

TRANS ENERGY INC
Form 10-Q
May 15, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2012

OR

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

For the transition period from to

Commission File Number 0-23530

TRANS ENERGY, INC.

(Exact name of registrant as specified in its charter)

Edgar Filing: TRANS ENERGY INC - Form 10-Q

Nevada **93-0997412**
(State or other jurisdiction of **(I.R.S. Employer**
incorporation or organization) **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 May 11, 2012
Common Stock, \$0.001 par value	12,979,828

Table of Contents

Table of Contents

Heading	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	3
<u>Consolidated Balance Sheets – March 31, 2012 (Unaudited) and December 31, 2011 (Audited)</u>	3
<u>Consolidated Statements of Operations – Three Months Ended March 31, 2012 and 2011 (Unaudited)</u>	5
<u>Consolidated Statement of Stockholders’ Equity – Three Months Ended March 31, 2012 (Unaudited)</u>	6
<u>Consolidated Statements of Cash Flows – Three Months Ended March 31, 2012 and 2011 (Unaudited)</u>	7
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2. Management’s Discussion and Analysis of Financial Condition And Results of Operations</u>	13
<u>Item 4. Controls and Procedures</u>	16
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	17
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	17
<u>Item 3. Defaults Upon Senior Securities</u>	17
<u>Item 4. Mine Safety Disclosures</u>	17
<u>Item 5. Other Information</u>	17
<u>Item 6. Exhibits</u>	17
<u>Signatures</u>	19

Table of Contents**PART I FINANCIAL INFORMATION**

Item 1. Financial Statements

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

	March 31, 2012 Unaudited	December 31, 2011 Audited
ASSETS		
CURRENT ASSETS		
Cash	\$ 4,507,848	\$ 7,885,652
Accounts receivable, trade	1,166,998	2,074,851
Accounts receivable, related parties	18,500	18,500
Advance Royalties	126,098	114,099
Prepaid Expenses	162,190	73,098
Accounts receivable due from non-operators, net	2,618,331	1,754,020
Deferred financing costs, net of amortization of \$950,000 and \$712,500	150,475	237,500
Total Current Assets	8,750,440	12,157,720
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$822,364 and \$762,132, respectively	1,056,760	1,081,378
OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING		
Proved properties	49,289,162	48,335,664
Unproved properties	9,807,377	9,507,789
Pipelines	1,387,440	1,387,440
Accumulated depreciation, depletion and amortization	(15,490,420)	(14,545,126)
Oil and gas properties, net	44,993,559	44,685,767
OTHER ASSETS		
Other assets	351,902	300,952
	351,902	300,952
TOTAL ASSETS	\$ 55,152,661	\$ 58,225,817

See notes to unaudited consolidated financial statements.

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

	March 31, 2012 Unaudited	December 31, 2011 Audited
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 12,385,983	\$ 14,333,750
Accounts and notes payable, related party	1,500	2,150
Accrued expenses	1,183,608	1,152,885
Revenue payable		451,825
Income tax payable	270,708	270,708
Notes payable - current	14,859,776	14,308,579
Total Current Liabilities	28,701,575	30,519,897
LONG-TERM LIABILITIES		
Notes payable, net	3,542	5,612
Asset retirement obligations	262,122	256,651
Total Long-Term Liabilities	265,664	262,263
Total Liabilities	28,967,239	30,782,160
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; 12,981,828 and 12,981,828 shares issued, respectively, and 12,979,828 and 12,979,828 shares outstanding, respectively	12,982	12,982
Additional paid-in capital	39,538,427	39,300,194
Treasury stock, at cost, 2,000 shares	(1,950)	(1,950)
Accumulated deficit	(13,364,037)	(11,867,569)
Total Stockholders Equity	26,185,422	27,443,657
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 55,152,661	\$ 58,225,817

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2012	2011
REVENUES	\$ 2,917,528	\$ 1,630,099
COSTS AND EXPENSES		
Production Costs	1,621,166	426,087
Depreciation, depletion, amortization and accretion	1,010,998	553,742
Selling, general and administrative	1,412,775	1,061,778
Total costs and expenses	4,044,939	2,041,607
Gain (loss) on sale of assets	61,855	12,624,365
(LOSS) INCOME FROM OPERATIONS	(1,065,556)	12,212,857
OTHER INCOME (EXPENSES)		
Interest Income	7,193	247
Interest Expense	(438,744)	(407,194)
Gain on derivative contracts	639	(2,635)
Total other income (expenses)	(430,912)	(409,582)
NET (LOSS) INCOME BEFORE INCOME TAXES	(1,496,468)	11,803,275
INCOME TAXES		270,000
NET (LOSS) INCOME	\$ (1,496,468)	\$ 11,533,275
NET (LOSS) INCOME PER SHARE BASIC	\$ (0.12)	\$ 0.91
NET (LOSS) INCOME PER SHARE DILUTED	\$ (0.12)	\$ 0.81
WEIGHTED AVERAGE SHARES BASIC	12,979,828	12,737,328
WEIGHTED AVERAGE SHARES DILUTED	12,979,828	14,266,803

See notes to unaudited consolidated financial statements.

Table of Contents

TRANS ENERGY, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity

For the Three Months Ended March 31, 2012

(Unaudited)

	Common Stock		Additional	Treasury	Accumulated	Total
	Shares	Amount	Paid in Capital	Stock	Deficit	
Balance, Dec. 31, 2011	12,981,828	\$ 12,982	\$ 39,300,194	\$ (1,950)	\$ (11,867,569)	\$ 27,443,657
Share-based compensation expense			238,233			238,233
Net Loss					(1,496,468)	(1,496,468)
Balance, March 31, 2012	12,981,828	\$ 12,982	\$ 39,538,427	\$ (1,950)	\$ (13,364,037)	\$ 26,185,422

See notes to unaudited consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (1,496,468)	\$ 11,533,275
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:		
Depreciation, depletion, amortization and accretion	1,010,998	553,742
Share-based compensation	238,233	97,442
(Gain) loss on sale of assets	(61,855)	(12,624,365)
Amortization of financing cost	237,500	
Gain (loss) on derivative contracts		60,609
Interest expense added to principle	437,934	
Changes in operating assets and liabilities:		
Accounts receivable, trade	907,853	(138,348)
Accounts receivable due from non-operator, net	(864,311)	(1,656,134)
Prepaid expenses and other current assets	(101,091)	792,179
Accounts payable and accrued expenses	(1,797,752)	3,997,017
Revenue payable	(451,825)	
Accounts payable related party	(650)	
Net cash (used) provided by operating activities	(1,941,434)	2,615,417
CASH FLOWS FROM INVESTING ACTIVITIES:		
Deferred financing cost	(201,425)	
Collections on note receivable		27,295
Proceeds from sale of assets	274,947	15,000
Expenditures for oil and gas properties	(1,466,178)	(3,372,117)
Expenditures for property and equipment	(35,614)	(1,439)
Net cash used by investing activities	(1,428,270)	(3,331,261)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(8,100)	(16,142)
Net cash used by financing activities	(8,100)	(16,142)
NET CHANGE IN CASH	(3,377,804)	(731,986)
CASH, BEGINNING OF PERIOD	7,885,652	1,037,941
CASH, END OF PERIOD	\$ 4,507,848	\$ 305,955
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Cash paid for interest	\$ 465	\$ 407,194
Cash paid for income taxes		
Non-cash investing and financing activities:		
Accrued expenditures for oil and gas properties		3,816,009
Reclass from accrued expenses to notes payable		725,000
Increase accounts receivable for sale of acreage		14,012,500
Increase in asset retirement obligation	5,471	3,788

Increase in accrued expense for sale of acreage

245,219

See notes to unaudited consolidated financial statements.

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, 2011 Annual Report on Form 10-K. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

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. During the quarter we added a new subsidiary called American Shale Development, Inc. See Note 6.

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, amortization 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.

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, our estimates of the recoverability of the amounts due to us could be overstated, which could have a negative impact on operations. No allowance for doubtful accounts is deemed necessary at March 31, 2012 and December 31, 2011 by management and no bad debt expense was incurred during the three months ended March 31, 2012 and 2011.

Table of Contents**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 then 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:

	2012	2011
Asset retirement obligations at beginning of period	\$ 256,651	\$ 219,478
Liabilities incurred during the period		3,788
Accretion expense	5,471	9,258
Asset retirement obligations at end of period	\$ 262,122	\$ 232,524

At March 31, 2012, the Company's current portion of the asset retirement obligation was \$0.

Income Taxes

At March 31, 2012, the Company had net operating loss carry forwards (NOLS) for future years of approximately \$7,600,000. These NOLS will expire at various dates through 2030. The current tax provision is -0- for the three months ended March 31, 2012 due to a net operating loss for the period. 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, 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 local 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 results of operations of the Company.

Revenue and Cost Recognition

Trans Energy recognizes gas revenues upon delivery of the gas to the customers' pipeline from Trans Energy's pipelines when recorded as received by the customer's meter. Trans Energy recognizes oil revenues when pumped and metered by the customer. Trans Energy recognized \$2,771,982 and \$1,454,625 in oil and gas revenues for the three months ended March 31, 2012 and 2011, 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 material imbalances as of March 31, 2012 and December 31, 2011. Costs associated with production are expensed in the period incurred.

Table of Contents

Revenue payable represents cash received but not yet distributed to third parties.

Transportation revenue is recognized when earned and we have a contractual right to receive payment. We recognized \$93,313 and \$159,556 of transportation revenue for the three months ended March 31, 2012 and 2011, respectively.

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, 2012 of \$13,364,037. At March 31, 2012, Trans Energy had stockholders' equity of \$26,185,422 and a working capital deficit of \$19,951,135.

Revenues during the three months ended March 31, 2012 were not sufficient to cover its operating costs and interest expense to allow it to continue as a going concern. The potential proceeds from the sale of common stock, sale of drilling programs, and other contemplated debt and equity financing, and increases in operating revenues from new development and business acquisitions would enable Trans Energy to continue as a going concern. On April 26, 2012, a wholly owned subsidiary of the company closed a new \$50 million credit agreement. See Note 6 for details on the new credit agreement.

NOTE 3 ACCOUNTS RECEIVABLE DUE FROM NON-OPERATORS

Trans Energy is the drilling operator for wells drilled on behalf of the Company and other third parties. As of March 31, 2012, \$2,618,331 was owed to Trans Energy from non-operators. This amount represents \$6,852,576 that was owed to Trans Energy for drilling costs to be reimbursed by third parties, net of drilling advances of \$4,236,158. As of December 31, 2011, \$1,754,020 was owed to Trans Energy for drilling costs to be reimbursed by third parties.

NOTE 4 OIL AND GAS PROPERTIES

Total additions for oil and gas properties for the three months ended March 31, 2012 and 2011 were \$1,253,116 and \$495,692, respectively. Depreciation, depletion, and amortization expenses on oil and gas properties were \$944,717 and \$48,792 for the three months ended March 31, 2012 and 2011, 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 (Republic) at \$4,750 per net acre for total pretax proceeds of \$13,767,281. Acreage sold to Republic was distributed across the Company's undeveloped 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.

NOTE 6 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 to increase the credit facility to \$30,000,000 with increased oil and gas reserves. During the quarter ended September 30, 2008, CIT increased the credit facility to \$30,000,000 due to increased reserves.

During the 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. Principle payments were due at maturity on June 15, 2010 for all borrowing outstanding on that date.

The Company has 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 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,

Edgar Filing: TRANS ENERGY INC - Form 10-Q

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 were included in accrued expenses at December 31, 2010.

Table of Contents

On March 31, 2011, the Company and CIT entered into the Sixth Amendment to the Credit Agreement. The Sixth Amendment and other related agreements extended 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 and a principal payment of \$5,000,000 on April 2, 2011, and the accrued interest of \$1,245,697 for the period April 1, 2011 thru December 31, 2011 being added to the loan, the Company owed \$14,290,936 as of December 31, 2011. After adding accrued interest, legal and administrative fees of \$557,227 for the quarter, the Company owed \$14,848,162 as of March 31, 2012, with interest at 12%.

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 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.

On March 30, 2012, the Company and CIT entered into the Eighth Amendment to the Credit Agreement. The Eighth Amendment and other related agreements extend the maturity date of the Credit Agreement to April 30, 2012. The Eighth Amendment also waives specific items of default.

On April 26, 2012 ("Funding Date"), our newly created, wholly owned subsidiary, American Shale Development, Inc. ("American Shale"), closed a Credit Agreement transaction (hereafter the "ASD Credit Agreement") that was entered into on February 29, 2012 by and among American Shale, several banks and other financial institutions or entities that from time-to-time will be parties to the ASD Credit Agreement (the "Lenders"), and Chambers Energy Management, LP as the administrative agent ("Agent"). Trans Energy is a guarantor of the ASD Credit Agreement as is Prima Oil Company, Inc. ("Prima"), another of our 100% wholly owned subsidiaries. The ASD Credit Agreement provides that Lenders will lend American Shale up to \$50 million, which funds will be used to develop wells and properties that we have transferred to American Shale. Trans Energy received a portion of the funds from the ASD Credit Agreement to repay certain outstanding debts.

In order to accommodate the terms of the ASD Credit Agreement we have transferred certain assets and properties to American Shale. Trans Energy is not a direct party to the ASD Credit Agreement, but is a guarantor of loans to be made thereunder and has received a portion of the loan proceeds to repay certain outstanding debts. The assets and properties transferred are referred to herein as the "Marcellus Properties". These consist of working interests in 13 producing Marcellus shale liquids-rich gas wells and approximately 22,000 net acres of Marcellus shale leasehold rights, located in Northwestern West Virginia in the counties of Wetzel, Marshall, Marion, Tyler, and Doddridge.

As of March 31, 2012 and December 31, 2011, the Company owed \$15,155 and \$23,256, respectively, for other loans, primarily for vehicles.

NOTE 7 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 the 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. 50,000 of these options were exercised in June 2011.

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 will be amortized to compensation expense quarterly over one year. During the year ended December 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 2010. 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 year ended December 31, 2010. These options have been fully expensed in 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 fair market value of the common stock at the date of grant and will be amortized to compensation expense semiannually over three years. During the first three months ended March 31, 2012 and 2011, we recorded \$25,125 and \$34,125, respectively, of share based compensation related to these shares.

In December 2010, Trans Energy granted 368,000 common stock options to nine employees and one outside board member. These options vest semi-annually over three years and have a five year term. These 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 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 three months ended March 31, 2012 and 2011, we recorded \$57,123 and \$63,317 of share based compensation related to these options.

In May 2011, Trans Energy granted 420,000 shares of stock to eight employees and three outside board members under the long-term incentive bonus program. The 420,000 shares are not performance based and vest semi-annually over a three year period, subject to ongoing employment. These shares were valued at \$1,125,600 using 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 2012, we recorded \$93,800 of share-based compensation expense related to these shares.

In May 2011, Trans Energy also granted 378,000 common stock options to eight employees and four outside board members. These options vest semi-annually over five years and have a five year term. These stock options were granted at an exercise price of \$2.68 per common share, which was equal to the fair market value of the common stock at the date of grant and were valued 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 2012, we recorded \$54,331 of share-based compensation expense related to these options.

In December, 2011, Trans Energy granted 12,000 shares of common stock and 36,000 common stock options to an employee with the same vesting terms as the May 2011 issuances. These shares were valued at \$5,360 using fair market value of common stock at the date of grant. The stock options were granted at an exercise price of \$2.68 per common share and were valued using the Black Scholes valuation model and similar assumptions as the May 2011 options. During the first quarter of 2012, we recorded \$2,680 and \$5,174 of share based compensation for these common shares and stock options, respectively.

As a result of the above stock and option transactions, Trans Energy recorded total share-based compensation of \$238,233 and \$97,442 for the three months ended March 31, 2012 and 2011, respectively.

NOTE 8 EARNINGS PER SHARE

Basic income (loss) per share of common stock for the periods ended March 31, 2012 and 2011 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 ending March 31, 2012 and 2011.

	For the Three Months Ended	
	March 31,	March 31,
	2012	2011
Weighted average number of common shares outstanding used in the basic earnings per common share calculations	12,979,828	12,737,328
Dilutive effect of stock options		1,529,475
Weighted average number of common shares outstanding adjusted for effective of dilutive options and warrants	12,979,828	14,266,803

Table of Contents

The stock options were anti-dilutive for the three months ended March 31, 2012.

The Company paid no cash distributions to its stockholders during the three months ended March 31, 2012 and 2011.

NOTE 9 BUSINESS SEGMENTS

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

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

	For the Three Months Ended March 31,	Exploration and Production	Pipeline Transmission	Corporate	Total
Revenue	2012	\$ 2,771,982	\$ 93,313	\$ 52,233	\$ 2,917,528
	2011	1,454,625	159,556	15,918	1,630,099
Income (loss) from operations	2012	5,967	51,519	(1,123,042)	(1,065,556)
	2011	13,101,678	157,040	(1,045,861)	12,212,857
Interest expense	2012	438,744			438,744
	2011	407,194			407,194
Depreciation, depletion, amortization and accretion	2012	1,248,417	80		1,248,498
	2011	511,226	2,516		553,742
Property and equipment acquisitions, including oil and gas properties	2012	1,073,617			1,073,617
	2011	7,189,565			7,189,565
Total assets, net of intercompany accounts:					
March 31, 2012		\$ 55,112,976	\$ 39,685	\$	\$ 55,152,661
December 31, 2011		\$ 57,994,415	\$ 231,202	\$	\$ 58,225,817

Property and equipment acquisitions include accrued amounts and reclassifications.

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

The following discussion will assist in the understanding of our financial position and results of operations. The information below should be read in conjunction with the consolidated financial statements, the related notes to consolidated financial statements and our 2011 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.

We intend to focus our development and exploration efforts in our West Virginia properties and utilize our attractive opportunities to expand our reserve base through continuing to drill higher risk/higher reward exploratory and development drilling in the Marcellus Shale for 2012 and beyond with our new financing as discussed under item 1. Management intends to use a portion of the proceeds from the Chambers facility financing to fund this drilling program. We will evaluate our properties on a continuous basis in order to optimize our existing asset base. We

Edgar Filing: TRANS ENERGY INC - Form 10-Q

plan to 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 believe that our extensive acreage position will allow us to grow through high risk drilling in the near term.

In summary, our strategy is to increase our oil and gas reserves and production while keeping our development costs and operating costs as low as possible. We will implement this strategy through drilling exploratory and development wells from our inventory of available prospects that we have evaluated for geologic and mechanical risk and future reserve or resource potential. The success of this strategy is contingent on various risk factors, as discussed in our 2011 Form 10-K.

Table of Contents**Results of Operations****Three months ended March 31, 2012 compared to March 31, 2011**

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, 2012 and 2011. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three months ended	
	March 31,	
	2012	2011
Total revenues	100%	100%
Total costs and expenses	(139%)	(125%)
Gain on sale of assets	2%	774%
(Loss) income from operations	(37%)	749%
Other expenses	(14%)	(25%)
Income taxes		(16%)
Net (loss) income	(51%)	708%

Total revenues of \$2,917,528 for the three months ended March 31, 2012 increased \$1,287,429 or 79% compared to \$1,630,099 for the three months ended March 31, 2011, primarily due to an increase in production as a result of new drilling as well as enhanced processing of the natural gas liquids in our production stream, which sell at a higher price per MMBTU than if they were left in the production stream. The increase in production of natural gas and natural gas liquids during the period was partially offset by the effect of lower natural gas prices compared to the prior year period. We expect more production increases from the drilling program throughout 2012.

Production costs increased \$1,195,079 or 280% for the three months ended March 31, 2012 as compared to the same period for 2011, primarily due to an increase in transportation fees and natural gas liquid processing fees, associated with the increased production in 2012.

Depreciation, depletion, amortization and accretion expense increased \$694,756 or 125% for the three months ended March 31, 2012 as compared to the same period for 2011, primarily due to the depletion associated with our Marcellus drilling and related increased well cost and production.

Selling, general and administrative expense increased \$113,497 or 11% for the three months ended March 31, 2012 as compared to the same period for 2011, due to increased legal and consulting fees for debt restructuring and share based compensation.

Interest expense increased \$31,550 or 8% for the three months ended March 31, 2012 as compared to the same period for 2011 due to the higher loan balance.

Net loss for the three months ended March 31, 2012 was \$1,496,468 compared to a net income of \$11,533,275 for the same period of 2011. This is primarily due to the sale of certain acreage assets that accrued in the first quarter of 2011.

Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues, from borrowed funds and the proceeds of acreage sales. At March 31, 2012, we had a working capital deficit of \$20,101,610 compared to a deficit of \$18,362,177 at December 31, 2011. This increase in working capital deficit is primarily due to the decrease in cash and an increase in liabilities. The Company intends to repay both the funded debt as well as payables that are outstanding upon the expected closing of the Chambers financing.

During the first three months of 2012, net cash used by operating activities was \$1,941,434 compared to net cash provided of \$2,615,417 for the same period of 2011. This decrease in cash flow from operating activities is primarily due to the fact that we decreased our accounts payable

Edgar Filing: TRANS ENERGY INC - Form 10-Q

during the three months ended March 31, 2012, whereas we increased accounts payable during the first quarter of 2011.

We expect our cash flow provided by operations for 2012, compared to the comparable period in 2011, to improve because of higher projected production from the drilling program, in addition to steady general and administrative expenses. However, if our drilling results or realized commodity prices miss expectations, our cash flow provided by operations may also differ materially from our expectations.

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, 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 2012, net cash used by investing activities was \$1,428,270 compared to net cash used of \$3,331,261 in the same period of 2011. The change was due to a decrease in the current year expenditures for oil and gas properties.

During the first three months of 2011, net cash used by financing activities was \$8,100 compared to cash used of \$16,142 for 2011 due to lower outstanding long term debt balances.

We anticipate meeting our working capital needs with revenues from our ongoing operations, particularly from our wells in Marshall County, West Virginia and our new credit agreement which was funded April 26, 2012.

Because of our continued losses, working capital deficit, and need for additional funding as of March 31, 2012, there exists 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.

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, 2011.

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 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:

varying demand for oil and gas;

fluctuations in price;

competitive factors that affect pricing;

attempts to expand into new markets;

the timing and magnitude of capital expenditures, including costs relating to the expansion of operations;

hiring and retention of key personnel;

changes in generally accepted accounting policies, especially those related to the oil and gas industry; and

new government legislation or regulation.

Table of Contents

Any of the above factors or a significant downturn in the oil and gas industry or with the economic conditions generally, could have a negative effect on our business and on the price of our common stock.

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 principal executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, management concluded that our disclosure controls and procedures were effective to cause the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by SEC, and that such information is accumulated and communicated to management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

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

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 May 11, 2011, we filed an action in the U.S. District Court for the Northern District of West Virginia against EQT Corporation, a Pennsylvania corporation (*Trans Energy, Inc., et al. v. EQT Corporation*). The action relates to our attempt to quiet title to certain oil and gas properties referred to as the Blackshere Lease, consisting of approximately 22 oil and/or gas wells on the Blackshere Lease. The defendant, EQT Corporation, has filed with the Court an answer and counterclaim wherein it claims it holds title to the natural gas within and underlying the Blackshere Lease. We believe that we will ultimately prevail in the action, but it is too early in the proceedings to accurately assess the final outcome. Currently the Company has no plans to drill on this acreage.

On March 6, 2012, James K. Abcouwer (Abcouwer), former Chief Executive Officer of the Company, filed an action in the Circuit Court of Kanawha County, West Virginia against the Company (James K. Abcouwer vs. Trans Energy, Inc). The action relates to the Stock Option Agreement (the Agreement) entered into between the Company and Abcouwer on February 7, 2008. By his complaint, Abcouwer alleges that the Company has breached the Agreement by not permitting Abcouwer to exercise options that are the subject of the Agreement. The Company believes that per the terms of the Agreement all options and other rights described in the Agreement terminated ninety (90) days after termination of Abcouwer s employment with the Company. Mr. Abcouwer is requesting an amount for his loss of the value of the stock options that are subject to the Agreement. Said amount has not been determined.

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

Not Applicable

Item 3. Defaults Upon Senior Securities

On March 30, 2012, the Company and CIT entered into the Eighth Amendment to the Credit Agreement. The Eighth Amendment waived specific items of default, and eliminated the current ratio covenant. As a result, the company was not in default under the CIT Credit Agreement as of March 31, 2012.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

- | | |
|--------------|--|
| Exhibit 31.1 | Certification of Principal 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 Principal Executive 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

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.
**101.INS	XBRL Instance Document
**101.SCH	XBRL Taxonomy Extension Schema
**101.CAL	XBRL Taxonomy Extension Calculation Linkbase
**101.DEF	XBRL Taxonomy Extension Definition Linkbase
**101.LAB	XBRL Taxonomy Extension Label Linkbase
**101.PRE	XBRL Taxonomy Extension Presentation Linkbase

** Filed herewith. XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed and note filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

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: May 15, 2012

By /s/ John G. Corp
JOHN G. CORP
Principal Executive Officer

Date: May 15, 2012

By /s/ John S. Tumis
JOHN S. TUMIS
Chief Financial Officer