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TRANS ENERGY INC  
Form 10-Q  
May 13, 2010  
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 March 31, 2010

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  
(State or other jurisdiction of  
incorporation or organization)

93-0997412  
(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  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

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

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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 May 12, 2010</u>
Common Stock, \$0.001 par value	12,531,078

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## PART I

## Item 1. Financial Statements

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

	March 31, 2010 Unaudited	December 31, 2009 Audited
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,235,915	\$ 4,602,170
Accounts receivable, trade	1,111,535	1,370,029
Accounts receivable, related parties	18,500	18,500
Advance Royalties	94,381	94,381
Accounts receivable due from non-operator, net	1,734,821	687,515
Note receivable	266,430	289,149
Deferred financing costs, net	50,148	105,413
Derivative assets	250,232	227,961
Total Current Assets	4,761,962	7,395,118
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$514,734 and \$469,957, respectively	1,119,609	1,140,406
OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING		
Proved properties	26,221,729	24,662,761
Unproved properties	1,715,115	1,242,144
Pipelines	1,387,440	1,387,440
Accumulated depreciation, depletion and amortization	(5,483,069)	(4,983,747)
Oil and gas properties, net	23,841,215	22,308,598
OTHER ASSETS		
Note receivable	-	54,444
Derivative assets	119,958	166,705
Advances to operator	9,000	9,000

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Other assets	52,098	52,098
Total Other Assets	181,056	282,247
TOTAL ASSETS	\$ 29,903,842	\$ 31,126,369

See notes to unaudited consolidated financial statements.

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## TRANS ENERGY, INC. AND SUBSIDIARIES

## Consolidated Balance Sheets (continued)

Unaudited	Audited	March 31, 2010	December 31, 2009
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable, trade		\$ 1,179,298	\$ 1,483,743
Accounts and notes payable, related party		2,150	581,008
Accrued expenses		1,003,411	891,641
Notes payable – current, net of unamortized discount			
of \$66,219 and \$145,677, respectively		29,955,981	29,876,521
Total Current Liabilities		32,140,840	32,832,913
<b>LONG-TERM LIABILITIES</b>			
Notes payable		65,135	66,832
Asset retirement obligations		206,644	202,366
Total Long-Term Liabilities		271,779	269,198
Total Liabilities		32,412,619	33,102,111
<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;			
12,531,078 and 11,628,027 shares issued, respectively, and 12,529,078			
and 11,626,027 shares outstanding, respectively		12,531	11,628
Additional paid-in capital		37,406,944	36,734,675
Treasury stock, at cost, 2,000 shares		(1,950)	(1,950)
Accumulated deficit		(39,926,302)	(38,720,095)
Total Stockholders' Deficit		(2,508,777)	(1,975,742)
<b>TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		<b>\$ 29,903,842</b>	<b>\$ 31,126,369</b>



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	
	March 31,	
	2010	2009
REVENUES	\$ 1,107,359	\$ 1,532,261
COSTS AND EXPENSES		
Production costs	636,715	524,786
Depreciation, depletion, amortization and accretion	549,775	413,644
Selling, general and administrative	632,176	620,396
Total Costs and Expenses	1,818,666	1,558,828
LOSS FROM OPERATIONS	(711,307)	(26,565)
OTHER INCOME (EXPENSES)		
Interest income	5,608	4,174
Interest expense	(551,015)	(736,628)
Gain on derivative contracts	50,691	104,803
Loss on sale of assets	(184)	(500)
Total Other Income (Expenses)	(494,900)	(628,151)
NET LOSS BEFORE INCOME TAXES	(1,206,207)	(654,716)
INCOME TAXES	-	-
NET LOSS	\$(1,206,207)	\$ (654,716)
LOSS PER SHARE – BASIC AND DILUTED	\$ (0.10)	\$ (0.06)
WEIGHTED AVERAGE SHARES OUTSTANDING – BASIC AND DILUTED	12,084,282	10,560,982

See notes to unaudited consolidated financial statements.



**TRANS ENERGY, INC. AND SUBSIDIARIES****Consolidated Statement of Stockholders' Deficit****For the Three Months Ended March 31, 2010****(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>			
Balance, December 31, 2009	11,628,027	\$ 11,628	\$ 36,734,675	\$ (1,950)	\$ (38,720,095)	\$ (1,975,742)
Stock issued for services	12,500	12	14,363	-	-	14,375
Stock Option Compensation Expense	-	-	79,939	-	-	79,939
Stock issued for note conversion	890,551	891	577,967	-	-	578,858
Net loss	-	-	-	-	(1,206,207)	(1,206,207)
Balance, March 31, 2010	12,531,078	\$ 12,531	\$ 37,406,944	\$ (1,950)	\$ (39,926,302)	\$ (2,508,777)

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended	
	March 31,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,206,207)	\$ (654,716)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation, depletion, amortization and accretion	549,775	413,644
Amortization of financing cost and debt discount	134,726	133,691
Share-based compensation	94,314	237,986
Loss on sale of assets	184	500
Gain on derivative contracts	(50,691)	(104,803)
Changes in operating assets and liabilities:		
Accounts receivable, trade	258,494	(1,520,584)
Accounts receivable, related parties	-	1,200,706
Accounts receivable due from non-operator, net	(1,047,306)	(652,734)
Advance royalties and other assets	-	(25,000)
Accounts payable and accrued expenses	(192,675)	(851,692)
Net cash used by operating activities	(1,459,386)	(1,823,002)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Increase in note receivable	-	(311,440)
Collections on note receivable	77,163	24,106
Proceeds from sale of assets	1,500	2,000
Expenditures for oil and gas properties	(2,031,938)	(449,702)
Expenditures for property and equipment	(27,063)	(135,739)
Net cash used by investing activities	(1,980,338)	(870,775)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from derivative contracts	75,167	158,298
Proceeds from notes payable	24,412	2,014,586
Payments on notes payable	(26,110)	(22,918)
Net cash provided by financing activities	73,469	2,149,966
<b>NET CHANGE IN CASH</b>	<b>(3,366,255)</b>	<b>(543,811)</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>4,602,170</b>	<b>1,806,008</b>

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CASH, END OF PERIOD	\$ 1,235,915	\$ 1,262,197
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SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:

Cash paid for interest	\$ 424,654	\$ 550,668
Cash paid for income taxes	-	-

Non-cash investing and financing activities:

Accrued expenditures for oil and gas properties	\$ -	\$ 3,384,591
Conversion of related party debt to common stock	\$ 578,858	-

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 AND SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Nature of Operations and Organization**

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

**Principles of Consolidation**

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

**Use of Estimates**

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

**Concentration of Credit Risk**

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



**Receivables**

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

**Asset Retirement Obligations**

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

The following is a description of the changes to Trans Energy's asset retirement obligations for the three months ended March 31, 2010:

Asset retirement obligations at beginning of period	\$ 202,366
Liabilities incurred during the period	-
Accretion expense	4,278
Asset retirement obligations at end of period	\$ 206,644

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

**Income Taxes**

At March 31, 2010, the Company had net operating loss carry forwards (NOLS) for future years of approximately \$35 million that may be offset against future taxable income 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, exploitation and production. The Company operates in an environment with many financial risks, including, but not limited to, the ability to acquire additional economically recoverable oil and gas reserves, the inherent risks of the search for, development of and production of oil and gas, the ability to sell oil and gas at prices which will provide attractive rates of return, the volatility and seasonality of

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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.

### **Revenue and Cost Recognition**

Trans Energy recognizes gas revenues upon delivery of the gas to the customers' pipeline from Trans Energy's pipelines when recorded as received by the customer's meter. Trans Energy recognizes oil revenues when pumped and metered by the customer. Trans Energy recognized \$978,556 and \$1,367,181 in oil and gas revenues for the quarter ended March 31, 2010 and 2009, respectively. Trans Energy uses the sales method to account for sales and imbalances of natural gas. Under this method, revenues are recognized based on actual volumes sold to purchasers. The volumes sold may differ from the volumes to which Trans Energy is entitled based on our interest in the properties. These differences create imbalances which are recognized as a liability only when the imbalance exceeds the estimate of remaining reserves. Trans Energy had no imbalances as of March 31, 2010 and December 31, 2009. Costs associated with production are expensed in the period incurred.

Transportation revenue is recognized at the time it is earned and we have a contractual right to receive payment. We recognized \$101,311 and \$164,051 of transportation revenue for the quarter ended March 31, 2010 and 2009, respectively.

### **Fair Value of Financial Instruments**

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

#### *Basis of Fair Value Measurement*

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

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

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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.

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

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

		<b>As of March 31, 2010</b>		<b>Fair Value Measurements Using:</b>		
				<b>Quoted Prices</b>	<b>Significant Other</b>	<b>Significant</b>
		<b>Carrying</b>	<b>Total</b>	<b>in Active</b>	<b>Observable</b>	<b>Unobservable</b>
		<b>Amount</b>	<b>Fair Value</b>	<b>Markets</b>	<b>Inputs</b>	<b>Inputs</b>
				<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<b>Financial Assets:</b>						
Derivative assets		\$370,190	\$370,190	\$-	\$370,190	\$-
		<b>As of December 31, 2009</b>		<b>Fair Value Measurements Using:</b>		
				<b>Quoted Prices</b>	<b>Significant Other</b>	<b>Significant</b>
		<b>Carrying</b>	<b>Total</b>	<b>in Active</b>	<b>Observable</b>	<b>Unobservable</b>
		<b>Amount</b>	<b>Fair Value</b>	<b>Markets</b>	<b>Inputs</b>	<b>Inputs</b>
				<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
<b>Financial Assets:</b>						
Derivative assets		\$394,666	\$394,666	\$-	\$394,666	\$-

### **New Accounting Standards**

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

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



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

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

### **NOTE 2 – GOING CONCERN**

Trans Energy's unaudited interim consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Trans Energy has incurred cumulative operating losses through March 31, 2010 of \$39,926,302. At March 31, 2010, Trans Energy had a stockholders' deficit of \$2,508,777 and a working capital deficit of \$27,378,878, including its note payable which is due in June 2010. Revenues during the three months ended March 31, 2010 were not sufficient to cover its operating costs and interest expense to allow it to continue as a going concern. The potential proceeds from the sale of common stock, sale of drilling programs, and other contemplated debt and equity financing, and increases in operating revenues from new development would enable Trans Energy to continue as a going concern. There can be no assurance that Trans Energy can or will be able to complete any debt or equity financing to fund operations in the future. Trans Energy's unaudited interim consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

### **NOTE 3 – NOTE RECEIVABLE**

Trans Energy holds a promissory note agreement with Warren Drilling Co., Inc., an Ohio Corporation. The purpose of the promissory note was to fund certain drilling equipment necessary to equip the rig for horizontal drilling. An initial advance in the amount of \$302,280 was made on December 22, 2008, with a second advance in the amount of \$311,440 made on February 4, 2009. The note bears interest in the amount of 6.5% per annum, payable in monthly installments of \$27,443 for 24 months. As of March 31, 2010, the outstanding balance was \$266,430, of which all was classified as current. The note is secured by equipment of Warren Drilling, Co., for which an executed security agreement was filed with the promissory note. Trans Energy has evaluated their relationship with Warren Drilling and has determined that Trans Energy does not have a controlling financial interest in Warren Drilling which would require consolidation.

### **NOTE 4 - PROPERTY AND EQUIPMENT**

Total additions for property and equipment for the quarter ended March 31, 2010 and 2009 were \$27,063 and \$135,739, respectively. Depreciation, depletion and amortization expenses for property and equipment were \$46,176 and \$38,762 for the three months ended March 31, 2010 and 2009, respectively.

### **NOTE 5 – OIL AND GAS PROPERTIES**

Total additions for oil and gas properties for the quarter ended March 31, 2010 and 2009 were \$2,031,938 and \$3,834,293, respectively. Depreciation, depletion, and amortization expenses on oil and gas properties were \$499,321 and \$374,882 for the three months ended March 31, 2010 and 2009, respectively.





**NOTE 6 – DERIVATIVE AND OTHER HEDGING INSTRUMENTS**

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

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

***Natural Gas Derivatives***

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

<u>Start</u> <u>Month</u>	<u>End</u> <u>Month</u>	<u>Volume</u> <u>MMBTU/Month</u>	<u>Average</u> <u>Floor</u> <u>\$/MMBTU</u>
Apr. '10	Dec. '10	5,560	\$ 7.350
Jan. '11	Dec. '11	5,244	\$ 7.350

As of March 31, 2010 and December 31, 2009 the natural gas derivative had a total fair value of \$275,719 and \$219,314, respectively. Current portions consisted of \$183,514 and \$121,133, respectively.

***Oil Derivatives***

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

<u>Start</u> <u>Month</u>	<u>End</u> <u>Month</u>	<u>Volume</u> <u>BBL/Month</u>	<u>Floor</u> <u>\$/BBL</u>	<u>Ceiling</u> <u>\$/BBL</u>
Apr. '10	Dec. '10	488	\$100	\$172
Jan. '11	Dec. '11	449	\$100	\$172

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As of March 31, 2010 and December 31, 2009 the oil derivative had a fair value of \$94,471 and \$175,352, respectively. Current portions consisted of \$66,718 and \$106,828, respectively.

For the three months ended March 31, 2010, Trans Energy had total gains on the derivative contracts of \$50,691, of which \$75,169 was a realized gain and \$24,478 was an unrealized loss. During the three months ended March 31, 2009, Trans Energy had a total gain on the derivative contracts of \$104,803, of which \$158,298 was a realized gain and \$53,495 was an unrealized loss.

### *Gas Purchase Agreements*

Trans Energy has various agreements with Dominion Field Services, Inc. for fixed prices for gas transported through its pipeline. The monthly volume ranges from 10,000 to 20,000 decatherm ("Dth") per month, and fixed prices vary from \$6.11/Dth to \$11.36/Dth through April 2012. A decatherm is equal to one MMBTU.

**NOTE 7 – 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 three months ended March 31, 2010, Trans Energy had no additional borrowings from CIT. During the three months ended March 31, 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 March 31, 2010 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.

For the three months ended March 31, 2010, Trans Energy received other loan proceeds of \$24,412 for the purchase of property and equipment. This loan has an interest rate of 5.0% for 24 months. The collateral securing the note includes the related asset purchased.

**NOTE 8 – EQUITY**

On January 1, 2008, Trans Energy granted 450,000 common stock options to an officer and an employee under the long term incentive bonus program. The options vest quarterly over two years and have a five year term. The stock options were granted at an exercise price of \$0.80 per common share, which was equal to the fair market value of the common stock at the date of grant and were valued at \$315,886 using the Black Scholes valuation model. The options are being amortized to share-based compensation expense quarterly over the vesting period, for which \$0 and \$39,486 of share-based compensation expense was recorded during the three months ended March 31, 2010 and 2009, respectively.

On January 1, 2008, Trans Energy granted 260,000 shares of common stock to three employees under the long term incentive bonus program. The 260,000 shares are not performance based and vest quarterly over two years, subject to ongoing employment. These shares were valued at \$208,000 using the fair market value of the common stock at the date of grant and will be amortized to compensation expense quarterly over two years. On January 1, 2009, Trans Energy granted 345,000 shares of common stock to four employees under the long term incentive bonus program. The 345,000 shares are not performance based and vest quarterly over one year, subject to ongoing employment. These shares were valued at \$690,000 using the fair market value of the common stock at the date of grant and will be amortized to compensation expense quarterly over one year. During the three months ended March 31, 2010 and 2009, we recorded \$0 and \$198,500 of share-based compensation related to these shares, respectively.

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

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On May 14, 2009, Trans Energy granted 50,000 shares of common stock to one key employee under the long term incentive bonus program. The 50,000 shares are not performance based and vest quarterly over one year, subject to ongoing employment. These shares were valued at \$57,500, using the fair market value of the common stock at the date of grant and are amortized to compensation expense quarterly over one year. During the three months ended March 31, 2010, Trans Energy recorded \$14,375 of share-based

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compensation related to these shares. As of March 31, 2010, this award has been fully expensed. Also on May 14, 2009, Trans Energy also granted 50,000 common stock options to this employee under the long term incentive bonus program. The options are being amortized to share-based compensation expense quarterly over the vesting period, for which \$9,405 of share-based compensation expense was recorded during the three month period ended March 31, 2010. As of March 31, 2010, these options have been fully expensed.

As a result of the above stock and option transactions, Trans Energy recorded total share-based compensation of \$94,314 and \$237,986 for the three months ended March 31, 2010 and 2009, respectively.

### NOTE 9 – SUBSEQUENT EVENTS

During the three months ended March 31, 2010, Trans Energy drilled the Whipkey 1H and 2H. On May 7, 2010, Trans Energy completed the Whipkey 2H, a horizontal joint venture well with Republic Partners in Marshall County, West Virginia to an approximate total vertical depth of 7,500 feet, with the primary target being the Marcellus Shale. Republic Partners elected to obtain a 50% paid working interest in this well as permitted by the terms of the joint venture contract. We expect the well to be connected to the sales line by May 17, 2010. Trans Energy expects to complete the Whipkey 1H during the second quarter.

### NOTE 10 – BUSINESS SEGMENTS

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

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

	For the Three Months Ended		Pipeline		
	March <u>31</u> ,	Oil and Gas <u>Sales</u>	<u>Transmission</u>	<u>Corporate</u>	<u>Total</u>
Revenue	2010	\$ 978,556	\$ 101,311	\$ 27,492	\$ 1,107,359
	2009	1,367,181	164,051	1,029	1,532,261
Income (loss) from operations	2010	(29,287)	(77,335)	(604,685)	(711,307)
	2009	665,330	(73,029)	(618,866)	(26,565)
Interest expense	2010	551,015	--	--	551,015
	2009	736,628	--	--	736,628
Depreciation, depletion, amortization and accretion	2010	547,066	2,709	--	549,775
	2009	374,369	39,275	--	413,644
Property and equipment acquisitions, including	2010	2,059,001	--	--	2,059,001
	2009	3,891,388	78,644	--	3,970,032

oil and gas properties

Total assets, net of intercompany accounts:

March 31, 2010	\$ 29,245,113	\$ 658,729	\$ --	\$ 29,903,842
December 31, 2009	\$ 30,554,379	\$ 571,990	\$ --	\$ 31,126,369

Property and equipment acquisitions include accrued amounts and reclassifications.

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

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

Our primary focus will continue to be the development of the Marcellus Shale through directional drilling. We believe that our acreage position will allow us to grow organically through 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 March 31, 2010 compared to March 31, 2009**

The following table sets forth the percentage relationship to total revenues of principal items contained in our unaudited consolidated statements of operations for the three months ended March 31, 2010 and 2009. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended March 31,	
	<u>2010</u>	<u>2009</u>
Total revenues	100%	100%
Total costs and expenses	<u>(164%)</u>	<u>(102%)</u>
Loss from operations	(64%)	(2%)
Total other expenses	<u>(45%)</u>	<u>(41%)</u>
Net loss	(109%)	(43%)





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Total revenues of \$1,107,359 for the three months ended March 31, 2010 decreased \$424,902 or 28% compared to \$1,532,261 for the three months ended March 31, 2009, primarily due to a decrease in commodity prices, even though production increased. We focused our efforts during the first quarter of 2010 on our Marcellus Shale directional drilling program in Marshall County, West Virginia. We expect production increases from the drilling program throughout 2010.

Production costs increased \$111,929 or 21% in the three months ended March 31, 2010 as compared to the same period for 2009, primarily due to an increase in production.

Depreciation, depletion, amortization and accretion expense increased \$136,131 or 33% in the three months ended March 31, 2010 as compared to the same period for 2009, primarily due to an increase in our asset depreciation base.

Selling, general and administrative expense increased \$11,780 or 2% in the three months ended March 31, 2010 as compared to the same period for 2009.

Interest expense decreased \$185,613 or 25% in the three months ended March 31, 2010 as compared to the same period for 2009, primarily due to a decrease in interest rates and the \$75,000 administrative fee paid during the three months ended March 31, 2009.

The gain on derivative contracts was \$50,691 for the three months ended March 31, 2010 compared to a gain of \$104,803 for the same period in 2009. This decrease in gain was primarily due to a smaller decrease in commodity prices in 2010.

Our net loss for the first quarter of 2010 was \$1,206,207 compared to a net loss of \$654,716 for the first quarter of 2009. This increase in net loss is primarily due to the overall decline in commodity prices and an increase in production costs and depreciation, depletion, amortization and accretion as compared to 2009.

### *Liquidity and Capital Resources*

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At March 31, 2010, we had a working capital deficit of \$27,378,878 compared to a deficit of \$25,437,795 at December 31, 2009. This decrease in working capital is primarily attributed to the decrease in cash.

During the first three months of 2010, net cash used by operating activities was \$1,459,386 compared to \$1,823,002 for the same period of 2009. This increase in cash flow from operating activities is primarily due to a favorable change in accounts payable and accrued expenses.

We expect our cash flow provided by operations for 2010 to improve because of higher projected production from the drilling program and acquisitions, in addition to steady 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 three months of 2010, net cash used by investing activities was \$1,980,338 compared to net cash used of \$870,775 in 2009. We used \$2,031,938 for the purchase of oil and gas properties and \$27,063 to purchase property and equipment for the three month period ended March 31, 2010 compared to \$449,702 for the purchase of oil and gas properties and \$135,739 to purchase property and equipment for the three month period ended March 31, 2009.

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During the first three months of 2010, net cash provided by financing activities was \$73,469 compared to \$2,149,966 in the same period of 2009. During the three months ended March 31, 2010, we borrowed \$24,412 and repaid \$26,110 in notes payable. During the three months ended March 31, 2009, we borrowed \$2,000,000.

We anticipate meeting our working capital needs with revenues from our ongoing operations, particularly from our wells in Wetzel, Marshall, Marion and Doddridge Counties, West Virginia and new transportation of gas for third parties on our 6-inch pipeline located in West Virginia. In the event revenues are not sufficient to meet our working capital needs, we will explore the possibility of additional funding from either the sale of debt or equity securities, sale of assets, or through an increase in the available credit facility 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 addition