFAS No. 161, which required enhanced disclosures about an entity's derivative and hedging activities and was intended to improve the transparency of financial reporting. SFAS No. 161 applies to all derivative instruments, including bifurcated derivative instruments and related hedging items accounted for under SFAS No. 133 and its related interpretations. SFAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 with the intent to provide users of financial statements with an enhanced understanding of: (i) how and why an entity uses derivative instruments, (ii) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations and (iii) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The provisions of this standard do not require disclosures for earlier periods presented for comparative purposes at initial adoption. SFAS No. 161 was effective for fiscal years and interim periods beginning after November 15, 2008. Trans Energy adopted SFAS No. 161 on January 1, 2009 and it has reflected the impact on its consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS 165). SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. This statement is effective for interim and annual periods ending after June 15, 2009. SFAS No. 165 will be effective for the Company beginning the third quarter of fiscal 2009. Trans Energy does not expect the adoption of this standard to have a material effect on its consolidated financial statements.



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In June 2009, the FASB issued Statement No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (“SFAS No. 168”). SFAS No. 168 will become the single source of authoritative nongovernmental U.S. generally accepted accounting principles (“GAAP”), superseding existing FASB, American Institute of Certified Public Accountants (“AICPA”), Emerging Issues Task Force (“EITF”), and related

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accounting literature. SFAS No. 168 reorganizes the thousands of GAAP pronouncements into roughly 90 accounting topics and displays them using a consistent structure. Also included is relevant Securities and Exchange Commission guidance organized using the same topical structure in separate sections. SFAS No. 168 will be effective for financial statements issued for reporting periods that end after September 15, 2009. This will have an impact on the Company's financial statements since all future references to authoritative accounting literature will be references in accordance with SFAS No. 168.

Trans Energy does not expect the adoption of any other recently issued accounting pronouncements to have a significant effect on its 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 June 30, 2009 of \$36,951,914 and had a stockholders' deficit of \$1,240,761 at June 30, 2009. Revenues during the six months ended June 30, 2009 were not sufficient to cover its operating costs. We expect positive operating cash flow from existing wells and new drilling which will allow us 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 that might be needed 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 June 30, 2009, the outstanding balance was \$516,509, of which \$304,560 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, pursuant to FIN 46(R) *Consolidation of Variable Interest Entities*, and has determined that Trans Energy does not have a controlling financial interest in Warren Drilling which would require consolidation.

### **NOTE 4 – OIL AND GAS PROPERTIES**

Total additions for oil and gas properties during the six months ended June 30, 2009 and June 30, 2008 were \$5,180,487 and \$7,999,436, respectively. Trans Energy also incurred \$152,986 and \$234,235, respectively, for additional property, plant and equipment.

Depreciation, depletion, and amortization expenses on oil and gas properties were \$842,210 and \$289,905 for the six months ended June 30, 2009 and 2008, respectively. Depreciation, depletion and amortization expenses for non oil and gas properties were \$80,228 and \$86,677 for the six months ended June 30, 2009 and 2008, respectively.

### **NOTE 5 – DERIVATIVE AND OTHER HEDGING INSTRUMENTS**

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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.

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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.

| <u>Start</u><br><u>Month</u> | <u>End</u><br><u>Month</u> | <u>Volume</u><br><u>MMBTU/Month</u> | <u>Average</u><br><u>Floor</u><br><u>\$/MMBTU</u> |
|------------------------------|----------------------------|-------------------------------------|---|
| Jul. '09                     | Dec. '09                   | 6,370                               | \$ 7.350  |
| Jan. '10                     | Dec. '10                   | 5,560                               | \$ 7.350  |
| Jan. '11                     | Dec. '11                   | 5,244                               | \$ 7.350  |

As of June 30, 2009 and December 31, 2008 the natural gas derivative had a total fair value of \$327,247 and \$285,019, respectively. Current portions consisted of \$191,501 and \$126,005, 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.

| <u>Start</u><br><u>Month</u> | <u>End</u><br><u>Month</u> | <u>Volume</u><br><u>BBL/Month</u> | <u>Floor</u><br><u>\$/BBL</u> | <u>Ceiling</u><br><u>\$/BBL</u> |
|------------------------------|----------------------------|-----------------------------------|-------------------------------|---------------------------------|
| Jul. '09                     | Dec. '09                   | 585                               | \$100                         | \$172                           |
| Jan. '10                     | Dec. '10                   | 488                               | \$100                         | \$172                           |
| Jan. '11                     | Dec. '11                   | 449                               | \$100                         | \$172                           |

As of June 30, 2009 and December 31, 2008 the oil derivative had a fair value of \$749,765 and \$932,140, respectively. Current portions consisted of \$373,092 and \$387,719, respectively.

For the six months ended June 30, 2009, Trans Energy had total gains on the derivative contracts of \$213,800, of which \$353,947 was a realized gain and \$140,147 was an unrealized loss. During the six months ended June 30, 2008, Trans Energy had a total loss on the derivative contracts of \$143,389, of which all was unrealized.

*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 is 10,000 decatherm ("Dth") per month, and fixed prices vary from \$10.57/Dth to \$11.36/Dth through April 2012. A decatherm is equal to one MMBTU.

**NOTE 6 – NOTES PAYABLE**

On June 22, 2007, Trans Energy finalized a financing agreement with CIT Capital USA Inc. 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 six months ended June 30, 2008, Trans Energy borrowed \$7,286,854 from CIT. During the six months ended June 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 weighted average interest rate on this credit facility on June 30, 2009 was 6.05%. Interest payment due dates are elected at the time of borrowing and range from monthly to six months. Principal payments are due at maturity on June 15, 2010 for all borrowings outstanding on that date. Trans Energy shall have the right at any time to prepay any borrowing in whole or in part, before the date of maturity.

On May 15, 2009, the CIT Capital debt agreement dated June 15, 2007 was again amended to provide Trans Energy additional time to meet various covenants. Trans Energy incurred \$75,000 in fees related to this amendment. The \$75,000 was recorded as interest expense during the six months ended June 30, 2009.

For the six months ended June 30, 2009, Trans Energy received other loan proceeds of \$14,586 for the purchase of property and equipment. The loan has an interest rate of 7.25% and matures on

January 10, 2011. The collateral securing the note includes the related asset purchased.

**NOTE 7 – EQUITY**

During the six months ended June 30, 2008, Trans Energy issued 630,000 shares of common stock as settlement of the December 31, 2007 stock compensation payable of \$516,600 related to the 2007 Long-Term Incentive and Bonus Program.

On January 1, 2008, Trans Energy granted 250,000 shares of common stock to one officer under the terms of his employment agreement. The 250,000 shares vested immediately and were valued at \$200,000 using the fair market value of the common stock at the date of grant. The \$200,000 was recorded as share-based compensation expense during the three months ended March 31, 2008.

On January 1, 2008, Trans Energy granted 450,000 common stock options to an officer and an employee as part of their two year employment agreements. The options are being amortized to share-based compensation expense quarterly over the vesting period, for which \$78,972 of share-based compensation expense was recorded during both of the six month periods ended June 30, 2009 and 2008. As of June 30, 2009, \$78,972 of share-based compensation expense relating to these options remained to be amortized in future periods.

On January 1, 2008, Trans Energy granted 260,000 shares of common stock to three employees under employment agreements. These shares were valued at \$208,000 using the fair market value of the common stock at the date of grant and are being amortized to compensation expense quarterly over two years. Share-based compensation relating to these shares totaled \$52,000 for both six month periods ended June 30, 2009 and 2008. As of June 30, 2009, \$52,000 of share-based compensation expense relating to these shares remained to be amortized in future periods.

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On January 1, 2009, Trans Energy granted 345,000 shares of common stock to four employees under employment agreements. 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 are amortized to compensation expense quarterly over one year.

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During the six months ended June 30, 2009, we recorded \$345,000 of share-based compensation related to these shares. As of June 30, 2009, \$345,000 of share-based compensation expense relating to these shares remained to be amortized in future periods.

On April 8, 2009, Trans Energy granted 375,000 common stock options to four employees as part of their employment agreements. These options are being amortized to share-based compensation expense quarterly over the vesting period, for which \$70,534 of share-based compensation expense was recorded during the six month period ended June 30, 2009. As of June 30, 2009, \$211,602 of share-based compensation expense relating to these options remained to be amortized in future periods.

On May 14, 2009, Trans Energy granted 50,000 shares of common stock to one employee under an employment agreement. 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 six months ended June 30, 2009, Trans Energy recorded \$14,375 of share-based compensation related to these shares. As of June 30, 2009, \$43,125 of share-based compensation expense relating to these shares remained to be amortized in future periods. In addition, Trans Energy also granted 50,000 common stock options to this employee as part of their employment agreement. The options are being amortized to share-based compensation expense quarterly over the vesting period, for which \$9,405 of share-based compensation expense was recorded during the six month period ended June 30, 2009. As of June 30, 2009, \$28,215 of share-based compensation expense relating to these options remained to be amortized in future periods.

As a result of the above stock and option transactions, Trans Energy recorded total share-based compensation of \$570,286 and \$330,972 for the six months ended June 30, 2009 and 2008, respectively. As a result of the above stock and option transactions, Trans Energy recorded total share-based compensation of \$332,300 and \$65,486 for the three months ended June 30, 2009 and 2008, respectively.

### NOTE 8 – 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<br>Months Ended<br><u>June 30,</u> | Pipeline                 |                     |                  | <u>Total</u> |
|--|--|--------------------------|---------------------|------------------|--------------|
|  |  | Oil and Gas <u>Sales</u> | <u>Transmission</u> | <u>Corporate</u> |              |
| Revenue  | 2009   | \$ 1,389,359             | \$ 114,251          | \$ 1,163         | \$ 1,504,773 |
|  | 2008   | 1,078,423                | 129,818             | 20,833           | 1,229,074    |
| Income (loss) from<br>operations                       | 2009   | 636,028                  | (147,257)           | (785,449)        | (296,678)    |
|  | 2008   | 596,820                  | (54,686)            | (415,121)        | 127,013      |
| Interest expense                                       | 2009   | 618,355                  | --                  | --               | 618,355      |
|  | 2008   | 444,522                  | --                  | --               | 444,522      |
| Depreciation, depletion,<br>amortization and accretion | 2009   | 481,020                  | 39,881              | --               | 520,901      |
|  | 2008   | 201,404                  | 23,314              | --               | 224,718      |





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|   |      |           |         |    |           |
|---|------|-----------|---------|----|-----------|
| Property and equipment acquisitions, including oil and gas properties | 2009 | 1,411,777 | 108,951 | -- | 1,520,728 |
|   | 2008 | 4,427,830 | 47,761  | -- | 4,475,591 |

|   | For the Six Months Ended |                   | Pipeline            |                  |               |
|---|--------------------------|-------------------|---------------------|------------------|---------------|
|   | <u>June 30,</u>          | Oil and Gas Sales | <u>Transmission</u> | <u>Corporate</u> | <u>Total</u>  |
| Revenue   | 2009                     | \$ 2,756,540      | \$ 278,302          | \$ 2,192         | \$ 3,037,034  |
|   | 2008                     | 1,397,921         | 233,305             | 25,488           | 1,656,720     |
| Income (loss) from operations   | 2009                     | 1,301,358         | (220,286)           | (1,404,815)      | (323,743)     |
|   | 2008                     | 643,485           | (108,171)           | (1,085,444)      | (550,130)     |
| Interest expense  | 2009                     | 1,354,983         | --                  | --               | 1,354,983     |
|   | 2008                     | 920,715           | --                  | --               | 920,715       |
| Depreciation, depletion, amortization and accretion                   | 2009                     | 855,389           | 79,156              | --               | 934,545       |
|   | 2008                     | 334,908           | 41,674              | --               | 376,582       |
| Property and equipment acquisitions, including oil and gas properties | 2009                     | 5,303,165         | 30,307              | --               | 5,333,472     |
|   | 2008                     | 7,749,992         | 483,679             | --               | 8,233,671     |
| Total assets, net of intercompany accounts:                           |                          |                   |                     |                  |               |
| June 30, 2009   |                          | \$ 9,136,027      | \$ 4,408,943        | \$ --            | \$ 33,544,970 |
| December 31, 2008   |                          | \$25,883,993      | \$ 4,723,290        | \$ --            | \$ 30,607,283 |

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 2008 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 low risk 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 June 30, 2009 compared to June 30, 2008**

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 June 30, 2009 and 2008. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

|                               | Three Months Ended |       |
|-------------------------------|--------------------|-------|
|                               | June 30            |       |
|                               | 2009               | 2008  |
| Total revenues                | 100%               | 100%  |
| Total costs and expenses      | (120%)             | (90%) |
| (Loss) income from operations | (20%)              | 10%   |
| Total other expenses          | (35%)              | (35%) |
| Net loss                      | (55%)              | (25%) |



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Total revenues of \$1,504,773 for the three months ended June 30, 2009 increased \$275,699 or 22% compared to \$1,229,074 for the three months ended June 30, 2008, primarily due to increased production from new drilling. We focused our efforts during the second quarter of 2009 on our Marcellus Shale horizontal drilling program in Wetzel County, West Virginia. We expect production increases from the drilling program throughout 2009.

Production costs increased \$141,809 or 40% in the three months ended June 30, 2009 as compared to the same period for 2008, primarily due to expenses associated with our increase in field production.

Depreciation, depletion, amortization and accretion expense increased \$296,183 or 132% in the three months ended June 30, 2009 as compared to the same period for 2008, due to the increase in production as a result of additions of oil and gas properties.

Selling, general and administrative expense increased \$351,150, or 81% in the three months ended June 30, 2009 as compared to the same period for 2008, primarily due to the issuance of stock and stock options granted during the quarter.

Interest expense increased \$173,833 or 39% in the three months ended June 30, 2009 as compared to the same period for 2008, primarily due to increased borrowings for our drilling.

Our net loss for the second quarter of 2009 was \$818,583 compared to net loss of \$298,086 for the second quarter of 2008. This increase in net loss is primarily due to an increase in stock-based compensation and depreciation, depletion and amortization during the second quarter of 2009 as compared to 2008.

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### Six months ended June 30, 2009 compared to June 30, 2008

The following table sets forth the percentage relationship to total revenues of principal items contained in our unaudited consolidated statements of operations for the six months ended June 30, 2009 and 2008. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

|                          | Six Months Ended |        |
|--------------------------|------------------|--------|
|                          | June 30          |        |
|                          | 2009             | 2008   |
| Total revenues           | 100%             | 100%   |
| Total costs and expenses | (110%)           | (133%) |
| Loss from operations     | (10%)            | (33%)  |
| Total other expenses     | (37%)            | (58%)  |
| Net loss                 | (47%)            | (91%)  |

Total revenues of \$3,037,034 for the six months ended June 30, 2009 increased \$1,380,314 or 83% compared to \$1,656,720 for the six months ended June 30, 2008, primarily due to increased production from new drilling. We focused our efforts during the first six months of 2009 on our Marcellus Shale horizontal drilling program in Wetzel County, West Virginia. We expect production increases from the drilling program throughout 2009.

Production costs increased \$409,531 or 67% in the six months ended June 30, 2009 as compared to the same period for 2008, primarily due to expenses associated with our increase in field production.

Depreciation, depletion, amortization and accretion expense increased \$557,963 or 149% in the six months ended June 30, 2009 as compared to the same period for 2008, due to the increase in production as a result of additions of oil and gas properties.

Selling, general and administrative expense increased \$276,971, or 25% in the six months ended June 30, 2009 as compared to the same period for 2008, primarily due to the issuance of stock and stock options granted during the period.

Interest expense increased \$434,268 or 47% in the six months ended June 30, 2009 as compared to the same period for 2008, primarily due to increased borrowings for our drilling program and the \$75,000 cost paid for a waiver.

Our net loss for the first six months of 2009 was \$1,473,299 compared to net loss of \$1,511,796 for the first six months of 2008. This decrease in net loss is primarily due to an increase in production revenue offset by an increase in production costs, depreciation, depletion, amortization and interest expense during the first six months of 2009 as compared to 2008.

*Liquidity and Capital Resources*

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At June 30, 2009, we had a working capital deficit of \$29,794,596 compared to a surplus of \$2,769,435 at December 31, 2008. This decrease in working capital is primarily attributed to the reclassification of notes payable to current and to an increase in accounts payable related to drilling activities.

During the first six months of 2009, net cash used by operating activities was \$755,041 compared to net cash provided of \$135,548 for the same period of 2008. This increase in negative cash flow from operating activities is primarily due to an increase in accounts receivable from increased production.

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We expect our cash flow provided by operations for 2009 to increase because of higher projected production from the drilling program, workovers and acquisitions and steady operating, general and administrative, interest and financing costs.

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 six months of 2009, net cash used by investing activities was \$3,001,343 compared to net cash used of \$7,708,882 in 2008. We used \$2,644,328 for the purchase of oil and gas properties and \$152,986 to purchase property and equipment for the six month period ended June 30, 2009 compared to \$7,479,647 for the purchase of oil and gas properties and \$234,235 to purchase property and equipment for the six month period ended June 30, 2008.

During the first six months of 2009, net cash provided by financing activities was \$2,316,396 compared to \$7,244,777 in the same period of 2008. During the six months ended June 30, 2009, we borrowed \$2,014,586 and repaid \$52,137 in notes payable.

We anticipate meeting our working capital needs with revenues from our ongoing operations, particularly from our wells in Wetzel, 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 or through an increase in the available credit facility with CIT Capital. There can be no assurance such funding will be available to us or, if available, it will be on acceptable or favorable terms.

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 or proceeds from 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, 2008.

### *Inflation*

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



*Recent Events*

During the six months ended June 30, 2009, Trans Energy drilled the Hart 28H, a horizontal joint venture well with Republic Partners in Wetzel 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. Trans Energy also completed the Blackshere 101 in Marion County, West Virginia to an approximate total depth of 7,500 feet, with the primary target being the Marcellus Shale.

*Forward-looking and Cautionary Statements*

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products and services, anticipated market performance and similar matters. When used in this report, the words “may,” “will,” “expect,” “anticipate,” “continue,” “estimate,” “project,” “intend,” and similar expressions are intended to identify forward-looking 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 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;
- 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 4T. 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.

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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 chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the 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.

### **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. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of our securities holders during the first six months ended June 30, 2009.

#### **Item 5. Other Information**

None.

#### **Item 6. Exhibits**

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- Exhibit 31.1 Certification of Chief 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 Chief 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: August 12, 2009

By /S/ JAMES K. ABCOUWER  
JAMES K. ABCOUWER  
Chief Executive Officer and Director

Date: August 12, 2009

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