

TRANS ENERGY INC
Form 10-Q/A
April 18, 2013
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

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

For the quarterly period ended September 30, 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.

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(Exact name of registrant as specified in its charter)

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 number, 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 November 9, 2012
Common Stock, \$0.001 par value	13,156,578

Table of Contents

EXPLANATORY NOTE

The purpose of this Amendment No. 1 (this Amendment) on Form 10-Q/A is to amend and restate in their entirety the following items of our Quarterly Report on Form 10-Q for the period ended September 30, 2012 as originally filed with the Securities and Exchange Commission (the SEC) on November 14, 2012 (the Original Form 10-Q): (i) Item 1 of Part I Financial Information, (ii) Item 2 of Part I, Management's Discussion and Analysis of Financial Condition and Results of Operations, and we have also updated the signature page and our financial statements formatted in Extensible Business Reporting Language (XBRL) in Exhibits 101. No other sections were affected, but for the convenience of the reader, this report on Form 10-Q/A restates in its entirety, as amended, our Original Form 10-Q. This report on Form 10-Q/A is presented as of the filing date of the Original Form 10-Q and does not reflect events occurring after that date, or modify or update disclosures in any way other than as required to reflect the restatement described below.

We have determined that our previously reported results for the period ended September 30, 2012 erroneously included the cash consideration which represents the fair value of certain puttable warrant on the issuance date in additional paid in capital (APIC) rather than a derivative warrant liability. Additionally, the warrant liability was not recorded at fair value as of September 30, 2012, with changes in such fair value being recorded through other income (expenses) on our Unaudited Consolidated Statement of Operations. The Unaudited Consolidated Balance Sheets as of September 30, 2012 included in this Form 10-Q/A have been restated to remove the \$2 million in cash consideration from APIC and reported a derivative warrant liability of \$1.2 million which represents its fair value as of the reporting date. The Unaudited Consolidated Statements of Operations for the three months and nine months ended September 30, 2012 included in this Form 10-Q/A have been restated to include a loss of \$63 thousand and a gain of \$0.8 million, respectively, which represents the effect of change in the fair value of the derivative warrant liability. Certain adjustments have been made in the Unaudited Consolidated Statement of Stockholders' Equity and Unaudited Consolidated Statements of Cash Flows to correspond to the income statement and balance sheet adjustments as described in Note 1 of the Notes to the Unaudited Consolidated Financial Statements included in this filing. In addition, we have made necessary conforming changes in Management's Discussion and Analysis of Financial Condition and Results of Operations resulting from the correction of this error.

Table of Contents

Table of Contents

Heading	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements</u>	2
<u>Consolidated Balance Sheets – September 30, 2012 (Unaudited) and December 31, 2011 (Audited)</u>	2
<u>Consolidated Statements of Operations – Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	4
<u>Consolidated Statement of Stockholders’ Equity – Nine Months Ended September 30, 2012 (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	6
<u>Notes to Consolidated Financial Statements (Unaudited)</u>	7
<u>Item 2. Management’s Discussion and Analysis of Financial Condition And Results of Operations</u>	16
<u>Item 4. Controls and Procedures</u>	19
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	20
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
<u>Item 3. Defaults Upon Senior Securities</u>	20
<u>Item 4. Mine Safety Disclosures</u>	20
<u>Item 5. Other Information</u>	20
<u>Item 6. Exhibits</u>	20
<u>Signatures</u>	21

Table of Contents**PART I FINANCIAL INFORMATION**

Item 1. Financial Statements

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

	September 30, 2012 Unaudited	December 31, 2011 Audited
ASSETS		
CURRENT ASSETS		
Cash	\$ 6,012,186	\$ 7,885,652
Accounts receivable, trade	1,646,148	2,074,851
Accounts receivable, related parties	18,500	18,500
Advance royalties	171,452	114,099
Prepaid expenses	196,868	73,098
Drilling advances, net	2,485,046	1,754,020
Deferred financing costs, net of amortization of \$236,203 and \$712,500	570,245	237,500
Total Current Assets	11,100,445	12,157,720
OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING		
Proved properties	63,929,790	48,335,664
Unproved properties	11,825,439	9,507,789
Pipelines	1,387,440	1,387,440
Accumulated depreciation, depletion and amortization	(16,650,554)	(14,545,126)
Oil and gas properties, net	60,492,115	44,685,767
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$900,688 and \$762,132, respectively	990,694	1,081,378
OTHER ASSETS		
Deferred financing costs	904,286	
Other assets	301,440	300,952
Total Other Assets	1,205,726	300,952
TOTAL ASSETS	\$ 73,788,980	\$ 58,225,817

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

	September 30, 2012 Unaudited	December 31, 2011 Audited
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 1,344,206	\$ 14,333,750
Accounts payable, related party	1,500	2,150
Accrued expenses	791,450	1,152,885
Revenue payable	362,543	451,825
Income tax payable	266,215	270,708
Notes payable - current	21,710	14,308,579
Total Current Liabilities	2,787,624	30,519,897
LONG-TERM LIABILITIES		
Notes payable, net	47,440,246	5,612
Asset retirement obligations	300,577	256,651
Warrant derivative liability	1,219,683	
Total Long-Term Liabilities	48,960,506	262,263
TOTAL LIABILITIES	51,748,130	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; 13,158,578 and 12,981,828 shares issued, respectively, and 13,156,578 and 12,979,828 shares outstanding, respectively	13,159	12,982
Additional paid-in capital	40,833,872	39,300,194
Treasury stock, at cost, 2,000 shares	(1,950)	(1,950)
Accumulated deficit	(18,804,231)	(11,867,569)
Total Stockholders Equity	22,040,850	27,443,657
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 73,788,980	\$ 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 September 30,		For the Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUES	\$ 653,696	\$ 5,314,257	\$ 6,035,926	\$ 10,838,672
COSTS AND EXPENSES				
Production costs	829,256	1,648,397	3,558,674	2,914,805
Depreciation, depletion, amortization and accretion	550,759	1,360,678	2,303,807	3,764,598
Selling, general and administrative	1,226,313	1,401,996	4,548,302	4,044,886
Total costs and expenses	2,606,328	4,411,071	10,410,783	10,724,289
Gain on sale of assets	43,836	3,531	112,898	12,627,896
(LOSS) INCOME FROM OPERATIONS	(1,908,796)	906,717	(4,261,959)	12,742,279
OTHER INCOME (EXPENSES)				
Interest income	3,968	180	17,147	648
Interest expense	(1,659,934)	(367,004)	(3,530,819)	(1,217,121)
(Loss) gain on derivative contracts	(63,023)	40,280	780,956	50,299
Total other income (expenses)	(1,718,989)	(326,544)	(2,732,716)	(1,166,174)
NET (LOSS) INCOME BEFORE INCOME TAXES	(3,627,785)	580,173	(6,994,675)	11,576,105
INCOME TAX BENEFIT (EXPENSE)	58,013	36,000	58,013	(214,000)
NET (LOSS) INCOME	\$ (3,569,772)	\$ 616,173	\$ (6,936,662)	\$ 11,362,105
NET (LOSS) INCOME PER SHARE BASIC	\$ (0.27)	\$ 0.05	\$ (0.53)	\$ 0.89
NET (LOSS) INCOME PER SHARE DILUTED	\$ (0.27)	\$ 0.04	\$ (0.53)	\$ 0.82
WEIGHTED AVERAGE SHARES BASIC	13,156,578	12,872,078	13,042,264	12,781,913
WEIGHTED AVERAGE SHARES DILUTED	13,156,578	14,319,629	13,042,264	13,774,255

See notes to unaudited consolidated financial statements.

Table of Contents

TRANS ENERGY, INC. AND SUBSIDIARIES

Consolidated Statement of Stockholders Equity

For the Nine Months Ended September 30, 2012

(Unaudited)

	Common Stock		Additional	Treasury	Accumulated	Total
	Stock	Amount	Paid in	Stock	Deficit	
			Capital			
Balance, December 31, 2011	12,981,828	\$ 12,982	\$ 39,300,194	\$ (1,950)	\$ (11,867,569)	\$ 27,443,657
Stock option compensation expense			962,366			962,366
Stock issued for service	176,750	177	571,312			571,489
Net Loss					(6,936,662)	(6,936,662)
Balance, September 30, 2012	13,158,578	\$ 13,159	\$ 40,833,872	\$ (1,950)	\$ (18,804,231)	\$ 22,040,850

See notes to unaudited consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (6,936,662)	\$ 11,362,105
Adjustments to reconcile net (loss) income to net cash (used) provided by operating activities:		
Depreciation, depletion, amortization and accretion	2,303,807	3,764,598
Amortization of deferred financing cost and debt discount	890,370	475,000
Share-based compensation	1,533,855	625,411
Gain on sale of assets	(112,898)	(12,627,896)
Interest and legal expense added to principal	557,226	786,167
(Gain)/loss on derivative contracts	(780,317)	131,648
Changes in operating assets and liabilities		
Accounts receivable, trade	428,703	(782,162)
Drilling advances	(731,026)	82,964
Prepaid expenses and other current assets	(181,123)	(161,184)
Other assets	(250,487)	
Accounts payable and accrued expenses	(13,326,103)	7,260,305
Advance non-operator		646,135
Revenue payable	(89,282)	22,553
Accounts payable related party	(650)	
Income tax payable	(4,493)	222,662
Net cash (used) provided by operating activities	(16,699,080)	11,808,306
CASH FLOWS FROM INVESTING ACTIVITIES:		
Collections on note receivable		27,295
Proceeds from sale of assets	328,466	13,785,812
Expenditures for oil and gas properties	(18,122,746)	(15,110,857)
Expenditures for property and equipment	(93,244)	(47,141)
Net cash used for investing activities	(17,887,524)	(1,344,891)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of warrant derivative liability	2,000,000	
Issuances of common stock		49,000
Financing costs paid	(1,460,734)	(750,000)
Proceeds from notes payable	47,043,307	
Payments on notes payable	(14,869,435)	(5,044,529)
Net cash provided (used) by financing activities	32,713,138	(5,745,529)
NET CHANGE IN CASH	(1,873,466)	4,717,886
CASH, BEGINNING OF PERIOD	7,885,652	1,037,941
CASH, END OF PERIOD	\$ 6,012,186	\$ 5,755,827
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
Cash paid for interest	\$ 2,676,218	\$ 430,954

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Non-cash investing and financing activities:		
Accrued expenditures for oil and gas properties	1,211,010	1,347,801
Reclass from accrued expenses to notes payable		725,000
Increase in asset retirement obligation	27,000	7,766
Accrued expenditures for debt refinancing		250,000

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 nine months ended September 30, 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., American Shale Development, Inc., and Tyler Energy, Inc. All significant inter-company balances and transactions have been eliminated in consolidation. During the second quarter of 2012, we contributed assets to 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.

Restatement of Financial Statements

The Unaudited Consolidated Balance Sheets as of September 30, 2012 included in this Form 10-Q/A have been restated to remove the \$2 million in cash consideration related to the issuance of certain warrants and related put options from Additional Paid in Capital (APIC) and report a warrant derivative liability of \$1.2 million which represents its fair value as of the reporting date. The Unaudited Consolidated Statements of Operations for the three months and nine months ended September 30, 2012 included in this Form 10-Q/A have been restated to include a loss of \$63 thousand and a gain of \$0.8 million, respectively, which represents the effect of change in the fair value of the derivative warrant liability. Certain adjustments have been made in the Unaudited Consolidated Statement of Stockholders' Equity and Unaudited Consolidated Statements of Cash Flows to correspond to the income statement and balance sheet adjustments as described above. The following table summarizes the effects of the restatement resulting from the correction of this error.

	September 30, 2012		
	As		
Unaudited Quarterly Information	Previously		
Consolidated Balance Sheets	Reported	Adjustment	As Restated

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Warrant Derivative Liability	\$	0	\$	1,219,683	\$	1,219,683
Total Long-Term Liabilities		47,740,823		1,219,683		48,960,506
Total Liabilities		50,528,447		1,219,683		51,748,130
Additional Paid-in Capital		42,833,872		(2,000,000)		40,833,872
Accumulated Deficit		(19,584,548)		780,317		(18,804,231)
Shareholders' Equity		23,260,533		(1,219,683)		22,040,850

Table of Contents

Unaudited Quarterly Information	Three Months Ended September 30, 2012			Nine Months Ended September 30, 2012		
	As		As Restated	As		As Restated
	Previously Reported	Adjustment		Previously Reported	Adjustment	
Consolidated Statements of Operations						
Gain (Loss) on Derivatives	\$ 0	\$ (63,023)	\$ (63,023)	\$ 639	\$ 780,317	\$ 780,956
Total Other Income (expenses)	(1,655,966)	(63,023)	(1,718,989)	(3,513,033)	780,317	(2,732,716)
Net (Loss) Income Before Income Taxes	(3,564,762)	(63,023)	(3,627,785)	(7,774,992)	780,317	(6,994,675)
Net (Loss) Income	(3,506,749)	(63,023)	(3,569,772)	(7,716,979)	780,317	(6,936,662)
Per share amounts:						
Basic Income (Loss) Per share	\$ (0.27)		(0.27)	\$ (0.59)	\$ 0.06	\$ (0.53)
Diluted Income (Loss) Per share	(0.27)		(0.27)	(0.59)	0.06	(0.53)

Unaudited Quarterly Information	Nine Months Ended September 30, 2012		
	As		
	Previously Reported	Adjustment	As Restated
Consolidated Statements of Stockholders' Equity			
Warrants issued American Shale Development, Inc.	\$ 2,000,000	\$ (2,000,000)	\$ 0
Additional Paid in Capital	42,833,872	(2,000,000)	40,833,872
Net Loss	(7,716,979)	780,317	(6,936,662)
Accumulated Deficit	(19,584,548)	780,317	(18,804,231)
Shareholders' Equity	23,260,533	(1,219,683)	22,040,850

Unaudited Quarterly Information	Nine Months Ended September 30, 2012		
	As		
	Previously Reported	Adjustment	As Restated
Consolidated Statements of Cash Flows			
Net loss	\$ (7,716,979)	\$ 780,317	\$ (6,936,662)
Adjustment to reconcile net loss to net cash (used) provided by operating activities:			
Unrealized gain on derivatives	0	(780,317)	(780,317)

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 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 by management at September 30, 2012 and December 31, 2011, and no bad debt expense was incurred during the nine months ended September 30, 2012 and 2011.

Table of Contents**Financing Cost**

In connection with obtaining new financing in April 2012, we incurred \$1,710,734 in fees during the second and third quarter of 2012. These fees were recorded as financing costs and are being amortized over the life of the loan using the straight-line method. Amortization of financing cost for the three months ended September 30, 2012 and 2011 were \$142,459 and \$237,500, respectively. Amortization of financing cost for the nine months ended September 30, 2012 and 2011 were \$473,703 and \$475,000, respectively. Deferred financing costs related to the CIT debt have been fully amortized.

Derivatives

Derivatives and Embedded Derivatives, if applicable, are measured at fair value and recognized in the consolidated balance sheets as an asset or a liability. Derivatives are classified in the balance sheet as current or non-current based on whether net-cash settlement is expected within twelve months from the balance sheet date. The changes in the fair value of the derivatives are included in other income (expense) on the consolidated statement of operations. The pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the financial statements.

The Company has determined that the warrant and related put option issued for one of its wholly-owned subsidiaries has an embedded derivative. The Company also enters into derivative commodity contracts at times to manage or reduce commodity price risk related to its production. Usually these commodity contracts are not designated as hedges, so changes in the fair value are recognized in other income (expenses).

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 capitalized costs are 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 nine months ended September 30:

	2012	2011
Asset retirement obligations at beginning of period	\$ 256,651	\$ 219,478
Liabilities incurred during the period	27,000	7,766
Accretion expense	16,926	15,184
Asset retirement obligations at end of period	\$ 300,577	\$ 242,428

At September 30, 2012 and 2011, the Company's current portion of the asset retirement obligation was \$0.

Income Taxes

At September 30, 2012, the Company had net operating loss carry forwards (NOLS) for future years of approximately \$14,898,000. These NOLS will expire at various dates through 2030. The current tax provision is -0- for the nine months ended September 30, 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.

The tax benefit of \$58,013 and \$36,000 for the three months ended September 30, 2012 and 2011, respectively, are the result of an over accrual related to prior year tax liabilities. At September 30, 2011 the tax provision of \$214,000 for the nine months ended was an estimate of the alternative minimum tax which would not be offset by the NOLS.

Table of Contents

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 \$5,692,389 and \$10,477,859 in oil and gas revenues for the nine months ended September 30, 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 September 30, 2012 and December 31, 2011. Costs associated with production are expensed in the period incurred.

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 when delivered. We recognized \$285,976 and \$302,788 of transportation revenue for the nine months ended September 30, 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 of \$(18,804,231) through September 30, 2012. At September 30, 2012, Trans Energy had stockholders' equity of \$22,040,850.

The Company's revenues may not be sufficient to cover its operating costs and interest expense to allow it to continue as a going concern; however, 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 are expected to 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. The proceeds of the loan must be used for drilling and leasehold acquisitions. See Note 6 for details on the new credit agreement.

During 2012, we drilled 7 gross wells and 2.86 net wells. As of September 30, 2012, 1.44 net wells have been completed, fractured, and put online. We have completed and fractured another 1.00 wells, with the possibility of them being put online in late December 2012.

Table of Contents

NOTE 3 DRILLING ADVANCES

Trans Energy has \$2,485,046 in prepaid drilling advances which will be recorded as oil and gas property when the funds are properly expended.

NOTE 4 OIL AND GAS PROPERTIES

Total additions for oil and gas properties for the nine months ended September 30, 2012 and 2011, were \$18,124,869 and \$13,770,822, respectively. Depreciation, depletion, and amortization expenses on oil and gas properties were \$2,122,114 and \$3,591,872 for the nine months ended September 30, 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 2011, with the remainder being used to partially fund the drilling and completion expenses for certain wells.

During 2012 Republic paid Trans Energy \$275,000 for the remaining 20% of the sale that occurred during July, 2010. See Note 10.

NOTE 6 NOTES PAYABLE

On September 22, 2007, Trans Energy finalized a financing agreement with CIT Capital USA Inc. (CIT) for \$30,000,000.

Interest payment due dates are elected at the time of borrowing and range from monthly to three months. Principle payments were due at maturity on September 15, 2010, for all borrowing outstanding on that date.

The Company worked 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, 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.

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 confirmed 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 were 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. During the first quarter of 2012, the Company added \$557,226 of interest, legal and administrative expense to the loan balance. On April 2, the Company paid \$125,000 on the principal amount outstanding and the remainder of the principal was paid with proceeds received from the American Shale Development, Inc. Credit Agreement.

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 three 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. CIT still retains ownership of the 1.5% overriding royalty interest after the payoff.

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

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On April 26, 2012, (Funding Date), our newly created, wholly owned subsidiary, American Shale Development, Inc. (American Shale or ASD), closed a Credit Agreement transaction (hereafter the ASD Credit Agreement) that was entered into 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 CIT and certain outstanding debts.

Table of Contents

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, which consist of working interests in 13 gross (7.60 net) 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 Wetzell, Marshall, Marion, Tyler, and Doddridge.

The ASD Credit Agreement is for a notional amount of \$50 million, which was received at closing net of a \$3 million Original Issue Discount (OID) and a \$50,000 administrative fee. These OID costs are netted against Notes Payable. \$416,667 and \$250,000 of the OID was amortized as interest expense for the nine and three months, respectively, ended September 30, 2012. The administrative fee is due annually. Interest is due monthly at 10% plus the greater of 1% or the 3 month LIBOR rate (11% at September 30, 2012). Principle is due at maturity, February 28, 2015.

The ASD Credit Agreement is collateralized by American Shale's natural gas and oil reserves and is guaranteed by Trans Energy. The ASD credit agreement includes reporting, financial and other restricted covenants. ASD was in compliance with the covenants at September 30, 2012. The Company has to pay interest through April 26, 2014, on any principal prepayments prior to April 26, 2014, at the time of the prepayment.

The ASD Credit Agreement also required American Shale to sell the Lenders for a total of \$2 million a warrant for 19,500 shares representing 19.5% of ASD's stock, at \$263.44 per share. The warrant expires on February 28, 2015. The warrant includes a put option whereby the Lenders could require ASD to repurchase the warrant as of February 28, 2015, or earlier if certain events occur which is in accordance with the credit agreement. Under the put option, ASD would pay the excess of the fair market value per share of the stock over \$263.44 times the number of shares exercisable less any distributions or similar payments defined by the agreement. In addition, the warrant strike price will be reduced to equal the offering price of any common shares sold below \$1.63 (the Down-Round Provision). Under certain circumstance ASD has the option to transfer working interests in all of its wells equal to the value of the excess value instead of paying in cash.

As of September 30, 2012 and December 31, 2011, the Company owed \$45,289 and \$33,529, respectively, for other loans, primarily for vehicles.

NOTE 7 DERIVATIVES

Trans Energy has determined that the put option and the Down-Round Provision result in the warrants issued in conjunction with the ASD Credit Agreement qualifying as derivative liabilities. Pursuant to Accounting Standards Codification (ASC) 480-10, Distinguishing Liabilities from Equity, the put option embodies an obligation that permits Chambers to require Trans Energy to repurchase the warrant by transferring assets (cash). Additionally, the Down-Round Provision is not indexed to Trans Energy's own stock, as it could result in the exercise price of the warrant being modified based upon a variable that is not an input to the fair value of a fixed-for-fixed option, pursuant to ASC 815-40, Derivatives and Hedging - Contracts in an Entity's Own Stock.

The warrant derivative liability is recorded at fair value and reported as a Long-Term Liability on the Consolidated Balance Sheets with the change in fair value recorded in the Consolidated Statements of Operations in Other Income (Expense). As of September 30, 2012, the warrant derivative liability had a fair value of \$1,219,683. The change in the fair value of the warrant derivative liability amounted to an unrealized loss of \$63,023 and an unrealized gain of \$780,317 for the three and nine month periods ended September 30, 2012, respectively.

NOTE 8 STOCKHOLDERS EQUITY

On April 8, 2009, Trans Energy granted 375,000 common stock options to four key employees under the long term incentive bonus program. As of March 31, 2010, these options have been fully expensed. In June 2011, 50,000 of these options were exercised.

On May 14, 2009, Trans Energy granted 50,000 shares of common stock to one key employee under the long term incentive bonus program. As of March 31, 2010, this award has been fully expensed. In addition, Trans Energy also granted 50,000 common stock option to this employee under the long term incentive bonus program. These options have been fully expenses as of March 31, 2010.

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 over three years. During the nine months ended September 30, 2012 and 2011, we recorded \$61,875 and \$75,375, respectively, of share based compensation related to these shares. During the three months ended September 30, 2012 and 2011, we recorded \$11,625 and \$25,125, respectively of share based compensation related to these shares.

Table of Contents

In December 2010, Trans Energy granted 368,000 common stock options to eight 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 over the vesting period. During the nine months ended September 30, 2012 and 2011, we recorded \$144,459 and \$159,009 of share based compensation related to these options, and for the three months ended September 30, 2012 and 2011, we recorded \$30,213 and \$57,123 related to these options. 36,000 of the options were cancelled in June 2011.

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 over three years. During the nine months ended September 30, 2012 and 2011, we recorded \$247,900 and \$281,400 of share-based compensation expense related to these shares, and for the three months ended September 30, 2012 and 2011, we expensed \$60,300 and \$93,800, respectively.

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 over the vesting period. During the nine months ended September 30, 2012 and 2011, we recorded \$145,745 and \$97,796, respectively, of share-based compensation expense related to these options. During the three months ended September 30, 2012 and 2011, we recorded \$37,083 and \$32,599, respectively, of share-based compensation expense related to these options. As of August, 2012, 5,000 of these options were cancelled.

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 nine months ended September 30, 2012, we recorded \$8,040 and \$15,523 of share based compensation for these common shares and stock options, respectively. During the three months ended September 30, 2012, we recorded \$2,680 and \$5,174 of share-based compensation for these common shares and stock options, respectively.

Effective April 26, 2012, Trans Energy granted 804,000 common stock options to nine employees and four outside board members. These options vest semi-annually over five years and have a five year term. The stock options were granted at an exercise price of \$2.30 per common share which was equal to the fair market value of the common stock at the date of the grant and were valued using the Black Scholes valuation model. The model uses key estimates such as estimated useful lives of the options and the estimated volatility of our stock price. The options are being amortized to share-based compensation expense over the vesting period. For the nine and three months ended September 30, 2012, we have recorded \$267,300 and \$149,820, respectively, of share-based compensation expense related to these options. 15,000 of the options were cancelled in August 2012.

The following are assumptions made in computing the option fair value:

Average risk-free interest rate	1.72%
Dividend yield	0%
Expected term	5 years
Average expected volatility	77.09%

Effective April 26, 2012, Trans Energy granted 60,000 shares of stock to three employees under the long-term incentive bonus. The 60,000 shares are not performance based and vest semi-annually over a three year period, subject to ongoing employment. These shares were valued at \$138,000 using fair market value of the common stock at the date of grant and will be amortized to compensation expense over three years. During the third quarter of 2012, we recorded \$11,500 of share-based compensation expense related to these shares. For the nine months ended September 30, 2012, we recorded \$34,500 related to these shares.

Table of Contents

In June 2012, Trans Energy, due to a severance agreement, granted 150,000 common stock options. These options vested immediately. These options were granted at an exercise price of \$2.30 per common share and were valued using the Black Scholes valuation model and similar assumptions as the April, 2012 options. The Company recorded \$198,000 of stock compensation expense in the third quarter related to these additional stock options. (See Note 10.)

In August 2012, Trans Energy granted 30,000 of common stock and 60,000 common stock options to an outside board member with the vesting terms the same as the April 26 issuances. These shares were valued using fair market value of common stock at the date of grant. The stock options were granted at an exercise price of \$2.30 per common share and were valued using the Black Scholes valuation model and similar assumptions as the April options. During the three and nine months ended September 30, 2012, we recorded \$4,375 and \$6,600 of share based compensation for these common shares and stock options.

In August 2006, Trans Energy granted 800,000 common stock options to two employees with an expiration date of August 16, 2011. Trans Energy extended those options in September 2011 to August 16, 2012. Trans Energy recorded \$11,831 of additional stock-based compensation in September 2011 related to the one year extension.

Due to severance agreements, effective in April 2012, certain employees became vested 100% on their stock options and stock awards, we recorded an additional \$597,536 of share-based compensation expense for accelerating the vesting of these stock options and stock awards. (See Note 9.)

As a result of the above stock and option transactions, Trans Energy recorded total share-based compensation of \$1,533,855 and \$625,411 for the nine months ended September 30, 2012 and 2011, respectively.

NOTE 9 EARNINGS PER SHARE

Basic income (loss) per share of common stock for the periods ended September 30, 2012 and 2011, is determined by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period.

The following table reconciles the weighted average shares outstanding used for basic and diluted earnings per share for the periods ending September 30, 2012 and 2011.

	For the Nine Months Ended	
	September 30,	
	2012	2011
Weighted average number of common shares outstanding used in the basic earnings per common share calculations	13,042,264	12,781,913
Dilutive effect of stock options		992,342
Weighted average number of common shares outstanding adjusted for effective of dilutive options	13,042,264	13,774,255
	For the Three Months Ended	
	September 30,	
	2012	2011
Weighted average number of common shares outstanding used in the basic earnings per common share calculations	13,156,578	12,872,078
Dilutive effect of stock options		1,447,551
Weighted average number of common shares outstanding adjusted for effective of dilutive options	13,156,578	14,319,629

The stock options were anti-dilutive for the three and nine months ended September 30, 2012 due to the Company reporting net losses during those periods.

The Company paid no cash distributions to its stockholders during the nine months ended September 30, 2012 and 2011.

NOTE 10 RELATED PARTY TRANSACTIONS

Employment separation agreements were executed between the Company and Messrs. Loren Bagley, Mark Woodburn and William Woodburn on June 26, 2012. Messrs. Loren Bagley, Mark Woodburn and William Woodburn are collectively referred to as the parties. Messrs. Loren Bagley and William Woodburn remain on the Company's Board of Directors. Mr. Mark Woodburn is a beneficial owner of the Company.

Table of Contents

In consideration of the execution of the severance agreement, the parties received cash compensation of \$50,000 each net of taxes. The Company also agreed to immediately vest all unvested stock options and waive the 90 day termination language in current stock option agreements. \$184,736 of share-based compensation was recorded during the 2nd quarter of 2012 for accelerating the vesting of these stock options. The Company also agreed to immediately vest and issue all unvested stock awards which increased share-based compensation expense by an additional \$214,800. In June 2012, Trans Energy, due to a severance agreement, granted 150,000 common stock options. These options vested immediately. These options were granted at an exercise price of \$2.30 per common share and were valued using the Black Scholes valuation model and similar assumptions as the April, 2012 options. The Company recorded \$198,000 of stock compensation expense in the third quarter related to these additional stock options.

As described in Note 5, of the 2010 Form 10K, Republic Energy Ventures, LLC (Republic) withheld 20% of the purchase price on certain acreage not subject to pooling provisions to ensure that pooling provisions would be added to the leases. This acreage belonged to Sancho Oil and Gas which is wholly owned by Loren Bagley a board member. During 2012, Republic paid Trans Energy \$274,948 for the remaining 20% and Trans Energy then remitted \$213,093 to Sancho Oil and Gas for the amount for the 20% which Sancho previously owned on the leases.

NOTE 11 BUSINESS SEGMENTS

Trans Energy's principal operations consist of exploration and production with Trans Energy, American Shale Development, 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 September 30,	Exploration and Production	Pipeline Transmission	Corporate	Total
Revenue	2012	\$ 783,045	\$ 98,288	\$ (227,637)	\$ 653,696
	2011	5,224,765	57,745	31,747	5,314,257
Income (loss) from operations	2012	60,758	52,174	(2,021,728)	(1,908,796)
	2011	2,221,739	55,224	(1,370,246)	906,717)
Interest expense	2012	1,659,934			1,659,934
	2011	367,004			367,004
Depreciation, depletion, amortization and accretion	2012	550,679	80		550,759
	2011	1,358,162	2,516		1,360,678
Property and equipment acquisitions, including oil and gas properties	2012	2,634,201			2,634,201
	2011	1,502,583			1,502,583

	For the Nine Months Ended September 30,	Exploration and Production	Pipeline Transmission	Corporate	Total
Revenue	2012	\$ 5,692,389	\$ 285,976	\$ 57,561	\$ 6,035,926
	2011	10,477,859	302,788	58,025	10,838,672
Income (loss) from operations	2012	66,835	159,047	(4,487,841)	(4,261,959)
	2011	16,433,901	295,180	(3,986,802)	12,742,279)

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Interest expense	2012	3,530,819		3,530,819
	2011	1,217,121		1,217,121
Depreciation, depletion, amortization and accretion	2012	2,303,566	241	2,303,807
	2011	3,757,050	7,548	3,764,598
Property and equipment acquisitions, including oil and gas properties	2012	16,974,319		16,974,319
	2011	13,817,963		13,817,963
Total assets, net of intercompany accounts:				
September 30, 2012		\$ 73,771,338	\$ 17,642	\$ 73,788,980
December 31, 2011		\$ 57,994,615	\$ 231,202	\$ 58,225,817

Property and equipment acquisitions include accrued amounts and reclassifications.

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

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

Our primary focus will continue to be the development of the Marcellus Shale through directional drilling. We believe that our acreage position will allow us to grow organically through drilling in the near term. This position continues to present attractive opportunities to expand our reserve base through field extensions.

We expect to maintain and utilize our technical and operations teams' knowledge to enhance our growth prospects and reserve potential. We expect 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.

Results of Operations**Three months ended September 30, 2012 compared to September 30, 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 September 30, 2012 and 2011. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three months ended			
	2012	September 30, 2012	2011	2011
Total revenues	\$ 653,696	100%	\$ 5,314,257	100%
Total costs and expenses	(2,606,328)	(399)%	(4,411,071)	(83)%
Gain on sale of assets	43,836	7%	3,531	0%
(Loss) income from operations	(1,908,796)	(292)%	906,717	17%
Other expenses	(1,718,989)	(263)%	(326,544)	(6)%
Income taxes	58,013	9%	36,000	1%
Net (loss) income	(3,569,772)	(546)%	\$ 616,173	(12)%

Total revenues of \$653,696 for the three months ended September 30, 2012 decreased \$4,660,561 or 88% compared to \$5,314,257 for the three months ended September 30, 2011, primarily due to a decrease in pricing on natural gas and natural gas liquids. The average price of natural gas for the three months ended September 30, 2012 declined \$4.46/Mcf or from \$5.80/Mcf to \$1.34/Mcf when compared to the same period in 2011. Production volumes of natural gas and natural gas liquids for the three months ended September 30, 2012, when compared to the three months ended September 30, 2011, decreased due to a decrease in production and the delay of the turn on of new wells which would have offset the natural decline of the wells, and processing issues with the natural gas liquids related to capacity issues and the selling of the processing plant.

Production costs decreased \$819,141 or 50% for the three months ended September 30, 2012, as compared to the same period for 2011, primarily due to a decrease in severance tax, transportation fees, and natural gas liquid processing fees. In lieu of constructing and maintaining a pipeline, the Company as agreed to pay the transporter \$0.35 per MCF to transport a contractual amount of production on the first well drilled on the pad. After the contractual amount is produced, the price reduces to \$0.15 per MCF to transport gas. Any future wells drilled are charged \$0.15 per MCF for transporting the gas produced.

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The Company incurs a one-time fee for newly constructed laterals to be connected to the transporter's pipeline. As wells are added to the laterals, there are no future costs incurred by the Company.

Depreciation, depletion, amortization and accretion expense decreased \$809,919 or 60% for the three months ended September 30, 2012, as compared to the same period for 2011, primarily due to increases in proved reserves at the end of 2011 when compared to 2010 primarily due to wells being turned on line during the third quarter of 2012.

Table of Contents

Selling, general and administrative expense decreased \$175,683 or 13% for the three months ended September 30, 2012, as compared to the same period for 2011, primarily due to approximately \$475,000 of loan fees related to the CIT financing during the third quarter of 2011 and partially offset by increased accounting and consulting fees, and board of director fees.

Interest expense increased \$1,292,930 or 352% for the three months ended September 30, 2012, as compared to the same period for 2011 due to a significantly higher loan balance after the refinancing. The average loan balance for the third quarter of 2012 was \$50,047,000 compared to an average loan balance of \$13,345,000 for the third quarter of 2011

The \$4,185,945 decrease in net income for the three months ended September 30, 2012, as compared to the same period for 2011, was primarily attributable to lower average sales prices and production volumes and increased interest expense, partially offset by lower production costs.

Nine months ended September 30, 2012 compared to September 30, 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 nine months ended September 30, 2012 and 2011. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Nine months ended			
	2012	September 30, 2012	2011	2011
Total revenues	\$ 6,035,926	100%	\$ 10,838,672	100%
Total costs and expenses	(10,410,783)	(172)%	(10,724,289)	(99)%
Gain on sale of assets	112,898	2%	12,627,896	117%
(Loss) income from operations	(4,261,959)	(70)%	12,742,279	118%
Other expenses	(2,732,716)	(45)%	(1,166,174)	(11)%
Income taxes	58,013	(0)%	(214,000)	(2)%
Net (loss) income	(6,936,662)	(115)%	\$ 11,362,105	105%

Total revenues of \$6,035,926 for the nine months ended September 30, 2012, decreased \$4,802,746 or 44% compared to \$10,838,672 for the nine months ended September 30, 2011, primarily due to a decrease in the price for natural gas and natural gas liquids. We expect production from the 2012 drilling program to increase production beginning with the fourth quarter of 2012.

Production costs increased \$643,869 or 22% for the nine months ended September 30, 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 NGLs. In lieu of constructing and maintaining a pipeline, the Company as agreed to pay the transporter \$0.35 per MCF to transport a contractual amount of production on the first well drilled on the pad. After the contractual amount is produced, the price reduces to \$0.15 per MCF to transport gas. Any future wells drilled are charged \$0.15 per MCF for transporting the gas produced.

Depreciation, depletion, amortization and accretion expense decreased \$1,460,791 or 39% for the nine months ended September 30, 2012, as compared to the same period for 2011, primarily due to increases in the remaining volumes that were estimated to be recoverable per the reserve report as of December 31, 2011, compared to the reserve report from the previous year and additional volumes related to new wells being put online.

Selling, general and administrative expense increased \$503,416 or 12% for the nine months ended September 30, 2012, as compared to the same period for 2011, due to increased legal fees, increase in share based compensation, including related one-time employment separation agreements, which was partially offset by a decrease in consulting fees for debt restructuring during the nine months ended September 30, 2011.

Interest expense increased \$2,313,698 or 190% for the nine months ended September 30, 2012, as compared to the same period for 2011 due to a significantly higher loan balance after the refinancing. The average loan balance for the nine months ended September 30, 2012 and 2011 was \$34,244,000 and \$14,690,000 respectively.

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Gain on derivatives increased \$730,657 or 1,453% for the nine months ended September 30, 2012 as compared to the same period for 2011 due primarily to an unrealized gain recognized on warrant derivative liability in 2012 which represents the change in fair value of the warrant derivative liability.

Net loss for the nine months ended September 30, 2012, was \$6,936,662 compared to a net income of \$11,362,105 for the same period of 2011. This is primarily due to the sale of certain acreage assets that occurred in the first quarter of 2011 for a net gain of approximately \$12.6 million. Increased operating losses, partially offset by an unrealized gain recognized on the warrant derivative liability, as described above explain the remaining change in 2012.

Table of Contents

Liquidity and Capital Resources

Because of our continued losses, 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.

Historically, we have satisfied our working capital needs with operating revenues, from borrowed funds and the proceeds of acreage sales. At September 30, 2012, we had working capital of \$8,312,821 compared to a deficit of \$18,362,177 at December 31, 2011. This increase in working capital is primarily due to the refinancing of the Company's debt, which was reclassified from current debt to long-term debt and provided additional cash.

During the first nine months of 2012, net cash used by operating activities was \$16,699,080 compared to net cash provided of \$11,808,306 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 using proceeds from our refinancing during the nine months ended September 30, 2012, whereas we increased accounts payable during 2011.

We expect our cash flow provided by operations for the remainder of 2012, compared to the comparable period in 2011, to improve because of higher projected production from the drilling program during the fourth quarter of 2012, and the elimination of expenses related to refinancing. The proceeds of the ASD Credit Agreement must be used for drilling and leasehold acquisitions. However, if our drilling results or realized commodity prices miss expectations, or if there is a further delay in connecting our wells to sales lines, our cash flow provided by operations may also differ materially from our expectations.

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 nine months of 2012, net cash used by investing activities was \$17,887,524 compared to net cash used of \$1,344,891 in the same period of 2011. The change was primarily due to proceeds from the sale of acreage during 2011 and greater expenditures for oil and gas properties in 2012 which were paid by the proceeds of our refinancing.

During the first nine months of 2012, net cash provided by financing activities was \$32,713,138 compared to cash used of \$5,745,529 for 2011. This change reflects the refinancing of the Company's debt and issuance of the ASD warrant.

We anticipate meeting our working capital needs with revenues from our ongoing operations, particularly from our wells in Marshall and Wetzel Counties, West Virginia and our new credit agreement which was funded April 26, 2012. We are currently pursuing the option of finding a buyer for our shallow well production as well as other alternatives.

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.

Table of Contents

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.

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.

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At the time that our Quarterly Report on Form 10-Q for the quarterly period ending June 30, 2012 was filed on August 14, 2012, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective as of March 31, 2012. Subsequent to that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as a result of the material weakness discussed below, the Company's disclosure controls and procedures were not effective as of March 31, 2012.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected and corrected on a timely basis.

The Company did not maintain an effective financial reporting process to prepare financial statements in accordance with U.S. GAAP. Specifically, the Company did not properly report the fair value of its embedded derivative as a liability and the change in the liability's fair value in its Consolidated Statement of Operations. This matter was discovered subsequent to December 31, 2012, and as a result, the Company restated its previously issued interim financial statements for 2012.

The Company intends to remediate the material weakness in the internal control over financial reporting identified above by adding additional controls over derivative accounting and the application of relevant accounting guidance.

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.

On September 28, 2012, the company received three administrative compliance orders and a request for information from the U.S. Environmental Protection Agency (EPA). The orders and request relate to our compliance with Clean Water Act (CWA) permitting requirements at a pond and three well site locations in Marshall and Wetzel Counties, West Virginia and concern the alleged discharge of dredged and/or fill material into waters of the United States. We intend to actively cooperate with the EPA in order to resolve these matters in a timely manner. The CWA provides authority for significant civil and criminal penalties for the placement of fill in a jurisdictional stream or wetland without a permit from the Army Corps of Engineers. Monetary civil and/or criminal penalties can be substantial for non-compliance with CWA requirements. The CWA sets forth criteria, including degree of fault and history of prior violations, which may influence CWA penalty assessments. The EPA may also seek to recover any economic benefit derived from non-compliance with the CWA.

We are presently working with counsel to make our initial responses to the orders and deliver requested documents, which are due December 5, 2012. Resolution of the EPA s compliance orders may include monetary sanctions. However, we presently do not have sufficient information to determine whether the potential liability with respect to these matters will have a material effect on our financial position, on the results of operations, or on cash flow.

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

None.

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.
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 (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)

- (1) Pursuant to Rule 406T of Regulation S-T, The interactive data files on Exhibits 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, and otherwise are not subject to liability under those 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: April 18, 2013

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

Date: April 18, 2013

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