

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TRANS ENERGY INC
Form 10QSB
November 20, 2006

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

FORM 10-QSB

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

For the Quarter Ended September 30, 2006

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 small business issuer as specified in its charter)

Nevada

93-0997412

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

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

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Class	Outstanding as of September 30, 2006
-----	-----
Common Stock, \$.001 par value	9,433,565

Edgar Filing: TRANS ENERGY INC - Form 10QSB

TABLE OF CONTENTS

Heading

PART I. FINANCIAL INFORMATION

Item 1.	Financial Statements.....
	Consolidated Balance Sheets - September 30, 2006 (Unaudited) and December 31, 2005.....
	Consolidated Statements of Operations - three months and nine months ended September 30, 2006 and 2005 (Unaudited).....
	Consolidated Statements of Stockholders' Equity (Deficit).....
	Consolidated Statements of Cash Flows - nine months ended September 30, 2006 and 2005 (Unaudited).....
	Notes to Unaudited Condensed Consolidated Financial Statements
Item 2.	Management's Discussion and Analysis or Plan of Operations.....
Item 3.	Controls and Procedures.....

PART II. OTHER INFORMATION

Item 1.	Legal Proceedings.....
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds.....
Item 3.	Defaults Upon Senior Securities.....
Item 4.	Submission of Matters to a Vote of Securities Holders.....
Item 5.	Other Information.....
Item 6.	Exhibits and Reports on Form 8-K.....
	Signatures.....

-2-

PART I

Item 1.	Financial Statements
---------	----------------------

The accompanying consolidated balance sheets of Trans Energy, Inc. at September 30, 2006 (unaudited) and December 31, 2005, related unaudited consolidated statements of operations, stockholders' equity (deficit) and consolidated statements of cash flows for the nine months ended September 30, 2006 and 2005, have been prepared by our management in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the consolidated results of operations and consolidated

Edgar Filing: TRANS ENERGY INC - Form 10QSB

financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the nine months ended September 30, 2006, are not necessarily indicative of the results that can be expected for the fiscal year ending December 31, 2006.

-3-

TRANS ENERGY, INC. Consolidated Balance Sheets

ASSETS

	September 30, 2006	December 31, 2005
	-----	-----
		(Unaudited)
CURRENT ASSETS		
Cash	\$ 386,346	\$ 439,258
Accounts receivable, net of allowance for doubtful accounts of \$15,621	377,264	396,696
Accounts receivable - related parties	418,000	1,000,000
Prepaid expenses	6,794	9,617
	-----	-----
Total Current Assets	1,188,404	1,845,571
	-----	-----
Oil and gas properties, using successful efforts accounting and property and equipment, net of accumulated depletion and depreciation of \$1,576,765 and \$ 4,101,429	5,636,913	2,160,256
	-----	-----
OTHER ASSETS		
Assets of discontinued operations	--	6,672,688
Loan fees, net of accumulated amortization of \$106,	7,433	--
Deposits	2,873	4,914
Investments	627,628	175,000
Life insurance, cash surrender value	75,995	75,995
	-----	-----
Total Other Assets	713,929	6,928,597
	-----	-----
TOTAL ASSETS	\$ 7,539,246	\$10,934,424
	=====	=====

Edgar Filing: TRANS ENERGY INC - Form 10QSB

The accompanying notes are an integral part
of these condensed consolidated financial statements.

-4-

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

LIABILITIES AND STOCKHOLDERS' EQUITY

	September 30, 2006 ----- (Unaudited)	December 31, 2005 -----
CURRENT LIABILITIES		
Accounts payable - trade	\$ 1,132,030	\$ 2,355,429
Accounts payable - related parties	211,404	--
Accrued expenses	546,758	860,368
Judgments payable	116,102	77,767
Debentures payable	50,000	50,000
Short term debt - related parties	552,431	855,502
Notes payable - current portion	712,377	659,205
	-----	-----
Total Current Liabilities	3,321,101	4,858,271
	-----	-----
LONG-TERM LIABILITIES		
Notes payable	1,835,616	6,872
Liabilities of discontinued operations	--	4,772,812
Asset retirement obligation	1,677,888	799,393
	-----	-----
Total Long-Term Liabilities	3,513,504	5,579,077
	-----	-----
Total Liabilities	6,834,606	10,437,348
	-----	-----
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; 9,433,565 and 4,952,148 shares issued and		
9,433,565 and 4,707,515 shares outstanding, respectively	9,433	4,952
Capital in excess of par value	33,365,976	30,856,798
Treasury stock	--	(286,467)

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Accumulated deficit	(32,670,769)	(30,078,207)
Total Stockholders' Equity	704,640	497,076
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 7,539,246	\$ 10,934,424

The accompanying notes are an integral part of these condensed consolidated financial statements.

-5-

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

	For the Three Months Ended September 30,		For Nine Month Septemb
	2006	2005	2006
REVENUES	\$ 921,062	\$ 1,100,355	\$ 3,445,587
COSTS AND EXPENSES			
Cost of oil and gas	660,170	918,826	2,780,681
Depreciation, depletion and amortization	50,426	99,839	244,444
Selling, general and administrative	1,885,604	276,952	2,476,947
Total Costs and Expenses	2,596,200	1,295,617	5,502,072
LOSS FROM OPERATIONS	(1,675,138)	(195,262)	(2,056,485)
OTHER INCOME (EXPENSE)			
Gain on extinguishment of debt	11,864	5,000	17,072
Net gain (loss) on sale of assets	14,900	(38,725)	719,016
Other income (expense)	(21,027)	1,264	63,949
Interest expense	(73,409)	(31,884)	(145,599)
Total Other Income (Expense)	(67,672)	(64,345)	654,438
NET LOSS BEFORE			
DISCONTINUED OPERATIONS	(1,742,810)	(259,607)	(1,402,047)
GAIN (LOSS) FROM DISCONTINUED			

Edgar Filing: TRANS ENERGY INC - Form 10QSB

OPERATIONS	--	(175,295)	183,775
GAIN (LOSS) ON DISPOSAL OF DISCONTINUED OPERATIONS	--	--	(1,374,290)
	-----	-----	-----
NET LOSS	\$ (1,742,810)	\$ (434,902)	\$ (2,592,562)
	=====	=====	=====
BASIC AND DILUTED NET LOSS PER SHARE			
Continuing Operations	(0.25)	(0.07)	(0.26)
Discontinued Operations	0.00	(0.04)	(0.22)
	-----	-----	-----
	\$ (0.25)	\$ (0.11)	\$ (0.48)
	=====	=====	=====
BASIC AND DILUTED WEIGHTED AVERAGE SHARES OUTSTANDING	6,938,208	4,815,098	5,405,293
	=====	=====	=====

The accompanying notes are an integral part
of these condensed consolidated financial statements.

-6-

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity (Deficit)
Nine months ended September 30, 2006
(unaudited)

	Preferred Stock		Common Stock	
	Shares	Amount	Treasury Shares	Amount
	-----	-----	-----	-----
Balance, December 31, 2005	--	\$ --	4,952,148	\$ 4,952
Shares received for discontinued operations on March 31, 2006 (unaudited)	--	--	--	--
Shares issued for services (unaudited)	--	--	2,790,000	2,790
Shares issued for debt	--	--	1,119,961	1,120

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Shares issued for cash	--	--	337,500	337
Shares issued for properties	--	--	1,000,000	1,000
Value of options granted	--	--	--	--
Treasury stock cancelled	--	--	(766,044)	(766)
Net loss for the nine months ended September 30, 2006 (unaudited)	--	--	--	--
	-----	-----	-----	-----
Balance, June 30, 2006 (unaudited)	--	\$ --	9,433,565	\$ 9,433
	=====	=====	=====	=====

(continued)

The accompanying notes are an integral part
of these condensed consolidated financial statements.

-7-

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity (Deficit)
Nine months ended September 30, 2006
(unaudited)

	Capital In Excess of Accumulated Par Value	Treasury Stock	Accumulated Deficit	Total
	-----	-----	-----	-----
Balance, December 31, 2005	\$ 30,856,798	\$ (286,467)	\$(30,078,207)	\$ 497,076
Shares received for discontinued operations on March 31, 2006 (unaudited)	--	(469,270)	--	(469,270)
Shares issued for services (unaudited)	1,669,210	--	--	1,672,000
Shares issued for debt	608,015	--	--	609,135
Shares issued for cash	269,663	--	--	270,000
Shares issued for properties	679,000	--	--	680,000
Value of options granted	38,261	--	--	38,261
Treasury stock cancelled	(754,971)	756,737	--	--
Net loss for the nine months ended				

Edgar Filing: TRANS ENERGY INC - Form 10QSB

September 30, 2006 (unaudited)	--	--	(2,592,562)	(2,592,562)
	-----	-----	-----	-----
Balance, June 30, 2006 (unaudited)	\$ 33,365,976	\$ --	\$ (32,670,769)	\$ 704,640
	=====	=====	=====	=====

The accompanying notes are an integral part of these condensed consolidated financial statements.

-8-

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

For the Nine Months Ended
September 30,
2006 2005

CASH FLOWS FROM OPERATING ACTIVITIES:

Net loss	\$ (2,592,562)	\$ (1,027,247)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, depletion, amortization and accretion	244,444	1,164,307
Net (gain) loss from sale of assets	(719,016)	160,275
(Gain) loss on extinguishment of debt	--	--
Discontinued operations	1,374,290	--
Contributed services	--	175,000
Gain on settlement of debt	(17,072)	--
Shares issued for services	1,672,000	--
Value of options and beneficial conversion feature	38,261	--

Changes in operating assets and liabilities:

Accounts receivable	601,432	(564,511)
Prepaid expenses	2,823	(57,243)
Other assets	(5,392)	(1,400)
Accounts payable	(1,188,835)	384,160
Accrued expenses	(149,987)	53,123
	-----	-----
Net cash provided by (used in) operating activities	(739,614)	286,464
	-----	-----

CASH FLOWS FROM INVESTING ACTIVITIES:

Investment in joint venture	(245,019)	(236,791)
Proceeds from sale of assets	1,003,000	76,575
Cash acquired from subsidiary	--	408,333
Expenditures for property and equipment	(2,446,590)	(556,155)

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Net cash used in investing activities	(1,688,609)	(308,038)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Common stock issued for cash	270,000	--
Proceeds from notes payable	1,929,671	--
Payments on related party payables	(18,997)	(67,765)
Proceeds from related party notes	450,000	637,088
Principal payments on notes payable	(255,362)	(388,401)
Net cash provided by financing activities	2,375,312	180,922
NET CHANGE IN CASH	(52,911)	159,348
CASH, BEGINNING OF PERIOD	439,258	79,662
CASH, END OF PERIOD	\$ 386,346	\$ 239,010

The accompanying notes are an integral part of these condensed consolidated financial statements.

-9-

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

	For the Nine Months Ended September 30,	
	2006	2005
	-----	-----
CASH PAID FOR:		
Interest	\$ 102,224	\$ --
Income taxes	\$ --	\$ --
NON-CASH FINANCING ACTIVITIES:		
Common stock issued for debt relief	\$ 609,135	\$ 305,000
Common stock issued for the net assets over liabilities in the purchase		

Edgar Filing: TRANS ENERGY INC - Form 10QSB

of Arvilla Inc. and subsidiary	\$	--	\$2,370,048
Contributed services	\$	--	\$ 175,000
Investments purchased by the assumption of debt	\$	207,608	\$ --
Property acquired for common stock	\$	680,000	\$ --
Treasury stock cancelled	\$	755,737	\$ --

The accompanying notes are an integral part of these condensed consolidated financial statements.

-10-

TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Unaudited Condensed Consolidated Financial Statements September 30, 2006 and December 31, 2005

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by Trans Energy, Inc. pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim condensed 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 condensed consolidated financial statements be read in conjunction with Trans Energy's most recent audited financial statements and notes thereto included in its December 31, 2005 Annual Report on Form 10-KSB. Operating results for the nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

NOTE 2 - GOING CONCERN

Trans Energy's condensed consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Trans Energy has incurred cumulative operating losses through September 30, 2006 of \$32,670,769, and has a working capital deficit at September 30, 2006 of \$2,132,697. Revenues have not been sufficient to cover its operating costs and 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 and business acquisitions 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. Trans Energy's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Edgar Filing: TRANS ENERGY INC - Form 10QSB

NOTE 3 - CONTINGENCIES AND COMMITMENTS

On July 28, 1999 Core Laboratories, Inc. obtained a judgment against us for non-payment of an account payable. The judgment calls for monthly payments of \$351 and is bearing interest at 10.00% per annum. At September 30, 2006 we had accrued a balance including interest of \$21,204 as a current liability. We are currently in default on this judgment.

On July 1, 1998, RR Donnelly obtained a judgment against us for non-payment of accounts payable. The judgment calls for monthly payments of \$3,244 and is bearing interest at 10.00% per annum. At September 30, 2006, we had accrued a balance including interest of \$94,898 as a current liability. We are currently in default on this judgment.

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

-11-

TRANS ENERGY, INC. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2006 and December 31, 2005

NOTE 4 - SIGNIFICANT EVENTS

Sale of Arvilla

Effective March 31, 2006, Trans Energy finalized the agreement to sell its well servicing and maintenance business in exchange for shares of Trans Energy common stock, certain natural gas properties and other considerations, which agreement was initially entered into on January 3, 2006. Under the terms of the definitive agreement, 100% of Trans Energy's wholly owned subsidiary, Arvilla, Inc. was sold to several of its directors.

Trans Energy originally acquired Arvilla, Inc. from those directors on January 31, 2005 through a merger of our subsidiary. As consideration, Trans Energy issued 1,185,024 shares of its common stock.

As a result of consummating the definitive agreement, the directors returned to Trans Energy 521,411 shares of Trans Energy's common stock and all of their interest in and to five oil and gas wells located in Tyler County, West Virginia.

Sale of Wyoming Wells and Properties

In April 2006, Trans Energy finalized a definitive Agreement for Sale of Oil and Gas Properties related to the sale of certain wells, overriding royalties and undeveloped acreage located in Campbell County, Wyoming. The gross sales price for the properties is \$1,003,000.

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Purchase of West Virginia Wells

In August 2006, Trans Energy purchased various oil and gas wells and interests in West Virginia for 1,000,000 shares of its common stock and cash of \$600,000.

Employee Stock Bonuses

In April and August 2006, Trans Energy issued 2,790,000 shares of its common stock to its officers and directors as bonuses for entering into employment agreements.

Debt Settled for Common Stock

In August 2006, Trans Energy issued 1,052,693 shares of its common stock as settlement for debts owed to its officers, directors and attorney.

-12-

TRANS ENERGY, INC. AND SUBSIDIARIES

Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2006 and December 31, 2005

NOTE 5 -RELATED PARTIES

Marketing Agreement - Sancho

Natural gas delivered through Trans Energy's pipeline network is sold either to Sancho Oil and Gas Corporation ("Sancho"); a company controlled by the Vice President of Trans Energy, to Dominion Gas, a local utility, on an on-going basis at a variable price per month per Mcf.

Under its contract with Sancho, Trans Energy has the right to sell natural gas subject to the terms and conditions of a 20-year contract, as amended, that Sancho entered into with Dominion Gas in 1988. This agreement is a flexible volume supply agreement whereby Trans Energy receives the full price which Sancho charges the end user less a \$0.05 per Mcf marketing fee paid to Sancho.

Certain officers and directors of Trans Energy have personally guaranteed specific notes payable.

NOTE 6 - EQUITY

On January 1, 2006, Trans Energy adopted SFAS No. 123(R), "Share-Based Payment" ("SFAS 123(R)"). This replaced SFAS No. 123 and supersedes APB Opinion No. 25. SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The pro forma disclosures previously permitted under SFAS 123 are no longer an alternative to financial statement recognition. Trans Energy adopted SFAS 123(R) using the

Edgar Filing: TRANS ENERGY INC - Form 10QSB

modified prospective method which requires the application of the accounting standard as of January 1, 2006. The consolidated financial statements as of and for the quarter ended September 30, 2006 reflect the impact of adopting SFAS 123(R). In accordance with the modified prospective method, the consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123(R).

-13-

TRANS ENERGY, INC. AND SUBSIDIARIES Notes to the Unaudited Condensed Consolidated Financial Statements September 30, 2006 and December 31, 2005

Prior to 2006, compensation was recorded for stock-based compensation grants based on the excess of the estimated fair value of the common stock on the measurement date over the exercise price. Had compensation cost for our stock option plans been determined based on the fair value at the grant date for awards in fiscal year 2006 and 2005 consistent with the provisions of SFAS No. 123, our approximate net loss and loss per share would have been the pro forma amounts indicated below:

	For the Nine Months Ended September 30,	
	2006	2005
Net loss:		
As reported	\$ (2,592,563)	\$ (1,027,247)
Add back:		
Stock-based employee compensation expense determined under intrinsic value based method for all awards, net of related tax effects	--	--
Deduct:		
Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	--	(837,416)
Pro forma	\$ (2,592,563)	\$ (1,864,663)
Basic loss per share:		
As reported	\$ (0.48)	\$ (0.22)
Pro forma	\$ (0.48)	\$ (0.40)

Stock Warrants - A summary of the status of the options and warrants granted under various agreements at September 30, 2006 and 2005, and changes during the years then ended is presented below:

Edgar Filing: TRANS ENERGY INC - Form 10QSB

	September 30, 2006		September 30, 2005	
	Weighted Average Shares	Exercise Price	Weighted Average Shares	Exercise Price
Outstanding at beginning of period	553,324	\$ 1.95	--	\$ --
Granted	950,000	0.65	553,324	1.95
Exercised	--	--	--	--
Forfeited	--	--	--	--
Expired	--	--	--	--
Outstanding at end of Period	1,503,324	\$ 1.13	553,324	\$ 1.95
Weighted average fair value of options and warrants granted during the year	950,000	\$ 0.65	553,324	\$ 1.95

-14-

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2006 and December 31, 2005

A summary of the status of the options and warrants granted under the various agreements at September 30, 2006, are presented in the table below:

Range of Exercise Prices	Options and Warrants Outstanding			Options and Warrants Exercisable
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	
\$0.65	950,000	3.00 years	\$ 0.65	300,000
\$1.95	553,324	8.25 years	\$ 1.95	553,324
	1,503,324			853,324

-15-

Item 2. Management's Discussion and Analysis or Plan of Operations

Recent Developments

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Sale of Arvilla

On April 7, 2006, we finalized the agreement to sell our well servicing and maintenance business in exchange for shares of Trans Energy common stock, certain natural gas properties and other considerations, which agreement was initially entered into on January 3, 2006. Part of the reason for the sale was the inability of our board of directors to agree on the direction of Trans Energy with Arvilla as a significant subsidiary. Under the terms of the definitive agreement, our wholly owned subsidiary, Arvilla, Inc. was sold to Clarence E. Smith and Rebecca L. Smith, both directors of Trans Energy, including 100% of the outstanding membership interests of Arvilla Oilfield Services, LLC, a West Virginia limited liability company ("AOS").

AOS provides well servicing, workover and related transportation services to independent oil and natural gas producers in the northeast region of the United States. It also performs ongoing maintenance and major overhauls necessary to optimize the level of production from existing oil and natural gas wells and provides certain ancillary services during the drilling and completion of new wells. AOS offers its services in Ohio, Pennsylvania, New York, Virginia, Kentucky and West Virginia and also owns a fleet of well service equipment.

We originally acquired AOS from Clarence and Rebecca Smith on January 31, 2005 through a merger of our subsidiary, Trans Energy Acquisitions, with and into Arvilla, Inc., with Arvilla being the surviving entity. As consideration, we issued 1,185,024 shares of our common stock, of which 1,042,821 shares were issued to the Smiths, both of whom became directors of Trans Energy following the acquisition. AOS's operations were previously conducted as Arrow Oilfield Service Company, a division of Belden & Blake Corporation, a privately held company engaged in the exploration, development and production of oil and natural gas. In September 2004, the Smiths acquired Arrow Oilfield Services from Belden & Blake and created Arvilla Oilfield Services, LLC as the operating entity. Subsequently, the Smiths created Arvilla, Inc. that acquired all the membership interests of Arvilla Oilfield Services in order to facilitate its acquisition by Trans Energy.

As a result of consummating the definitive agreement, Clarence and Rebecca Smith returned to us 521,411 shares of their Trans Energy common stock. The Smiths have also conveyed to Trans Energy all of their interest in and to five oil and gas wells located in Tyler County, West Virginia. Assignments for the wells originally was to be held in escrow pending satisfaction by Trans Energy of two promissory notes in the aggregate amount of \$763,000 payable to AOS and to Arvilla Pipeline Construction Co., Inc., a separate entity owned by Clarence and Rebecca Smith. However, pursuant to the First Amendment to Definitive Agreement, the parties agreed that the wells would be transferred at the closing and we agreed to pay AOS \$176,239 on or before April 30, 2006, and pay Arvilla Pipeline \$115,000 on or before April 30, 2006. To secure these payments by Trans Energy, Clarence and Rebecca Smith held a lien on a certain Lyon Leasehold Deed of Trust until the debt is satisfied. These notes have been paid and the lien released. A further condition of the closing included the written consent for the sale of AOS from certain banks and lenders having the right to call a loan on the ownership transfer of AOS.

Upon execution of the definitive agreement, Clarence Smith resigned as our Chief Executive Officer, but remained on our board of directors until the closing. At the closing, both Clarence and Rebecca Smith resigned as directors of Trans Energy and Arvilla, Inc. Clarence and Rebecca Smith have also agreed not to sell an amount of their remaining Trans Energy common stock during each calendar quarter on or after March 22, 2006, in an aggregate amount greater than (i) 50,000 shares (adjusted for stock splits or stock dividends; or (ii) one percent of the total outstanding shares of Trans Energy common stock on the date of any such sale.

Finally, the closing of the transaction was expressly conditioned on the receipt of a fairness opinion from a qualified independent party stating that the transactions contemplated by the definitive agreement are fair to Trans Energy and our stockholders. That opinion was issued and delivered to Trans Energy on March 31, 2006.

Sale of Wyoming Wells and Properties

In April 2006, we finalized a definitive Agreement for Sale of Oil and Gas Properties related to the sale of certain wells, overriding royalties and undeveloped acreage located in Campbell County, Wyoming. The assets have been sold at public auction through the Oil & Gas Asset Clearinghouse in Houston, Texas. The gross sales price for the properties is \$1,003,000.

The wells sold by us, all located in Campbell County, Wyoming, include the Pinion Fee #1, Sagebrush Federal #1, Sagebrush Federal #2, Sagebrush Federal #3 (injector), Boley #31-36 Sandbar, State #1-36 Sandbar and State #2-36 Sandbar. Also included in the sales were overriding royalties on two wells (Sagebrush Federal #1 and Sagebrush Federal #2) and Tract TR4-B, and 2,530 undeveloped acres, also located in Campbell County.

Purchase of West Virginia Wells

On August 14, 2006, we finalized an acquisition of certain assets of Cobham Gas Industries, Inc. These assets included certain interest in 120 oil and gas wells, both producing and non-producing, located in Marion County, West Virginia, together with all of the equipment and other tangible personal property physically attached to the wells, including all pipelines, rights of way, easements, well head equipment, and approximately 2,500 acres of leasehold estates; certain vehicles and other equipment; and a \$50,000 reclamation bond pursuant to which all of the Marion County wells are permitted.

Results of Operations

The following table sets forth the percentage relationship to total revenues of principal items contained in our consolidated statements of operations for the nine and three month periods ended September 30, 2006 and 2005. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Nine Months Ended	
	September 30,	
	2006	2005
	(Unaudited)	
Total revenues	100%	100%
Total costs and expenses	160	124
Loss from operations	(60)	(24)
Other income (expense)	19	(4)
Discontinued operations	(35)	(10)
Net loss	(75)	(38)

	Three Months Ended	
	September 30,	
	2006	2005
	(Unaudited)	

Edgar Filing: TRANS ENERGY INC - Form 10QSB

Total revenues	100%	100%
Total costs and expenses	282	118
Loss from operations	(182)	(18)
Other income (expense)	(7)	(6)
Discontinued operations	--	(16)
Net loss	(189)	(40)

-17-

Total revenues from continuing operations for the three months ("third quarter") ended September 30, 2006 decreased 19% compared to the third quarter of 2005, primarily due to the sale of the Cobham properties in the fall of 2005 and the sale of the Wyoming properties in the spring of 2006 offset by an increase in energy prices and the gas distribution contracts the Company entered into in the summer of 2005. Our cost of oil and gas for the third quarter of 2006 also decreased by \$260,256 or 28% from the comparable 2005 period, because more of the gas used to fulfill our distribution contracts came from our own wells.

Depreciation, depletion and amortization and accretion expense increased 136% due to the increased production from the Company's own wells. Selling, general and administrative expenses increased \$1,608,652 in the third quarter of 2006 from the same quarter of 2005 due to a signing bonus given to the Company's officers and directors in shares of the Company's common stock valued at \$1,554,000.

Our loss from operations for the third quarter of 2006 was \$1,675,138 compared to a loss of \$195,262 for the third quarter of 2005. The increase is related to the value of the shares issued as signing bonuses to its officers and directors. We realized total other expenses of \$67,672 during the third quarter of 2006 compared to total other expenses of \$64,345 for the same quarter of 2005. The third quarter of 2006 interest expense was \$73,409 compared to interest expense of \$31,884 in 2005. The increase was the result of the operating funds borrowed by the Company in 2006.

We recorded the disposition of Arvilla in the second quarter of 2006. Our statement of operations for the third quarter of 2005 was restated to reflect the operations of Arvilla as discontinued.

Our net loss for the third quarter of 2006 was \$1,742,810 compared to a loss of \$434,902 for the third quarter of 2005.

For the remainder of fiscal year 2006, management expects selling, general and administrative expenses to remain at approximately the same rate as the first quarter of 2006. The cost of oil and gas produced is expected to fluctuate with the amount produced and with prices of oil and gas, and management anticipates that revenues are likely to increase during the remainder of 2006. We do not expect to recognize a gain from the sale of properties during the remainder of 2006.

Total revenues from continuing operations for the nine months ended September 30, 2006 increased 27% compared to the first nine months of 2005, primarily due to the gas distribution contracts the Company entered into in the summer of 2005. Our cost of oil and gas for the first nine months of 2006 also

Edgar Filing: TRANS ENERGY INC - Form 10QSB

increased by \$458,513 or 20% from the comparable 2005 period, because more of the gas used to fulfill our distribution contracts came from our own wells.

Depreciation, depletion and amortization and accretion expense increased 36% due to increased production from Company owned wells. Selling, general and administrative expenses increased \$1,736,151 in the first nine months of 2006 from the same period of 2005 due to signing bonus given to the Company's officers and directors in shares of the Company's common stock valued at \$1,672,000.

Our loss from operations for the first nine months of 2006 was \$2,056,485 compared to a loss of \$664,446 for the first nine months of 2005. The increase is the result of the shares issued as signing bonuses. We realized total other income of \$654,438 during the first nine months of 2006 compared to total other expenses of \$117,595 for the same period of 2005. The first nine months of 2006 results were due to a gain on the sale of the Wyoming properties of \$719,016 offset by interest expense of \$145,599 compared to interest expense of \$85,156 in 2005. The increase in interest expense is due to the additional debt incurred in 2006.

We recorded a loss of \$1,374,290 on the disposition of Arvilla in the first nine months of 2006. Our statement of operations for the first nine months of 2005 was restated to reflect the operations of Arvilla as discontinued.

-18-

Our net loss for the first nine months of 2006 was \$2,592,562 compared to a loss of \$1,027,247 for the same period of 2005.

For the remainder of fiscal year 2006, management expects selling, general and administrative expenses to remain at approximately the same rate as the first quarter of 2006. The cost of oil and gas produced is expected to fluctuate with the amount produced and with prices of oil and gas, and management anticipates that revenues are likely to increase during the remainder of 2006. We do not expect to recognize a gain from the sale of properties during the remainder of 2006.

Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At September 30, 2006, we had a working capital deficit of \$2,132,697 compared to a deficit of \$3,012,700 at December 31, 2005. This 29% decrease in working capital deficit is primarily attributed to the sale of the Wyoming properties and the conversion of \$609,135 of debt to equity in 2006.

During the first nine months of 2006, operating activities used net cash of \$739,614 compared to net cash provided of \$286,464 for the same period of 2005. These results are primarily attributed to the reduction in accounts receivable offset by a decrease in current liabilities.

Net cash used by investing activities for the first nine months of 2006 was \$1,688,609. \$2,446,590 of cash was used for the purchase of well equipment and the drilling of wells and cash of \$1,003,000 was received from the sale of wells, compared to net cash used of \$308,038 in 2005. In 2005 cash of \$556,155 was used in the purchase of well equipment and the drilling of wells and cash of \$408,333 was received from the acquisition of a subsidiary.

Edgar Filing: TRANS ENERGY INC - Form 10QSB

During the first nine months of 2006, we were provided net cash in financing activities of \$2,379,671 from the borrowings of notes payable compared to net cash provided by related party notes payable of \$637,088 in the same period of 2005. Our cash was used to repay related and unrelated notes payable.

We anticipate meeting our working capital needs during the remainder of the current fiscal year with revenues from our ongoing operations, particularly from our wells in Wetzel County, West Virginia and new third party natural gas wells drilled in West Virginia, which gas goes into our 6-inch pipeline. 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. There can be no assurance such funding will be available to us or, if available, it will be on acceptable or favorable terms.

As of September 30, 2006, we had total assets of \$7,539,246 and total stockholders' equity of \$704,640, compared to total assets of \$10,934,424 and total stockholders' equity of \$497,076 at December 31, 2005. The decrease was due to the disposition of Arvilla and the Wyoming properties.

Because we have incurred significant cumulative operating losses through September 30, 2006 and have a working capital deficit at September 30, 2006 of \$2,132,697, there exists substantial doubt about our ability to continue as a going concern. Historically, our revenues have not been sufficient to cover operating costs. However, we may potentially need to rely on proceeds from sale of common stock, debt or equity financing, and increased operating revenues from new developments 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.

We included a footnote to our financial statements for the period ended December 31, 2005 stating that because of our continued losses, working capital deficit, and need for additional funding, there is substantial doubt as to whether we can continue as a going concern.

-19-

Inflation

In the opinion of our management, inflation has not had a material 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 financial position. We caution readers that a variety of factors could cause our actual results to differ materially from the anticipated results or other matters expressed in forward-looking statements. These risks and uncertainties, many of which are beyond our control, include:

Edgar Filing: TRANS ENERGY INC - Form 10QSB

- * 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;
- * volatility of the stock market, particularly within the energy sector; and
- * general economic conditions.

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

Item 3. Controls and Procedures

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

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act.

-20-

Based upon that evaluation, management concluded that our disclosure controls and procedures are effective to cause the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by SEC, and that such information is accumulated and communicated to management, including our chief executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

There was no change in our internal controls over financial reporting

Edgar Filing: TRANS ENERGY INC - Form 10QSB

identified in connection with the requisite evaluation that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II

Item 1. Legal Proceedings

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

On September 22, 2000, Tioga Lumber Company obtained a judgment of \$43,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler Construction Company for breach of contract. On February 28, 2002, we reached a negotiated payment schedule with Tioga and made the initial payment. We believe that we have satisfied the balance owed to Tioga of \$26,233.58, although the judgment has not yet been released. We are proceeding to secure the release of the judgment.

On July 28, 1999 Core Laboratories, Inc. obtained a judgment against us for non-payment of an accounts payable. The judgment calls for monthly payments of \$351 and is bearing interest at 10% per annum. At September 30, 2006 we had accrued a balance including interest of \$20,687 as a current liability. We are currently in default on this judgment.

On July 1, 1998, RR Donnelly obtained a judgment against us for non-payment of accounts payable. The judgment calls for monthly payments of \$3,244 and is bearing interest at 10% per annum. At September 30, 2006, we had accrued a balance including interest of \$93,471 as a current liability. We are currently in default on this judgment.

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

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

Date	No. of Shares	Title	At	Reason
----	-----	-----	--	-----
April 27, 2006	200,000	Common	\$ 0.59	Services
August 14, 2006	1,000,000	Common	\$ 0.68	Oil and Gas Properties
August 15, 2006	2,590,000	Common	\$ 0.60	Services
August 15, 2006	1,052,693	Common	\$ 0.53	Debt
August 15, 2006	337,500	Common	\$ 0.80	Cash
August 29, 2006	67,268	Common	\$ 0.80	Services

The shares were issued in a private, non public isolated transaction pursuant to exemption from registration provided by Section 4(2) of the Securities Act of 1933.

Item 3. Defaults Upon Senior Securities

None.

-21-

Item 4. Submission of Matters to a Vote of Security Holders

Edgar Filing: TRANS ENERGY INC - Form 10QSB

No matters were submitted to a vote of our securities holders during the third quarter ended September 30, 2006.

Item 5. Other Information

The following reports were filed with the SEC on Form 8-K during the three month period ended September 30, 2006.

August 17, 2006 - reporting under Item 1.01 the acquisition of certain wells, properties and equipment in Marion County, West Virginia.

September 13, 2006 - reporting under Item 4.01 the change in certifying accountant from HJ & Associates, LLC to Malone & Bailey, PC.

Item 6. Exhibits

Exhibit 31.1 Certification of C.E.O. Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certification of C.E.O. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

SIGNATURES

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

TRANS ENERGY, INC.

Date: November 20, 2006

By /S/ JAMES K. ABCOUWER

JAMES K. ABCOUWER
Chief Executive Officer and Director

Date: November 20, 2006

By /S/ LISA A. CORBITT

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

