

TRANS ENERGY INC
Form 10-Q/A
October 25, 2011
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended March 31, 2011

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.

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(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

(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

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

| Class | Outstanding as of June 13, 2011 |
|---------------------------------|---------------------------------|
| Common Stock, \$0.001 par value | 12,737,328 |

Table of Contents

Explanatory Note

This Amendment No. 1 to Form 10-Q (this Amendment) amends Trans Energy, Inc. (the Company) Quarterly Report on Form 10-Q for the quarter ended March 31, 2011 (the Original 10-Q) which was filed with the Securities and Exchange Commission (the Commission) on June 16, 2011. The Company is filing this Amendment for the sole purpose of replacing in its entirety Item 1. Financial Statement and Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 1. Financial Statements is being amended to:

Increase current liabilities and accumulated deficit by \$245,219 for expenses associated with sale of acreage;

Decrease the gain on sale line item on the Consolidated Income Statement by \$245,219 for expenses associated with acreage sale and adjust earning per share;

Update Consolidated Statement of Stockholders' Equity;

Update Consolidated Statements of Cash Flow for expenses associated with sale of acreage;

Update Notes to Consolidated Financial Statements for expenses associated with sale of acreage;

Update Item 2. for expenses associated with sale of acreage;

Certain exhibits have been updated and are being filed or furnished with this Amendment to:

Provide the required certifications by our principal executive officer and principal financial officer.

Except as described above, no other changes have been made to the Original 10-Q. The Original 10-Q continues to speak as of the date of the original filing, and the Company has not updated the disclosures contained therein to reflect any events which occurred subsequent to the filing of the Original 10-Q, or to modify the disclosure contained in the Original 10-Q other than to reflect the changes described above.

This Amendment should be read in conjunction with the Company's filings with the Commission made subsequent to the date of the original filing.

Table of Contents

Table of Contents

| Heading | Page |
|--|-------------|
| <u>PART I. FINANCIAL INFORMATION</u> | |
| Item 1. <u>Financial Statements</u> | 4 |
| <u>Consolidated Balance Sheets March 31, 2011 (Unaudited) and December 31, 2010 (Audited)</u> | 4 |
| <u>Consolidated Statements of Operations Three Months Ended March 31, 2011 and 2010 (Unaudited)</u> | 6 |
| <u>Consolidated Statement of Stockholders Equity Three Months Ended March 31, 2011 (Unaudited)</u> | 7 |
| <u>Consolidated Statements of Cash Flows Three Months Ended March 31, 2011 and 2010 (Unaudited)</u> | 8 |
| <u>Notes to Consolidated Financial Statements (Unaudited)</u> | 9 |
| Item 2. <u>Management's Discussion and Analysis of Financial Condition And Results of Operations</u> | 18 |
| Item 4. <u>Controls and Procedures</u> | 21 |
| <u>PART II OTHER INFORMATION</u> | |
| Item 1. <u>Legal Proceedings</u> | 22 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 22 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 22 |
| Item 4. <u>(Removed and Reserved)</u> | 22 |
| Item 5. <u>Other Information</u> | 22 |
| Item 6. <u>Exhibits</u> | 22 |
| <u>Signatures</u> | 23 |

Table of Contents**PART I****Item 1. Financial Statements****TRANS ENERGY, INC. AND SUBSIDIARIES****Consolidated Balance Sheets**

| | March 31, 2011 Unaudited | December 31, 2010 Audited |
|---|---|--|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash | \$ 305,955 | \$ 1,037,941 |
| Accounts receivable - trade | 15,346,107 | 1,195,259 |
| Accounts receivable - related parties | 18,500 | 18,500 |
| Advance royalties | 114,098 | 99,381 |
| Prepaid expenses | 18,750 | 825,646 |
| Accounts receivable due from non-operator, net | 1,739,098 | 82,964 |
| Note receivable | | 27,295 |
| Derivative assets | 126,981 | 187,590 |
| Total Current Assets | 17,669,489 | 3,474,576 |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$635,839 and \$612,047 respectively | 1,101,147 | 1,148,500 |
| OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING | | |
| Proved properties | 42,827,204 | 36,579,636 |
| Unproved properties | 5,942,619 | 6,156,188 |
| Pipelines | 1,387,439 | 1,387,440 |
| Accumulated depreciation, depletion and amortization | (8,405,406) | (7,909,714) |
| Oil and gas properties, net | 41,751,856 | 36,213,550 |
| OTHER ASSETS | | |
| Other assets | 50,952 | 50,952 |
| TOTAL ASSETS | \$ 60,573,444 | \$ 40,887,578 |

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

| | March 31, 2011 Unaudited | December 31, 2010 Audited |
|---|---|--|
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable trade | \$ 10,967,203 | \$ 3,850,278 |
| Accounts and notes payable, related party | 2,150 | 2,150 |
| Accrued expenses | 1,440,813 | 1,494,493 |
| Income tax payable | 720,000 | 450,000 |
| Notes payable current | 18,092,176 | 17,377,479 |
| Total Current Liabilities | 31,222,342 | 23,174,400 |
| LONG-TERM LIABILITIES | | |
| Notes payable | 14,979 | 20,818 |
| Asset retirement obligations | 232,524 | 219,478 |
| Total Long-Term Liabilities | 247,503 | 240,296 |
| Total Liabilities | 31,469,845 | 23,414,696 |
| COMMITMENTS AND CONTINGENCIES | | |
| STOCKHOLDERS EQUITY | | |
| 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; 12,737,328 shares issued, and 12,737,328 shares outstanding, respectively | | |
| | 12,737 | 12,737 |
| Additional paid-in capital | 38,353,782 | 38,256,340 |
| Treasury stock, at cost, 2,000 shares | (1,950) | (1,950) |
| Accumulated deficit | (9,260,970) | (20,794,245) |
| Total Stockholders Equity | 29,103,599 | 17,472,882 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | \$ 60,573,444 | \$ 40,887,578 |

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

| | For the Three Months Ended March 31, | |
|---|---|-----------------------|
| | 2011 | 2010 |
| REVENUES | \$ 1,630,099 | \$ 1,107,359 |
| COSTS AND EXPENSES | | |
| Production costs | 426,087 | 636,715 |
| Depreciation, depletion, amortization and accretion | 553,742 | 549,775 |
| Selling, general and administrative | 1,061,778 | 632,176 |
| Total Costs and Expenses | 2,041,607 | 1,818,666 |
| Gain (Loss) on sale of assets | 12,624,365 | (184) |
| INCOME (LOSS) FROM OPERATIONS | 12,212,857 | (711,491) |
| OTHER INCOME (EXPENSES) | | |
| Interest income | 247 | 5,608 |
| Interest expense | (407,194) | (551,015) |
| Gain (loss) on derivative contracts | (2,635) | 50,691 |
| Total Other Income (Expenses) | (409,582) | (494,716) |
| NET INCOME (LOSS) BEFORE INCOME TAXES | 11,803,275 | (1,206,207) |
| INCOME TAXES | 270,000 | |
| NET INCOME (LOSS) | \$ 11,533,275 | \$ (1,206,207) |
| NET INCOME (LOSS) PER SHARE BASIC | \$ 0.91 | \$ (0.10) |
| NET INCOME (LOSS) PER SHARE DILUTED | \$ 0.81 | \$ (0.10) |
| WEIGHTED AVERAGE SHARES OUTSTANDING BASIC | 12,737,328 | 12,084,282 |
| WEIGHTED AVERAGE SHARES OUTSTANDING DILUTED | 14,266,803 | 12,084,282 |

Table of Contents**TRANS ENERGY, INC. AND SUBSIDIARIES****Consolidated Statement of Stockholders Equity****For the Three Months Ended March 31, 2011****(Unaudited)**

| | Common Stock | | Additional Paid in Capital | Treasury Stock | Accumulated Deficit | Total |
|----------------------------------|--------------|-----------|----------------------------------|-------------------|------------------------|---------------|
| | Shares | Amount | | | | |
| Balance, December 31, 2010 | 12,737,328 | \$ 12,737 | \$ 38,256,340 | \$ (1,950) | \$ (20,794,245) | \$ 17,472,882 |
| Stock based compensation expense | | | 97,442 | | | 97,442 |
| Net Income | | | | | 11,533,275 | 11,533,275 |
| Balance, March 31, 2011 | 12,737,328 | \$ 12,737 | \$ 38,353,782 | \$ (1,950) | \$ (9,260,970) | \$ 29,103,599 |

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

| | For the Three Months Ended March 31, | |
|---|---|----------------|
| | 2011 | 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income (loss) | \$ 11,533,275 | \$ (1,206,207) |
| Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities: | | |
| Depreciation, depletion, amortization and accretion | 553,742 | 549,775 |
| Amortization of financing cost and debt discount | | 134,726 |
| Share-based compensation | 97,442 | 94,314 |
| (Gain) loss on sale of assets | (12,624,365) | 184 |
| (Gain) loss on derivative contract | 60,609 | (50,691) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable trade | (138,348) | 258,494 |
| Accounts receivable due from non-operator, net | (1,656,134) | (1,047,306) |
| Prepaid expenses and other current assets | 792,179 | |
| Accounts payable and accrued expenses | 3,997,017 | (192,675) |
| Net cash provided (used) by operating activities | 2,615,417 | (1,459,386) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Collections on note receivable | 27,295 | 77,163 |
| Proceeds from sale of assets | 15,000 | 1,500 |
| Expenditures for oil and gas properties | (3,372,117) | (2,031,938) |
| Expenditures for property and equipment | (1,439) | (27,063) |
| Net cash used by investing activities | (3,331,261) | (1,980,338) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from derivative contracts | | 75,167 |
| Proceeds from notes payable | | 24,412 |
| Payments on notes payable | (16,142) | (26,110) |
| Net cash (used) provided by financing activities | (16,142) | 73,469 |
| NET CHANGE IN CASH | (731,986) | (3,366,255) |
| CASH, BEGINNING OF PERIOD | 1,037,941 | 4,602,170 |
| CASH, END OF PERIOD | \$ 305,955 | \$ 1,235,915 |
| SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION: | | |
| Cash paid for interest | \$ 407,194 | \$ 424,654 |
| Cash paid for income taxes | | |
| Non-cash investing and financing activities: | | |
| Accrued expenditures for oil and gas properties | \$ 3,816,009 | \$ |
| Increase in asset retirement obligation | 3,788 | |
| Conversion of related party debt to common stock | | 578,858 |
| Increase in accounts receivable for sale of acreage | 14,012,500 | |
| Reclass from accrued expenses to notes payable | 725,000 | |

Increase in accrued expenses for sale of acreage

245,219

Table of Contents

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, 2010 Annual Report on Form 10-K. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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

Nature of Operations and Organization

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

Principles of Consolidation

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's financial statements are based on a number of significant 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. Reserve estimates are by their nature inherently imprecise.

Table of Contents**Cash**

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

Receivables

Accounts receivable and notes receivable are carried at their expected net realizable value. The allowance for doubtful accounts is based on management's assessment of the collectability of specific customer accounts and the aging of the accounts receivables. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than historical experience, estimates of the recoverability of the amounts due could be overstated, which could have a negative impact on operations. No allowance for doubtful accounts is deemed necessary at March 31, 2011 and December 31, 2010 by management and no bad debt expense was incurred during the three months ended March 31, 2011 and 2010.

Asset Retirement Obligations

The Company records the fair value of a liability for an asset retirement obligation 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.

The following is a description of the changes to Trans Energy's asset retirement obligations for the three months ended March 31, 2011:

| | |
|---|------------|
| Asset retirement obligations at beginning of period | \$ 219,478 |
| Liabilities incurred during the period | 3,788 |
| Accretion expense | 9,258 |
| Asset retirement obligations at end of period | \$ 232,524 |

Income Taxes

At March 31, 2011, the Company had net operating loss carry forwards (NOLS) for future years of approximately \$2,760,000. These NOLS will expire at various dates through 2030. The current tax provision of \$270,000 for the three months ended March 31, 2011 is an estimate of the alternative minimum tax that will not be offset by the NOLS. No tax benefit has been recorded in the consolidated financial statements for the remaining NOLS or AMT credit since the potential tax benefit is offset by a valuation allowance of the same amount. 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 oil and gas production and prices, and the highly competitive and,

Table of Contents

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 revenue upon the delivery of the gas to the customer's 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 \$1,454,625 and \$978,556 in oil and gas revenues for the three months ended March 31, 2011 and 2010, 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, 2011 and December 31, 2010. Costs associated with production are expensed in the period incurred.

Transportation revenue is recognized when earned and we have a contractual right to receive payment. We recognized \$159,556 and \$101,311 of transportation revenue for the three months ended March 31, 2011 and 2010, respectively.

Fair Value of Financial Instruments

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

Basis of Fair Value Measurement

- Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 Inputs reflect quoted prices for identical assets or liabilities in markets that are not active; quoted prices for similar assets or liabilities in active markets; inputs other than quoted prices that are observable for the asset or the liability; or inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 Unobservable inputs reflecting Trans Energy's own assumptions incorporated in valuation techniques used to determine fair value. These assumptions are required to be consistent with market participant assumptions that are reasonably available.

Table of Contents

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, a market approach. As of March 31, 2011 and December 31, 2010, 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:

| | Carrying Amount | As of March 31, 2011 | | | |
|--------------------------|-----------------|----------------------|---|---|---|
| | | Total Fair Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets: | | | | | |
| Derivative assets | \$ 126,981 | \$ 126,981 | \$ | \$ 126,981 | \$ |

| | Carrying Amount | As of December 31, 2010 | | | |
|---------------------------------|-----------------|-------------------------|---|---|---|
| | | Total Fair Value | Quoted Prices in Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets: | | | | | |
| Derivative assets | \$ 187,590 | \$ 187,590 | \$ | \$ 187,590 | \$ |
| New Accounting Standards | | | | | |

Trans Energy does not expect the adoption of any 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 March 31, 2011 of \$9,260,970. At March 31, 2011, Trans Energy had a stockholders' equity of \$29,103,399 and a working capital deficit of \$13,552,853, including its note payable which is due on March 31, 2012. Revenues during the three months ended March 31, 2011 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.

Table of Contents

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, 2011, the outstanding balance was \$-0-. The note was 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 OIL AND GAS PROPERTIES

Total additions for oil and gas properties during the three months ended March 31, 2011 and March 31, 2010 were \$7,188,126 and \$2,031,938, respectively. Trans Energy also incurred \$1,439 and \$27,063, respectively, for additional property, plant and equipment.

Depreciation, depletion, and amortization expenses on oil and gas properties were \$495,692 and \$499,321 for the three months ended March 31, 2011 and 2010, respectively. Depreciation, depletion and amortization expenses for non oil and gas properties were \$48,792 and \$46,176 for the three months ended March 31, 2011 and 2010, respectively.

NOTE 5 SALE OF OIL AND GAS ACREAGE

On March 31, 2011, the Company sold 2,950 net acres to Republic Energy Ventures, LLC at \$4,750 per net acre for total pre-tax gross proceeds of \$14,012,500 which is included in accounts receivable, trade. Acreage sold to Republic was distributed pro rata across the Company's acreage. Proceeds from this transaction were used to repay \$5 million to CIT in April, with the remainder being used to partially fund the drilling and completion expenses for certain wells. The Company incurred \$245,219 of expenses associated with this sale which is included in accrued expenses.

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.

Table of Contents

| Start Month | End Month | Volume MMBTU/Month | Average Floor \$/MMBTU |
|-------------|-----------|--------------------|------------------------|
| Apr. 11 | Dec. 11 | 5,244 | \$ 7.350 |

As of March 31, 2011 and December 31, 2010 the natural gas derivative had a total fair value of \$126,831 and \$152,087, respectively. Current portions consisted of \$126,831 and \$152,087, respectively.

Oil Derivatives

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

| Start Month | End Month | Volume BBL/Month | Floor \$/BBL | Ceiling \$/BBL |
|-------------|-----------|------------------|--------------|----------------|
| Apr. 11 | Dec. 11 | 449 | \$100 | \$172 |

As of March 31, 2011 and December 31, 2010 the oil derivative had a fair value of \$150 and \$35,503 respectively. Current portions consisted of \$150 and \$35,503, respectively.

For the three months ended March 31, 2011, Trans Energy had total losses on the derivative contracts of \$2,635, of which \$57,975 was a realized gain and \$60,610 was an unrealized loss. During the three months ended March 31, 2010, Trans Energy had a total gain on the derivative contracts of \$50,691, of which \$75,169 was a realized gain and \$24,478 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 is 10,000 decatherm (Dth) per month, and fixed prices vary from \$10.57/Dth to \$10.81/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. (CIT) Under the terms of the agreement, CIT would lend up to \$18,000,000 to Trans Energy in the form of a senior secured revolving credit facility with the ability in 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 year ended December 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.

Interest payment due dates are elected at the time of borrowing and range from monthly to six months. Principal payments were due at maturity on June 15, 2010 for all borrowing outstanding on that date. The interest rate on this credit facility at December 31, 2010 was 9.5%.

The Company as been working with its financial advisor and investment banker in an effort to restructure the credit agreement since its maturity date. In July 2010, the Company repaid \$15,000,000 from the sale of certain assets. Then the Company repurchased its net profit interest from CIT with the \$1,780,404 purchase price added to the outstanding balance. Amendment fees and interest totaling \$539,835 were

Table of Contents

added to the principal in 2010, resulting in a balance of \$17,320,239 due to CIT as of December 31, 2010. Between June and December 2010, the Company was charged \$725,000 in forbearance fees by CIT, to be paid in cash or five year warrants. The \$725,000 of forbearance fees are included in accrued expenses at December 31, 2010.

On March 31, 2011, the Company and CIT entered into the Sixth Amendment to the Credit Agreement. The Sixth Amendment and other related agreements extend the maturity date of the Credit Agreement to March 31, 2012. The Sixth Amendment confirms that the principal amount due under the Credit Agreement prior to the application of a portion of the proceeds from the acreage sale to Republic under the March 31, 2011 Purchase and Sale Agreement (the "PSA") was \$17,320,239, plus accrued interest of \$139,748, plus forbearance fees of \$725,000 to be added to the principal balance. Thus, the total amount owed under the Credit Agreement, as per the Sixth Amendment, was \$18,184,978. After the payment of accrued interest, the Company owed \$18,045,239 as of March 31, 2011.

As part of the Sixth Amendment, the Company also granted to CIT a 1.5% overriding royalty interest in each of the Stout #2H, Groves #1H, Keaton #1H and Lucey #1H wells, as well as a 1.5% overriding royalty interest in the next six horizontal wells drilled in the Marcellus Shale, which have commercial production for a period of at least 30 consecutive days and in which the Company, or any of its subsidiaries, has an interest. Each 1.5% overriding royalty interest is to be proportionately reduced to the extent the Company or its subsidiary owns less than the full working interest in the leases, or to the extent such oil and gas leases cover less than the full mineral interest.

As of March 31, 2011 and December 31, 2010, the Company owed \$61,916 and \$78,058, respectively, for other loans, primarily for vehicles.

The Company issued a Convertible Promissory Note to Republic dated February 21, 2011 in the amount of \$2,914,442. As of March 31, 2011, the Company netted the \$2,914,442 against joint interest billings due to the Company from Republic. As of March 31, 2011, the accounts receivable balance due from Republic was \$1,739,098 after netting the \$2,914,442.

NOTE 8 STOCKHOLDERS EQUITY

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.

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 compensation related to these shares. As of March 31, 2010, this award has been fully expensed. In addition, 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 for the three months ended March 31, 2010.

Table of Contents

In December 2010, Trans Energy granted 136,500 shares of stock to nine employees under the long-term incentive bonus program. The 136,500 shares are not performance based and vest semi-annually over three years, subject to ongoing employment. These shares were valued at \$409,500 using the fair market value of the common stock at the date of grant and will be amortized to compensation expense semi-annually over three years. During the first quarter of 2011, we recorded \$34,125 of share-based compensation expense related to these shares.

In December 2010, Trans Energy granted 368,000 common stock options to nine employees and one outside board member. The options vest semi-annually over three years and have a five year term. The stock options were granted at an exercise price of \$3.00 per common share, which was equal to the fair market value of the common stock at the date of grant and were valued at \$759,809 using the Black Scholes valuation model. The options are being amortized to share-based compensation expense semi-annually over the vesting period. During the first quarter of 2011, we recorded \$63,317 of share-based compensation expense related to these options.

NOTE 9 EARNINGS PER SHARE

Basic income (loss) per share of common stock for the periods ended March 31, 2011 and 2010 is determined by dividing net income (loss) by the weighted average number of shares of common stock during the period.

The following table reconciles the weighted average shares outstanding used for basic and diluted earnings per share for the periods ended March 31, 2011 and 2010. The stock options were anti-dilutive in 2010 and therefore had no effect on diluted earnings per share.

The Company paid no cash distributions to its stockholders during the three months ended March 31, 2011 and 2010.

| | For the Three Months Ended March 31, | |
|--|---|-------------|
| | 2011 | 2010 |
| Weighted average number of common shares outstanding | | |
| Used in the basic earnings per common share calculations | 12,737,328 | 12,084,282 |
| Dilutive effect of stock options | 1,529,475 | 0 |
| Weighted average number of common shares outstanding adjusted for effective of dilutive options and warrants | 14,266,803 | 12,084,282 |

NOTE 10 SUBSEQUENT EVENTS

On March 31, 2011 the Company entered into a Purchase and Sale Agreement (the **PSA**) with Republic Ventures, LLC (**Republic**) for the sale to Republic of certain oil and gas leases and interests located in Marion County, Marshall County, Tyler County and Wetzel County West Virginia (referred to as the **Marcellus Shale Properties**). The sale proceeds were received on April 1, 2011.

Under the terms of the PSA, the Company sold to Republic approximately 2.950 Net Mineral Acres, for \$14,012,500, or approximately \$4,750 per acre. The PSA and Sixth Amendment required that \$5,000,000 of the sale proceeds be paid directly to CIT as partial satisfaction of the debt owed under the Credit Agreement. Republic paid the remaining monies to the Company, which the Company used to pay down trade payables and for future drilling costs. The Company also had the option to apply a portion of the sale proceeds to offset the Company's obligation to reimburse Republic for bonus payments advanced by Republic to lessors under certain oil, gas and mineral leases, but the Company elected not to exercise this option.

Table of Contents

On April 4, 2011, the Company turned the Keaton #1H into a sales line. The Company completed the Groves #1H horizontal Marcellus well on April 7, 2011. The Groves #1 H was drilled with the longest lateral to date with a horizontal length of over 5,500 feet and was completed with a 15 stage fracture stimulation. The well averaged 5,674 mcfe per day during the first 30 days of production.

On May 23, 2011, James K. Abcouwer submitted his resignation as a director on the company's board of directors. Mr. Abcouwer's resignation was for personal reasons and was effective immediately. We are presently reviewing possible candidates to fill the director vacancy.

NOTE 11 BUSINESS SEGMENTS

Trans Energy's principal operations consist of oil and gas sales by Trans Energy and Prima Oil Company, and pipeline transmission by 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 March 31, | Oil and Gas Sales | Pipeline Transmission | Corporate | Total |
|---|---|------------------------------|----------------------------------|------------------|--------------|
| Revenue | 2011 | \$ 1,454,625 | \$ 159,556 | \$ 15,918 | \$ 1,630,099 |
| | 2010 | 978,556 | 101,311 | 27,492 | 1,107,359 |
| Income (loss) from operations | 2011 | 13,101,678 | 157,040 | (1,045,861) | 12,212,857 |
| | 2010 | (29,471) | (77,335) | (604,685) | (711,491) |
| Interest expense | 2011 | 407,194 | | | 407,194 |
| | 2010 | 551,015 | | | 551,015 |
| Depreciation, depletion, amortization and accretion | 2011 | 551,226 | 2,516 | | 553,742 |
| | 2010 | 547,066 | 2,709 | | 549,775 |
| Property and equipment acquisitions, including oil and gas properties | 2011 | 7,189,565 | | | 7,189,565 |
| | 2010 | 2,059,001 | | | 2,059,001 |

Total assets, net of intercompany accounts:

| | | | | |
|-------------------|---------------|------------|----|---------------|
| March 31, 2011 | \$ 60,279,373 | \$ 294,071 | \$ | \$ 60,573,444 |
| December 31, 2010 | \$ 40,530,099 | \$ 357,479 | \$ | \$ 40,887,578 |

Property and equipment acquisitions include accrued amounts and reclassifications.

Table of Contents**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 2010 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. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control.

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, 2011 compared to March 31, 2010**

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, 2011 and 2010. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

| | Three Months Ended March 31, | |
|-------------------------------|---------------------------------|--------|
| | 2011 | 2010 |
| Total revenues | 100% | 100% |
| Total costs and expenses | (125%) | (164%) |
| Gain (loss) on sale of assets | 774% | 0% |
| Income (loss) from operations | 749% | (64%) |
| Other expenses | (25%) | (45%) |
| Income taxes | (16%) | 0% |
| Net income (loss) | 708% | (109%) |

Table of Contents

Total revenues of \$1,630,099 for the three months ended March 31, 2011 increased \$522,740 or 47% compared to \$1,107,359 for the three months ended March 31, 2010, primarily due to an increase in natural gas production from new wells drilled. We continued to focus our efforts during the first quarter of 2011 on our Marcellus Shale directional drilling program in Marshall County, West Virginia. We expect continued production increases from the drilling program starting in the second quarter.

Production costs decreased \$210,628, or 33%, in the three months ended March 31, 2011 as compared to the same period for 2010, primarily due to a decrease of delayed lease rental payments of \$129,700 to return to normal level, saltwater hauling expense refund of \$32,300, pipeline expenses of \$17,400 and \$46,400 less wages being allocated to production cost.

Selling, general and administrative expense increased \$429,602 or 68% in the three months ended March 31, 2011 as compared to the same period for 2010. The increase was primarily due to increased legal and consulting costs associated with the debt restructuring and stock based compensation expense.

Gain on sale of assets increased \$12,624,549 for 2011 as compared to 2010 as a result of the sale of certain oil and gas assets.

Interest expense decreased \$143,821 or 26% in the three months ended March 31, 2011 as compared to the same period for 2010, primarily due to a decrease in Notes Payable.

Our loss on derivative contracts was (\$2,635) for 2011 compared to a gain of \$50,691 for 2010. This loss was primarily due to an increase in commodities prices throughout 2011.

We have accumulated approximately \$2 million of net operating loss carryforwards as of March 31, 2011, which may be offset against future tax obligations through 2030. The use of these losses to reduce future income taxes will depend on the generation of sufficient taxable income prior to the expiration of the net operating loss carryforwards. In the event of certain changes in control, there would be an annual limitation on the amount of net operating loss carryforwards which can be used. We recorded \$270,000 in income tax expense related to the sale of assets for alternative minimum taxes. No tax benefit has been reported in the financial statements for the three months ended March 31, 2011 because the potential tax benefit of the loss carryforward is offset by the valuation allowance of the same amount.

Our net income for the first quarter of 2011 was \$11,573,275 compared to a net loss of \$1,206,207 for the first quarter of 2010. This change from a net loss to a net profit is primarily due to the sale of certain acreage assets and also an increase in revenues.

Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At March 31, 2011, we had a working capital deficit of \$13,552,853 compared to a working capital deficit of \$19,699,824 at December 31, 2010. This decrease in working capital deficit is primarily attributed to an increase in net income attributed to a sale of acreage in the first quarter of 2011.

During the first three months of 2011, net cash provided by operating activities was \$2,615,417 compared to cash used by operating activities of \$1,459,386 for the same period of 2010. This increase in cash flow from operating activities is primarily due to increased income from operations and changes in operating assets and liabilities.

We expect our cash flow provided by operations for 2011 to increase because of higher projected production from our recent drilling program, in addition to steady operating, general and administrative, interest and financing costs.

Table of Contents

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 2011, net cash used by investing activities was \$3,331,261 compared to net cash used of \$1,980,338 in 2010. We used \$3,372,117 for the purchase of oil and gas properties and \$1,439 to purchase property and equipment for the three month period ended March 31, 2011 compared to \$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.

During the first three months of 2011, net cash used by financing activities was \$16,142 compared to cash provided by financing activities of \$73,469 for the same period of 2010. During the three months ended March 31, 2011, the Company repaid \$16,142 of notes payable.

We anticipate meeting our working capital needs with revenues from our ongoing operations, particularly from our recent drilling program Marshall County, 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 a sale of assets. 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 historical 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, 2010.

Inflation

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

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

Table of Contents

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 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 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 that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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

Table of Contents

PART II

Item 1. Legal Proceedings

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

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

Not Applicable

Item 3. Defaults Upon Senior Securities

None.

Item 4. (Removed and Reserved)

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit 31.1 Certification of 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.

Table of Contents

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: October 25, 2011

By /S/ John G. Corp
John G. Corp
Chief Executive Officer and Director

Date: October 25, 2011

By /S/ John S. Tumis
John S. Tumis
Chief Financial Officer