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TRANS ENERGY INC
Form 10-Q
November 12, 2008
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 Quarter Ended September 30, 2008

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes (X) No ()

Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer" and "small 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 by Rule 12b-2 of the Exchange Act.) Yes () No (X)

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

<u>-----</u> Class <u>-----</u>	<u>Outstanding as of October 21, 2008</u>
Common Stock, \$0.001 par value	10,507,565

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PART I**Item 1. Financial Statements****TRANS ENERGY, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****(Unaudited)**

	September 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,259,509	\$ 1,702,373
Accounts receivable	1,101,617	285,204
Accounts receivable – related parties	1,693,244	478,160
Accounts receivable due from non-operator, net	2,209,521	243,666
Deferred financing costs	167,429	167,429
Derivative – current	43,078	43,095
Prepaid expenses	-	8,000
Total Current Assets	6,474,399	2,927,927
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$275,930 and \$174,311, respectively	858,855	664,942
OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING		
Proved properties	18,106,407	10,764,411
Unproved properties	538,129	250,670
Pipelines	3,941,491	2,764,797
Accumulated depreciation, depletion and amortization	(2,420,053)	(1,801,262)
Oil and gas properties, net	20,165,973	11,978,616
OTHER ASSETS		
Deferred financing costs, net of amortization of \$249,153 and \$119,136, respectively	212,632	242,467
Derivative – non-current	84,525	135,369
Advances to operator	9,000	557,715
Other assets	58,782	58,334
Total Other Assets	364,939	993,885

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TOTAL ASSETS	\$ 27,864,166	\$ 16,565,370
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See notes to unaudited consolidated financial statements.

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

	September 30, 2008	December 31, 2007
LIABILITIES AND STOCKHOLDERS' DEFICIT		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 2,657,487	\$ 2,318,852
Accounts payable – related party	159,050	248,364
Accrued expenses	653,711	929,288
Accrued expenses – related party	-	31,000
Notes payable – current	90,826	86,972
Total Current Liabilities	3,561,074	3,614,476
LONG-TERM LIABILITIES		
Notes payable, net of unamortized discount of \$549,140 and \$791,070, respectively	25,525,708	14,033,528
Asset retirement obligations	178,954	166,895
Total Long-Term Liabilities	25,704,662	14,200,423
Total Liabilities	29,265,736	17,814,899
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' 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; 10,475,065 and		
9,530,065 shares issued, and 10,474,065 and 9,529,065 shares		
outstanding, respectively	10,475	9,530
Additional paid-in capital	35,029,556	34,117,443
Treasury stock, at cost, 1,000 shares	(750)	(750)
Accumulated deficit	(36,440,851)	(35,375,752)
Total Stockholders' Deficit	(1,401,570)	(1,249,529)

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TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 27,864,166	\$ 16,565,370
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See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
REVENUES	\$ 2,188,071	\$ 416,837	\$ 3,844,791	\$ 1,119,109
COSTS AND EXPENSES				
Production costs	570,513	253,073	1,178,365	547,130
Exploration costs	-	10,000	-	169,105
Dry hole costs	-	-	94,216	-
Depreciation, depletion, amortization and accretion	365,424	28,737	742,006	207,793
Selling, general and administrative	404,554	493,722	1,534,620	1,628,752
Gain on sale of assets	-	-	(1,866)	(775,139)
Total Costs and Expenses	1,340,491	785,532	3,547,341	1,777,641
INCOME (LOSS) FROM OPERATIONS	847,580	(368,695)	297,450	(658,532)
OTHER INCOME (EXPENSES)				
Interest income	3,046	20,599	13,088	23,610
Other income	-	34,918	92,396	80,701
Interest expense	(496,457)	(340,137)	(1,417,172)	(557,615)
Gain (loss) on derivative contracts	92,528	(25,186)	(50,861)	(25,186)
Total Other Expenses	(400,883)	(309,806)	(1,362,549)	(478,490)
NET INCOME (LOSS) BEFORE INCOME TAXES	446,697	(678,501)	(1,065,099)	(1,137,022)
INCOME TAXES	-	-	-	-
NET INCOME (LOSS)	\$ 446,697	\$ (678,501)	\$ (1,065,099)	\$ (1,137,022)
INCOME (LOSS) PER SHARE - BASIC	\$ 0.04	\$ (0.07)	\$ (0.10)	\$ (0.12)
INCOME (LOSS) PER SHARE - DILUTED	\$ 0.04	\$ (0.07)	\$ (0.10)	\$ (0.12)
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	10,475,065	9,513,065	10,320,403	9,474,375
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	12,408,036	9,513,065	10,320,403	9,474,375

See notes to unaudited consolidated financial statements.

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TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Deficit
For the Nine Months Ended September 30, 2008
(Unaudited)

	Common Stock		Additional	Treasury	Accumulated	Total
	Shares	Amount	Paid in			
			Capital	Stock	Deficit	
Balance, December 31, 2007	9,530,065	\$ 9,530	\$ 34,117,443	\$ (750)	\$ (35,375,752)	\$ (1,249,529)
Fair value of options granted	-	-	118,458	-	-	118,458
Shares issued for stock compensation payable	630,000	630	515,970	-	-	516,600
Shares issued for services	315,000	315	277,685	-	-	278,000
Net loss	-	-	-	-	(1,065,099)	(1,065,099)
Balance, September 30, 2008	10,475,065	\$ 10,475	\$ 35,029,556	\$ (750)	\$ (36,440,851)	\$ (1,401,570)

See notes to unaudited consolidated financial statements.

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

	For the Nine Months Ended	
	September 30,	
	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,065,099)	\$ (1,137,022)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation, depletion, amortization and accretion	742,006	207,793
Amortization of financing cost and debt discount	371,947	168,822
Share-based compensation	396,458	326,922
Gain on sale of assets	(1,866)	(775,139)
Unrealized loss on derivative contract	50,861	59,419
Changes in operating assets and liabilities:		
Accounts receivable	(816,414)	(29,038)
Accounts receivable – related parties	(1,215,084)	84,824
Accounts receivable - non-operator, net	(1,965,855)	-
Advances to operator, net	548,715	-
Prepaid expenses and other assets	7,552	21,875
Accounts payable and accrued expenses	579,657	476,080
Accounts payable and accrued expenses – related party	(120,314)	9,564
Net cash used by operating activities	(2,487,436)	(666,601)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	5,000	1,442,139
Expenditures for oil and gas properties	(8,813,719)	(4,287,195)
Expenditures for property and equipment	(300,632)	(231,255)
Net cash used by investing activities	(9,109,351)	(3,076,311)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Cash paid for derivative contracts	-	(310,000)
Proceeds from notes payable, net of financing costs and cash discount of \$100,200 and \$701,017, respectively	11,219,574	9,166,800
Payments on notes payable	(65,651)	(3,362,762)
Payments on related party debt	-	(499,739)
Net cash provided by financing activities	11,153,923	4,994,299
NET CHANGE IN CASH	(442,864)	1,251,387
CASH, BEGINNING OF PERIOD	1,702,373	208,815
CASH, END OF PERIOD	\$ 1,259,509	\$ 1,460,202
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Cash paid for interest	\$ 987,944	\$ 246,396
Cash paid for income taxes	\$ -	\$ -

Non-cash investing and financing activities:

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Increase in asset retirement obligation	\$ 6,711	\$ -
Revision of asset retirement obligation	\$ 14,282	\$ -
Common shares issued for stock compensation	\$ 516,600	\$ -
Discount on debt for net profits interest	\$ -	\$ 765,000
Conversion of related-party debt to common stock	\$ -	\$ 50,000

See notes to unaudited consolidated financial statements.

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TRANS ENERGY, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited interim consolidated financial statements have been prepared by Trans Energy, Inc. 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, 2007 Annual Report on Form 10-KSB. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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

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, 2008 of \$36,440,851 and had a stockholders' deficit of \$1,401,570 at September 30, 2008. Revenues during the quarter ended September 30, 2008 were sufficient to cover its operating costs and we expect positive cash flow from existing wells and new drilling that 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 consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

NOTE 3 – OIL & GAS PROPERTIES

During the nine months ended September 30, 2008, Trans Energy drilled nineteen new wells, at a cost of \$6,718,348, in Wetzel and Marion Counties, West Virginia to various formations, including the Gordon, Bayard and Fourth Sand, of which Trans Energy owns a 100% working interest in each well.

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During the nine months ended September 30, 2008, Trans Energy completed the Dewhurst 50, a joint venture well with Republic Partners in Wetzel County, West Virginia to an approximate total depth of 7,500 feet, with the primary target being the Marcellus Shale. Republic Partners paid for 100% of the cost of this well to earn a 50% working interest. Trans Energy also drilled and completed, at a cost of \$634,718, the Hart 20, a second joint venture well with Republic Partners in Wetzel County, West Virginia to an approximate total 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. Two additional joint venture wells have been drilled to the Marcellus Shale, of which Republic Partners paid for 100% of the cost of these wells to earn a 50% working interest. These wells are expected to be completed during the fourth quarter.

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Drilling began on September 22, 2008 on the Anderson 7H, a joint venture well with Republic Partners that will be drilled and completed horizontally in 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.

During the nine months ended September 30, 2008 Trans Energy purchased additional unproved property lease acreage of 3,733 net acres in Wetzel, Marion, and Tyler County at a cost of \$283,959.

During the nine months ended September 30, 2008, Trans Energy extended its gas pipeline located in Wetzel County, West Virginia at a cost of \$1,176,694. The purpose of the extension was to provide access to transportation for newly completed wells in the drilling program and future wells in that area.

In January 2007, Trans Energy completed the sale of six oil and/or gas wells located in West Virginia to Leatherwood Inc. for net cash proceeds of \$667,000. No gain or loss was recorded on this sale.

In June 2007, Trans Energy sold three non-producing well bores located in West Virginia to Leatherwood Inc. for net cash proceeds of \$774,505 and recorded a gain on the sale of \$774,505.

During the nine months ended September 30, 2007, Trans Energy drilled 12 new wells, at a cost of \$4,029,894, in Wetzel and Marion Counties, West Virginia to various formations, including the Gordon, Bayard and Fourth Sand, of which Trans Energy owns a 100% working interest in each well.

During the nine months ended September 30, 2007, Trans Energy extended its gas pipeline located in Wetzel County, West Virginia at a cost of \$257,301. The purpose of the extension was to provide access to transportation for newly completed wells in the drilling program.

NOTE 4 – PROPERTY, PLANT, & EQUIPMENT

On May 22, 2008, Trans Energy completed the purchase of a building in Marion County, West Virginia. The building was purchased from United Petroleum Services Company for \$175,000 and is being used as a field shop.

NOTE 5 – DERIVATIVE FINANCIAL 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. None of the derivative contracts Trans Energy entered into have been designated as cash flow or fair value hedges. Trans Energy recorded a total unrealized loss of \$50,861 related to its derivative instruments for the nine months ended September 30, 2008.

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Effective July 13, 2007, as required by the CIT Creditor Agreement, Trans Energy purchased a commodity put option for \$310,000 in cash. For the nine months ended September 30, 2007, Trans Energy had a total loss on the derivative contract of \$25,186, of which \$34,233 was a realized gain and \$59,419 was an unrealized loss.

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Natural Gas Derivatives

Trans Energy entered into participating commodity put options on natural gas whereby Trans Energy receives a floor price. The following table shows the monthly volumes and the floor price.

<u>Start Month</u>	<u>End Month</u>	<u>Volume MMBTU/Month</u>	<u>Average Floor \$/MMBTU</u>
Jul. '07	Dec. '07	8,241	\$ 7.350
Jan. '08	Dec. '08	6,915	\$ 7.350
Jan. '09	Dec. '09	6,370	\$ 7.350
Jan. '10	Dec. '10	5,560	\$ 7.350
Jan. '11	Dec. '11	5,244	\$ 7.350

Oil Derivatives

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

<u>Start Month</u>	<u>End Month</u>	<u>Volume BBL/Month</u>	<u>Floor \$/BBL</u>	<u>Ceiling \$/BBL</u>
Jun. '08	Dec. '08	705	\$100	\$172
Jan. '09	Dec. '09	585	\$100	\$172
Jan. '10	Dec. '10	488	\$100	\$172
Jan. '11	Dec. '11	449	\$100	\$172

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. For the nine months ended September 30, 2008, Trans Energy borrowed \$11,286,854 from CIT which increased the total outstanding credit balance to \$26,000,000, leaving an available credit facility of \$4,000,000. The weighted average interest rate on this credit facility on September 30, 2008 was 6.05%.

For the nine months ended September 30, 2008, Trans Energy received other loan proceeds of \$32,920 for the purchase of property and equipment. The loans have an average interest rate of 7% and mature on July 10, 2010 and July 23, 2011.

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For the nine months ended September 30, 2007, Trans Energy's total borrowings from CIT amount to \$9,213,146. In addition, Trans Energy conveyed to CIT Capital USA Inc. a 2% Net Profits Interest, valued at \$765,000, in and to all oil and gas properties currently owned and any additional oil and gas properties acquired in the future through to the date of maturity. The conveyance of the 2% Net Profits Interest has been accounted for as a sale, which was recorded against the values of oil and gas properties. The fair value of \$765,000 has been recorded as a reduction of oil and gas properties and a discount on the note payable to CIT Capital USA Inc., with no gain recognized.

Trans Energy paid \$500,000 in financing fees to a placement agent in securing the CIT Capital USA Inc. financing agreement. These financing fees are being deferred and amortized using the effective interest method over the term of the note. Trans Energy paid \$200,000 to CIT Capital USA Inc. as a structuring fee in securing the note. The structuring fee has been recorded as a discount on the note and is being amortized using the effective interest method over the term of the note.

For the nine months ended September 30, 2007, Trans Energy had additional borrowings in the amount of \$654,671 to fund workover programs and various property and equipment purchases. The terms range from 6.75% to 13.24% interest with repayment periods from 36 to 48 months.

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On June 22, 2007, Trans Energy also repaid the following notes payable balances as of that date as follows:

	<u>Principal</u>	<u>Interest</u>
Wesbanco	\$ 240,226	\$ 1,218
United Bank	1,817,952	24,719
Huntington National	932,255	9,458
Karla Spencer	292,078	-

For the nine months ended September 30, 2007, Trans Energy repaid various related party notes in the principal amount of \$499,739.

NOTE 7 – EQUITY

During the nine months ended September 30, 2008, Trans Energy issued 630,000 shares of common stock for 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 450,000 common stock options to an officer and an employee as part of their two year employment agreements. 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 \$118,458 of share-based compensation expense was recorded during the nine months ended September 30, 2008. The following are the assumptions made in computing the option fair value:

Average risk-free interest rate	3.3%
Dividend yield	0%
Expected term	5 years
Average expected volatility	126.19%

On January 1, 2008, Trans Energy granted 250,000 common shares 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. During the nine months ended September 30, 2008 the \$200,000 was recorded as share-based compensation expense.

On January 1, 2008, Trans Energy granted 260,000 shares of common stock to three employees under employment agreements. 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. During the nine months ended September 30, 2008, we recorded \$78,000 of share-based compensation related to these shares.

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As a result of the above stock and option transactions, Trans Energy recorded total share-based compensation of \$396,458 for the nine months ended September 30, 2008.

For the nine months ended September 30, 2007, share-based compensation of \$326,922 was recorded for the amortization of stock options granted as compensation on August 15, 2006 relating to Trans Energy's stock option plan.

NOTE 9 – 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 Nine Months Ended	Oil and Gas	Pipeline		Corporate	Total
			Sales	Transmission		
	<u>September 30,</u>					
Revenue	2008	\$ 3,236,106	\$ 542,203		\$ 66,482	\$ 3,844,791
	2007	848,470	164,723		105,916	1,119,109
Income (loss) from operations	2008	1,776,585	(30,597)		(1,448,527)	297,450
	2007	655,940	142,693		(1,457,165)	(658,532)
Interest expense	2008	1,417,172	--		--	1,417,172
	2007	557,615	--		--	557,615
Depreciation, depletion, amortization and accretion	2008	676,553	65,453		--	742,006
	2007	188,498	19,295		--	207,793
Property and equipment acquisitions, including oil and gas properties	2008	8,813,719	300,632		--	9,114,351
	2007	4,287,195	231,255		--	4,518,450
Total assets, net of intercompany accounts:						
September 30, 2008		\$ 23,512,262	\$ 4,351,904		\$ --	\$ 27,864,166
December 31, 2007		\$ 14,502,036	\$ 2,063,334		\$ --	\$ 16,565,370

Item 2. Management's Discussion and Analysis or Plan of Operation*Results of Operations***Three months ended September 30, 2008 compared to September 30, 2007**

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, 2008 and 2007. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended September 30,	
	<u>2008</u>	<u>2007</u>
Total revenues	100%	100%
Total costs and expenses	(61%)	(188%)
Income (loss) from operations	39%	(88%)
Other expense	(19%)	(74%)
Net income (loss)	20%	(163%)

Total revenues of \$2,188,071 for the three months ended September 30, 2008 increased \$1,771,234 or 425% compared to \$416,837 for the three months ended September 30, 2007, primarily due to new drilling, acquisitions, and increased production from the efforts of the workover program, as well as an overall increase in prices. We focused our efforts during the third quarter of 2008 on the implementation of our Marcellus Shale drilling program in Wetzel County and on a workover program on our wells located in Wetzel and Marion Counties, West Virginia. We expect production increases from the drilling program, the workover program and from new pipeline connections throughout 2008.

Production costs increased \$317,440 or 126% in the three months ended September 30, 2008 as compared to the same period for 2007, primarily due to expenses associated with our increase in field production.

Depreciation, depletion, amortization and accretion expense increased \$336,687 or 1170% in the three months ended September 30, 2008 as compared to the same period for 2007, due to the increase in production as a result of additions of oil and gas properties.

Interest expense increased \$156,320 or 46% in the three months ended September 30, 2008 as compared to the same period for 2007, primarily due to increased borrowings for our drilling program.

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Our net income for the third quarter of 2008 was \$446,697 compared to net loss of \$678,501 for the third quarter of 2007. This increase in net income is primarily due to an increase in production as well as an overall increase in oil and gas prices during third quarter of 2008 as compared to 2007.

Nine months ended September 30, 2008 compared to September 30, 2007

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, 2008 and 2007. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

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	Nine Months Ended September 30,	
	<u>2008</u>	<u>2007</u>
Total revenues	100%	100%
Total costs and expenses	(92%)	(158%)
Income (loss) from operations	8%	(58%)
Other expense	(36%)	(44%)
Net loss	(28%)	(102%)

Total revenues of \$3,844,791 for the nine months ended September 30, 2008 increased \$2,725,682 or 244% compared to \$1,119,109 for the nine months ended September 30, 2007, primarily due to new drilling, acquisitions, and increased production from the efforts of the work over program, as well as an overall increase in prices. We focused our efforts during the first nine months of 2008 on the implementation of our drilling program in Wetzel County and on a work over program on our wells located in Wetzel and Marion Counties, West Virginia. We expect production increases from the drilling program, the work over program and from new pipeline connections throughout 2008.

Production costs increased \$631,235 or 116% in the nine months ended September 30, 2008 as compared to the same period for 2007, primarily due to expenses associated with our increase in field production.

Depreciation, depletion, amortization and accretion expense increased \$534,213 or 293% in the nine months ended September 30, 2008 as compared to the same period for 2007, due to the increase in production and additions of oil and gas properties.

Interest expense increased \$859,557 or 146% in the nine months ended September 30, 2008 as compared to the same period for 2007, primarily due to increased borrowings for our drilling program.

Our net loss for the first nine months of 2008 was \$1,065,099 compared to a net loss of \$1,137,022 for the first nine months of 2007. This decrease of \$71,923 in our net loss is primarily due to an increase in production from new drilling, acquisitions, and increased production from the efforts of the workover program, as well as an overall increase in prices during the first nine months of 2008 as compared to 2007, partially offset by the increase in depreciation, depletion, amortization and accretion and interest expense.

Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At September 30, 2008, we had a working capital surplus of \$2,913,325 compared to a deficit of \$686,549 at December 31, 2007. This increase in working capital is primarily attributed to the positive results of the drilling program and the completion of the pipeline construction.

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During the first nine months of 2008, net cash used by operating activities was \$2,487,436 compared to \$666,601 for the same period of 2007. This increase in negative cash flow from operating activities is primarily due to an increase in accounts receivable from increased production and from non-operator receivables relating to drilling.

We expect our cash flow provided by operations for 2008 to increase because of higher projected production from the drilling program, workovers and acquisitions, combined with oil and gas prices consistent with 2007 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 nine months of 2008, net cash used by investing activities was \$9,109,351 compared to net cash used of \$3,076,311 in 2007. We used \$8,813,719 for the purchase of oil and gas properties and \$300,632 to purchase property and equipment for the nine month period ended September 30, 2008 compared to \$4,287,195 for the purchase of oil and gas properties and \$231,255 to purchase property and equipment for the nine month period ended September 30, 2007.

During the first nine months of 2008, net cash provided by financing activities was \$11,153,923 compared to \$4,994,299 in the same period of 2007. During the nine months ended September 30, 2008, we borrowed \$11,219,574, net of financing costs and cash discount, and repaid \$65,651 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.

Inflation

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

Recent Events

During the nine months ended September 30, 2008, we drilled nineteen new wells in Wetzel and Marion Counties, West Virginia to various formations, including the Gordon, Bayard and Fourth Sand, of which we own a 100% working interest in each well.

During the nine months ended September 30, 2008, Trans Energy completed the Dewhurst 50, a joint venture well with Republic Partners in Wetzel County, West Virginia to an approximate total depth of 7,500 feet, with the primary target being the Marcellus Shale. Republic Partners paid for 100% of the cost of this well to earn a 50% working interest. Trans Energy also drilled and completed the Hart 20, a second joint venture well with Republic Partners in Wetzel County, West Virginia to an approximate total 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. Two additional joint venture wells have been drilled to the Marcellus Shale, of which Republic Partners paid for 100% of the cost of these wells to earn a 50% working interest. These wells are expected to be completed during the fourth quarter.

Drilling began on September 22, 2008 on the Anderson 7H, a joint venture well with Republic Partners that will be drilled and completed horizontally in 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-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 3. Quantitative and Qualitative Disclosures About Market Risk

Trans Energy is exposed to market risk, including adverse changes in commodity prices. Trans Energy produces and sells natural gas and crude oil. As a result, Trans Energy’s financial results can be significantly affected if these commodity prices fluctuate widely in response to changing market forces.

Trans Energy uses derivative contracts to minimize the risk of commodity prices. These contracts are entered into with a major financial institution.

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 chief executive officer and principal 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 not 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 principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

In our December 31, 2007 10-KSB, we disclosed certain material weaknesses in our internal control over financial reporting. These weaknesses included deficiencies in the Company's entity level controls, in segregation of duties, and in the documentation and consistent performance of controls surrounding account balances. We also disclosed certain remediation measures that we planned to implement during fiscal year 2008 to address those material weaknesses.

The Company's remediation plans included complete implementation and execution of controls and procedures identified in management's assessment of the entity level, financial reporting and other process level controls. As of September 30, 2008, some of these controls have been implemented, however these controls have not been executed a sufficient number of times for management to fully assess their effectiveness. Management will continue its efforts to implement and assess all of these measures and will monitor and evaluate them for effectiveness.

There was no change in our internal controls over financial reporting identified in connection with the requisite evaluation that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

Information concerning certain material pending legal proceedings to which we are a party, or to which any of our property is subject, is set forth below:

On September 22, 2000, Tioga Lumber Company obtained a judgment of \$43,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler construction Company for breach of contract. On February 28, 2002, we reached a negotiated payment schedule with Tioga and made the initial payment. We believe that we have satisfied the balance owed to Tioga of \$26,233, although the judgment has not yet been released. We are proceeding to secure the release of the judgment.

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

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

None.

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 nine months ended September 30, 2008.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 31.1	Certification of C.E.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of C.E.O. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

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Date: November 12, 2008

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

Date: November 12, 2008

By /S/ LISA A. CORBITT
LISA A. CORBITT
Controller, Principal Financial Officer
(Principal Accounting Officer)