

TRANS ENERGY INC
Form 10-Q/A
January 09, 2015
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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, 2014

OR

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

For the transition period from _____ to _____

Commission File Number 0-23530

TRANS ENERGY, INC.

(Exact name of registrant as specified in its charter)

Nevada **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 10, 2014
Common Stock, \$0.001 par value	14,404,260

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EXPLANATORY NOTE

We are filing this amendment to our quarterly report on Form 10-Q for the quarter ended September 30, 2014, filed on November 19, 2014, to correct a calculation error in reporting Total long-term liabilities and Total liabilities on the Condensed Consolidated Balance Sheets at September 30, 2014.

Significant changes include the following:

Total long-term liabilities have been revised, due to a typographical error, from \$108,227,177 to \$3,909,662.

Total liabilities have been revised, due to a typographical error, from \$3,909,662 to \$130,219,718.

Revisions

Exhibits 31.1 & 31.2- revised to reflect the current date.

Exhibit 32- revised to reflect the current date.

Exhibit 101 - Supplemental Disclosure For Cash Flow Information. The abstract and detail tag for Interest amounts disclosed under the Supplemental Disclosure for CF Information header have been added.

Exhibit 101 - Note 1 - Basis Of Financial Statement Presentation And Significant Accounting Policies - Additional Information. The calendar has been updated to 1 Month Ended Jan 31, 2013.

No attempt has been made in this Amendment No. 1 on Form 10-Q/A to modify or update the other disclosures presented in the Form 10-Q. This Amendment No. 1 on Form 10-Q/A does not reflect events occurring after the filing of the Form 10-Q or modify or update those disclosures. Accordingly, this Amendment No. 1 on Form 10-Q/A should be read in conjunction with the Form 10-Q and our other filings with the SEC.

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Item 1. Financial Statements

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

	September 30, 2014 Unaudited	December 31, 2013 Audited
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,316,254	\$ 2,727,832
Accounts receivable, trade	6,883,543	4,460,535
Accounts receivable from drilling operator	562,000	
Accounts receivable, related parties	18,500	18,500
Derivative assets	780,148	
Advance royalties		16,937
Prepaid expenses	1,090,689	1,065,061
Deferred financing costs, net of amortization of \$337,054 and \$1,308,817, respectively	1,028,142	817,938
Total current assets	11,679,276	9,106,803
OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING		
Proved properties	99,952,561	77,961,183
Unproved properties	7,536,331	15,092,783
Pipelines	1,259,052	1,397,440
Accumulated depreciation, depletion and amortization	(21,036,700)	(14,473,069)
Oil and gas properties, net	87,711,244	79,978,337
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$344,518 and \$317,704, respectively	524,718	587,218
OTHER ASSETS		
Deferred financing costs	3,341,461	139,076
Other assets	355,381	303,887
Total other assets	3,696,842	442,963
TOTAL ASSETS	\$ 103,612,080	\$ 90,115,321

See notes to unaudited condensed consolidated financial statements.

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

	September 30, 2014 Unaudited	December 31, 2013 Audited
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 359,836	\$ 632,795
Accounts payable due to drilling operator	6,382,401	2,698,302
Accounts payable, related party	1,500	1,500
Accrued expenses	4,418,063	5,302,816
Deferred gain on sale of assets	6,959,817	
Environmental settlement and related costs	3,600,000	
Revenue payable	45,284	127,106
Commodity derivative liability	217,451	58,176
Notes payable - current	104,325,704	14,897
Notes payable, related party		205,314
Total current liabilities	126,310,056	9,040,906
LONG-TERM LIABILITIES		
Notes payable, net	0	89,204,102
Environmental settlement and related costs	3,000,000	
Asset retirement obligations	78,556	41,440
Commodity derivative liability	831,106	67,597
Total long-term liabilities	3,909,662	89,313,139
Total liabilities	130,219,718	98,354,045
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; 14,406,260 and 13,457,978 shares issued, respectively, and 14,404,260 and 13,455,978 shares outstanding, respectively	14,406	13,458
Additional paid-in capital	43,970,530	42,556,292
Treasury stock, at cost, 2,000 shares	(1,950)	(1,950)
Accumulated deficit	(70,590,624)	(50,806,524)
Total stockholders' equity (deficit)	(26,607,638)	(8,238,724)
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 103,612,080	\$ 90,115,321

See notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
OPERATING REVENUES				
Oil and gas sales	\$ 6,667,618	\$ 4,343,739	\$ 24,816,633	\$ 12,559,344
Gas transportation, gathering, and processing	44,256	35,203	121,875	97,093
Other income	63,407	25,801	69,840	28,790
Total operating revenues	6,775,281	4,404,743	25,008,348	12,685,227
OPERATING COSTS AND EXPENSES				
Production costs	3,258,132	2,795,073	10,003,364	7,363,564
Depreciation, depletion, amortization and accretion	3,088,104	986,670	7,448,799	2,365,280
Environmental settlement and related costs	6,600,000		6,600,000	
Selling, general and administrative	1,176,853	1,633,112	4,159,149	4,733,539
Total operating costs and expenses	14,123,089	5,414,855	28,211,312	14,462,383
(Loss) Gain on sale of assets	(18,480)	6,887	188,616	(1,900)
LOSS FROM OPERATIONS	(7,366,288)	(1,003,225)	(3,014,348)	(1,779,056)
OTHER INCOME (EXPENSES)				
Interest income	550	3,463	2,045	18,142
Interest expense	(2,903,312)	(5,200,628)	(16,709,264)	(11,002,002)
Gain on warrant derivatives		3,806		595,245
Gain (loss) on derivative assets	2,963,096	100,796	(62,533)	760,152
Total other income (expenses)	60,334	(5,092,563)	(16,769,752)	(9,628,463)
NET LOSS BEFORE INCOME TAXES	(7,305,954)	(6,095,788)	(19,784,100)	(11,407,519)
INCOME TAX				
NET LOSS	\$ (7,305,954)	\$ (6,095,788)	\$ (19,784,100)	\$ (11,407,519)
NET LOSS PER SHARE BASIC AND DILUTED	\$ (.52)	\$ (.46)	\$ (1.44)	\$ (.86)
WEIGHTED AVERAGE SHARES BASIC AND DILUTED	14,026,790	13,317,978	13,742,149	13,264,077

See notes to unaudited condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (19,784,100)	\$ (11,407,519)
Adjustments to reconcile net loss to net cash provided (used) by operating activities:		
Depreciation, depletion, amortization and accretion	7,448,799	2,365,280
Amortization of financing costs and debt discount	8,426,119	3,484,843
Share-based compensation	698,122	919,755
(Gain) loss on sale of assets	(188,616)	1,900
Interest and legal expense added to principal	1,818,240	3,329,349
Unrealized gain on warrant derivative		(595,245)
Unrealized loss (gain) on commodity derivative assets	142,636	(522,733)
Realized gain on commodity derivative assets	(80,103)	
Changes in operating assets and liabilities:		
Accounts receivable, trade	(2,423,008)	(453,245)
Accounts receivable due from operator, net	(562,000)	(2,098,899)
Prepaid expenses and other current assets	(8,691)	(250,662)
Other assets	(51,494)	(1,471)
Accounts payable and accrued expenses	47,444	1,646,322
Environmental settlement and related costs	6,600,000	
Revenue payable	(81,822)	(75,659)
Net cash provided (used) by operating activities	2,001,526	(3,657,984)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of assets	15,259,668	2,625,025
Expenditures for oil and gas properties	(24,064,991)	(23,829,183)
Expenditures for property and equipment	(8,470)	(9,141)
Net cash used by investing activities	(8,813,793)	(21,213,299)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Financing costs paid	(4,706,656)	(122,230)
Payments on notes payable	(98,703,469)	(16,212)
Proceeds from notes payable	108,093,750	25,000,000
Stock options exercised	717,064	13,750
Net cash provided by financing activities	5,400,689	24,875,308
NET CHANGE IN CASH	(1,411,578)	4,025

CASH, BEGINNING OF PERIOD	2,727,832	1,009,084
CASH, END OF PERIOD	\$ 1,316,254	\$ 1,013,109
SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:		
CASH PAID FOR:		
Interest	\$ 8,550,179	\$ 4,482,229
Income taxes		
Non-cash investing and financing activities:		
Accrued expenditures for oil and gas properties	\$ 3,684,099	\$ 1,112,214
Increase in asset retirement obligation	\$ 37,116	\$ 689
Accrued expenditures for debt financing	\$	\$ 401,625

See notes to unaudited condensed consolidated financial statements.

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TRANS ENERGY, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited)

NOTE 1 BASIS OF FINANCIAL STATEMENT PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim condensed consolidated financial statements have been prepared by Trans Energy, Inc., (Trans Energy, we, our, us, or the Company), in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include certain information and footnote disclosures normally included in a full set of financial statements prepared in accordance with GAAP. The information furnished in the interim condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, these interim consolidated financial statements should be read in conjunction with our most recent audited consolidated financial statements and notes thereto included in our December 31, 2013 Annual Report on Form 10-K. Operating results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

On May 21, 2014 (Funding Date), the Company s wholly-owned subsidiary, American Shale Development Inc. (American Shale), entered into a purchase and sale agreement (the Republic PSA) with its joint venture partner, Republic Energy Ventures (Republic). Under the Republic PSA, for \$15 million, American Shale sold (i) an undivided interest across certain of its undeveloped leasehold amounting to approximately 2,239 net acres, (ii) an over-riding royalty interest of 1.5% in certain of its leasehold in Wetzel County, West Virginia, and (iii) an over-riding royalty interest of 1.0% in six (6) wells that are currently being drilled in Marshall County, West Virginia. The consideration was paid in the form of a credit against expenses incurred by Republic on behalf of American Shale. American Shale reserved the right to receive 25% of the net profits earned by Republic on the assets sold by American Shale under the Republic PSA. American Shale has the option to repurchase the undivided interest across all of its undeveloped leasehold, plus the over-riding royalty interest in its Wetzel County leasehold, for \$15 million if (i) such payment is made within six (6) months of the Funding Date, or (ii) a purchase and sale agreement that would allow for such repayment by American Shale is signed within such period and the transaction contemplated therein is closed prior to December 31, 2014. The Company has recognized a deferred gain on sale of assets in the current liabilities section of the Condensed Consolidated Balance Sheet in the amount of \$6,959,816 because the Company has the option of repurchasing the undivided interest across all of its undeveloped leasehold, plus the overriding royalty interest in its Wetzel County leasehold by December 31, 2014.

Although the deferred gain of \$6,959,816 noted above represents a credit on our balance sheet that will never be repaid in cash (i.e., it will either be realized in earnings upon expiration of American Shale s repurchase option, or will be reclassified back to American Shale s property balance upon its exercise of the repurchase option), we believe that such amount results in our current ratio not exceeding 1-to-1 as of September 30, 2014, as required by the covenants of our out credit agreement (the Credit Agreement) with Morgan Stanley Capital Group Inc. (Morgan Stanley), as the administrative agent, and several lenders thereunder (collectively, the Lenders).

The Credit Agreement provides that the failure to observe any financial covenant will constitute an event of default, and Morgan Stanley, at the request of the majority Lenders, may terminate the commitments under the Credit Agreement and cause all of the Company s obligations under the Credit Agreement to immediately become due and payable, upon notice to the Company. The event of default is deemed continuing until waived in writing by the

Lenders. The Company has entered into discussions with the Lenders in hopes of obtaining a favorable resolution to the situation. No assurances can be given at this time that the matter will be resolved in a satisfactory manner.

In the event we are unable to obtain a waiver of default from the Lenders, there would be substantial doubt about our ability to continue as a going concern as all outstanding obligations under the Credit Agreement would come due. Consequently, all outstanding obligations under the Credit Agreement as of September 30, 2014 are reflected on the balance sheet as current maturities on long-term debt.

Significant Accounting Policies

The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements in the 2013 Form 10-K, and are supplemented by the notes to the unaudited condensed consolidated financial statements in this report.

Nature of Operations and Organization

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

Principles of Consolidation

The unaudited consolidated financial statements include Trans Energy and our wholly-owned subsidiaries, Prima Oil Company, Inc. (Prima), Ritchie County Gathering Systems, Inc., Tyler Construction Company, Inc., American Shale Development, Inc. (American Shale or ASD), and Tyler Energy, Inc., and interests with joint venture partners, which are accounted for under the proportional consolidation method. All significant inter-company balances and transactions have been eliminated in consolidation.

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Use of Estimates

The preparation of financial statements in conformity with GAAP 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. Our 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, timing and costs associated with our asset retirement obligations, estimates of fair value of derivative instruments and estimates used in stock-based compensation calculations. Reserve estimates are by their nature inherently imprecise.

Financing Costs

In connection with obtaining the Morgan Stanley financing in May 2014 and subsequent borrowings, we incurred fees and expenses of \$4,706,656. These fees and expenses were recorded as financing costs and are being amortized over the life of the loan using the straight-line method, which approximates the effective interest method.

In October 2013 we reached a settlement with Oppenheimer & Co., Inc. (Opco) which related to the amount of the fee which was earned by Opco acting as our investment banker in assisting the Company in obtaining funding (Tranche A) with Chambers Energy Capital (Chambers). We recorded \$401,625 in financing fees related to the settlement. The Opco financing fees were being amortized over the same period as the Tranche A loan. In addition, when we obtained new financing in February 2013 and April 2012, we incurred \$122,230 in fees during 2013 and \$1,741,976 in 2012. These fees were recorded as financing costs and were being amortized over the life of the loan using the straight-line method, which approximates the effective interest method. When we obtained the Morgan Stanley financing, the remaining balance of the finance fees related to the Chambers financing were expensed due to the payoff of the related loan.

Amortization of financing costs for the three months ended September 30, 2014 and 2013 were \$555,072 and \$369,859, respectively. Amortization of financing costs for the nine months ended September 30, 2014 and 2013 were \$905,875 and \$701,807, respectively. Our policy is to recognize twelve months of deferred financing costs as a current asset and the remaining balance of deferred financing costs as other assets in the condensed consolidated balance sheets.

Property and Equipment

Property and equipment are recorded at cost. Depreciation on vehicles, machinery and equipment is computed using the straight-line method over expected useful lives of five to ten years. Additions are capitalized and maintenance and repairs are charged to expense as incurred.

Oil and Gas Properties

Trans Energy uses the successful efforts method of accounting for oil and gas producing activities. Under the successful efforts method, costs to acquire mineral interests in oil and gas properties, to drill and equip exploratory wells that find proved reserves, and to drill and equip development wells and asset retirement costs are capitalized. Costs to drill exploratory wells that do not find proved reserves, geological and geophysical costs, and costs of carrying and retaining unproved properties are expensed as incurred.

Unproved oil and gas properties that are individually significant are periodically assessed for impairment of value, and a loss is recognized at the time of impairment by providing an impairment allowance. Other unproved properties are amortized based on Trans Energy's experience of successful drilling and average holding period. Capitalized costs of producing oil and gas properties, after considering estimated dismantlement and abandonment costs and estimated salvage values, are depreciated and depleted by the unit-of-production method. Depreciation on pipelines and related equipment, including compressors, is computed using the straight-line method over the expected useful lives of ten to twenty-five years.

On the sale or retirement of a proved property, the cost and related accumulated depreciation, depletion, and amortization are eliminated from the property accounts, and the resultant gain or loss is recognized.

On the sale of an entire interest in an unproved property for cash or cash equivalent, gain or loss on the sale is recognized, taking into consideration the amount of any recorded impairment if the property had been assessed individually.

If a partial interest in an unproved property is sold, the amount received is treated as a reduction of the cost of the interest retained.

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Impairments

Generally accepted accounting principles require that long-lived assets (including oil and gas properties) and certain identifiable intangibles be reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount of an asset may not be recoverable. The Company, at least annually, reviews its proved oil and gas properties for impairment by comparing the carrying value of its properties to the properties' undiscounted estimated future net cash flows. Estimates of future oil and gas prices, operating costs, and production are utilized in determining undiscounted future net cash flows. The estimated future production of oil and gas reserves is based upon the Company's independent reserve engineer's estimate of proved reserves, which includes assumptions regarding field decline rates and future prices and costs. For properties where the carrying value exceeds undiscounted future net cash flows, the Company recognizes as impairment the difference between the carrying value and fair market value of the properties.

In January 2013, the Company sold certain shallow wells for approximately \$11.5 million. We determined that the sales price negotiated with the independent buyer represented the fair market value of those properties as of December 31, 2012. Accordingly, the Company recorded an impairment of approximately \$10.1 million in 2012 so that the carrying value of those properties as of December 31, 2012 were equal to the subsequent sales price.

No impairments were recorded through September 30, 2014 or 2013.

Derivatives

We may enter into derivative commodity contracts at times to manage or reduce commodity price risk related to our production. Derivatives and embedded derivatives, if applicable, are measured at fair value and recognized in the consolidated balance sheets as assets or liabilities. Derivatives are classified in the consolidated balance sheets as current or non-current based on whether net-cash settlement is expected to be required within 12 months of the balance sheet date. These commodity contracts are not designated as cash flow hedges, so changes in the fair value are recognized immediately in other income (expense) in 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.

We have determined that the warrant previously issued for equity of one of our wholly-own subsidiaries was a derivative liability prior to being settled in December 2013.

Notes Payable

We record notes payable at fair value and recognize interest expense for accrued interest payable under the terms of the agreements. Principal and interest payments due within one year are classified as current, whereas principal and interest payments for periods beyond one year are classified as long term.

Asset Retirement Obligations

We record 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. These obligations include dismantlement, plugging and abandonment of oil and gas wells and associated pipelines and equipment. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset. The liability is accreted to its then present value each period, and the capitalized cost is depleted over the estimated useful life of the related asset which has been determined to be 40 years for Marcellus Shale wells.

The following is a description of the changes to our asset retirement obligations for the nine months ended September 30:

	2014	2013
Asset retirement obligations at beginning of period	\$ 41,440	\$ 28,317
Liabilities incurred during the period	34,116	689
Accretion expense	3,000	2,760
 Asset retirement obligations at end of period	 \$ 78,556	 \$ 31,766

At September 30, 2014 and December 31, 2013, our current portion of the asset retirement obligation was \$0.

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Income Taxes

At September 30, 2014, the Company had net operating loss carry forwards (NOLs) for future years of approximately \$65.0 million. These NOLs will expire at various dates through 2033. There is no current tax provision for the three or nine months ended September 30, 2014 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 Alternative Minimum Tax (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.

We have 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 Company has no material unrecognized tax benefits. No tax penalties or interest expense were accrued as of September 30, 2014 or December 31, 2013 or paid during the periods then ended. We file tax returns in the United States and states in which we have operations and are subject to taxation. Tax years subsequent to 2010 remain open to examination by U.S. federal and state tax jurisdictions, however prior year net operating losses remain open for examination.

Revenue and Cost Recognition

We recognize gas revenues upon delivery of the gas to the customers pipeline from our pipelines when recorded as received by the customer's meter. We recognize oil revenues when pumped and metered by the customer. We use 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 we are 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. We had no material imbalances as of September 30, 2014 and December 31, 2013. 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.

On January 1, 2013, the Company adopted new authoritative accounting guidance issued by the Financial Accounting Standards Board (FASB), which enhanced disclosures by requiring an entity to disclose information about netting arrangements, including rights of offset, to enable users of its financial statements to understand the effect of those arrangements on its financial position and provided clarification as to the specific instruments that should be considered in these disclosures. These pronouncements were issued to facilitate comparison between financial statements prepared on the basis of GAAP and International Financial Reporting Standards. These disclosures are effective for annual and interim reporting periods beginning on or after January 1, 2013, and are to be applied retrospectively for all comparative periods presented. See Note 7 - Derivative and Hedging Financial Instruments for tabular presentation of the Company's gross and net derivative positions.

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Share-Based Compensation

Trans Energy estimates the fair value of each stock option award at the grant date by using the Black-Scholes option pricing model. The model employs various assumptions, based on management's best estimates at the time of the grant, which impact the fair value calculated and ultimately, the expense that is recognized over the life of the award. We have utilized historical data and analyzed current information to reasonably support these assumptions. The fair value of restricted stock awards is determined based on the fair market value of our common stock on the date of the grant.

We recognize share-based compensation expense on a straight-line basis over the requisite service period for the entire award. As a result of stock and option transactions, we recorded total share-based compensation of \$214,906 and \$283,892 for the three months ended September 30, 2014 and 2013, respectively. We also recorded total share-based compensation of \$698,122 and \$919,755 for the nine months ended September 30, 2014 and 2013, respectively.

New Accounting Standards

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (ASU 2014-09). ASU 2014-09 is intended to improve the financial reporting requirements for revenue from contracts with customers by providing a principle based approach. The core principal of the standard is that revenue should be recognized when the transfer of promised goods or services is made in an amount that the entity expects to be entitled to in exchange for the transfer of goods and services. ASU 2014-09 also requires disclosures enabling users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This standard will be effective for financial statements issued by public companies for annual reporting periods beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the potential impact of ASU 2014-09 on the financial statements.

The Company has reviewed all other recently issued accounting standards in order to determine their effects, if any, on the consolidated financial statements. Based on that review, the Company believes that none of these standards will have a significant effect on current or future earnings or results of operations.

Reclassification

Certain reclassifications have been made to the 2013 financial presentation to correspond to the current year's format.

NOTE 2 OPERATIONS

We have incurred net losses for the three months and nine months ended September 30, 2014, of \$(7,305,954) and \$(19,784,100), respectively. Although our current and prior year-to-date revenues were not sufficient to cover our operating costs and interest expense, we are focusing on drilling Marcellus Shale wells which, based upon projections, are expected to increase our cash flow. If our cash flows from operations are not sufficient to meet liquidity requirements, we may need to sell assets, obtain additional financing or issue equity.

Our net losses and cash flows used in operating and investing activities during the nine months ended September 30, 2014 and 2013 were primarily funded using net proceeds from notes payable to Chambers and Morgan Stanley (see Note 6), in addition to proceeds from the sale of certain oil and gas properties (see Note 5).

NOTE 3 ACCOUNTS RECEIVABLE DUE FROM DRILLING OPERATOR AND ACCOUNTS PAYABLE DUE TO DRILLING OPERATOR

We have historically been the drilling operator for wells drilled on our behalf and other third parties in which we own a working interest. In 2012, another working interest owner became the drilling operator for wells in which we own a working interest. We owed the drilling operator \$6,382,401 and \$2,698,302 for charges incurred, but not paid, as of September 30, 2014 and December 31, 2013, respectively. The amount due to the operator reported at September 30, 2014 has been reduced for consideration received from the Republic purchase and sale agreement, which is to be paid in the form of a credit against the expenses incurred by Republic Energy Ventures on behalf of American Shale (see Note 5). The amount due to the operator reported at September 30, 2014 and December 31, 2013, is net of a \$372,943 and \$637,667 credit respectively, related to a refund of prior drilling costs previously invoiced to America Shale for wells we are not participating in as well as intercompany charges related to employee salary reimbursements, travel expenses, and lease costs. The accounts receivable from drilling operator reflects invoices related to reimbursable expenses.

Table of Contents**NOTE 4 OIL AND GAS PROPERTIES**

Total additions for oil and gas properties for the three months ended September 30, 2014 and 2013 were \$8,056,902 and \$12,249,585, respectively. Total additions for oil and gas properties for the nine months ended September 30, 2014 and 2013 were \$24,064,991 and \$24,942,086, respectively. Depreciation, depletion, and amortization expenses on oil and gas properties were \$2,511,970 and \$962,089 for the three months ended September 30, 2014 and 2013, respectively. Depreciation, depletion, and amortization expenses on oil and gas properties were \$6,750,318 and \$2,296,046 for the nine months ended September 30, 2014 and 2013, respectively.

NOTE 5 SALE OF OIL AND GAS PROPERTIES

On January 24, 2013, we closed the sale of our interests in certain non-core assets for approximately \$2.6 million of net cash proceeds. The interests sold consisted of our working interest in all existing shallow wells, but we retained an overriding royalty interest of approximately 2.5% on most of the wells. The purchaser assumed the role of operator with respect to approximately 300 wellbores, and has commenced a workover program with respect to a number of the existing wells. The wells produced at a rate of approximately 800 Mcfe per day as of December 31, 2012, which was the effective date for the transaction.

Additionally, we granted the purchaser the right to drill wells in or above conventional shallow Devonian formations, for leases where we currently hold rights to such depths. We did not farm out any of our rights to drill in deeper formations such as the Rhinestreet, Marcellus or Utica. We retained up to a 5% overriding royalty interest on any such wells drilled, depending on the net revenue interest.

On December 13, 2013, the Company and Republic closed a transaction pursuant to a Purchase and Sale Agreement (the PSA) dated September 30, 2013. The Company owned 1,114.8 lease acres of the total 4,650 lease acres and leasehold working interests in certain partially completed well sites, located in Tyler County, West Virginia. At closing, the Company received cash of approximately \$10.6 million of the total purchase price of \$36.3 million, net of holdback. A total of 118.6 lease acres were excluded from the sale (39.8 lease acres net to the Company) due to incurable title defects. An additional 135.5 lease acres (30.7 lease acres net to the Company) were excluded from the sale due to curable title defects, which were cured and an additional \$0.2 million was due and payable to the Company, as of December 31, 2013, per the terms of the PSA. In February 2014, the Company received \$489,608 related to curable title defects. The proceeds were applied to a receivable of \$230,064 recorded at December 31, 2013. The remaining \$259,544 is reported, net of expenses, as gain on sale of assets for the period ended September 30, 2014.

On May 21, 2014 (Funding Date), American Shale entered into a purchase and sale agreement (the Republic PSA) with its joint venture partner, Republic Energy Ventures (Republic). Under the Republic PSA, for \$15 million, American Shale sold (i) an undivided interest across all of its undeveloped leasehold amounting to approximately 2,239 net acres, (ii) an over-riding royalty interest of 1.5% in all of its leasehold in Wetzel County, West Virginia, and (iii) an over-riding royalty interest of 1.0% in six (6) wells that are currently being drilled in Marshall County, West Virginia. The consideration is to be paid in the form of a credit against expenses incurred by Republic on behalf of American Shale. American Shale reserved the right to receive 25% of the net profits earned by Republic on the assets sold by American Shale under the Republic PSA. American Shale has the option to repurchase the undivided interest across all of its undeveloped leasehold, plus the over-riding royalty interest in its Wetzel County leasehold, for \$15 million if (i) such payment is made within six (6) months of the Funding Date, or (ii) a purchase and sale agreement that would allow for such repayment by American Shale is signed within such period and the transaction contemplated therein is closed prior to December 31, 2014. The Company has recognized a deferred gain on sale of assets in the current liabilities section of the Condensed Consolidated Balance Sheet in the amount of \$6,959,816 because the

Company has the option of repurchasing the undivided interest across all of its undeveloped leasehold, plus the overriding royalty interest in its Wetzel County leasehold by December 31, 2014.

As part of the Republic PSA, Republic also agreed to amend the Amended Joint Development Agreement with American Shale (the AJDA). Under the revised AJDA, Republic agreed to fund all costs associated with new leasehold acquisitions subsequent to April 1, 2014. American Shale has the right to buy a 25% interest in any such leasehold at Republic's cost, plus 12% interest, in the event that Republic sells its interest in the leasehold or permits a third party to drill a well on the leasehold. In the event that American Shale repays Republic under the terms of the Republic PSA, American Shale will have the option to fund a 50% portion of any future leasehold expenditures, upon providing satisfactory evidence of its ability to continue such funding on a go-forward basis.

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NOTE 6 ENVIRONMENTAL SETTLEMENT AND RELATED COSTS

On September 28 and December 17, 2012, the U.S. Environmental Protection Agency (EPA) issued to the Company seven administrative compliance orders and a request for information. The orders and request relate to our compliance with Clean Water Act (CWA) permitting requirements at seven pond and/or 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. The Company is actively cooperating with the EPA 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.

On August 25, 2014, Trans Energy entered into a civil Consent Decree with the EPA with respect to the CWA Matter and related issues that were discovered based upon an internal audit. Fines associated with the Consent Decree amount to \$3,000,000.

As part of the Consent Decree, Trans Energy is required to perform certain restoration activities at affected pond, well pad and access roads at multiple sites. We have preliminarily estimated the cost of early components of restoration over all the sites involved to be an additional \$3,000,000, net to Trans Energy. Overall costs may range as high as \$9,000,000. The restoration will be performed during the 2015, 2016 and 2017 construction seasons. Our estimate of costs to us will be refined, and may increase or decrease as we submit work plans to the EPA for approval to perform these restoration activities. Additionally, we are exploring avenues to offset some costs to the extent they are reimbursable through our joint venture agreements and the purchase or trading of wetland credits.

On October 1, 2014, Trans Energy, Inc. pleaded guilty to three misdemeanor charges related to Unauthorized Discharge into a Water of the United States in violation of the Clean Water Act. In connection with this plea, the Company agreed to pay a \$600,000 fine and was placed on probation for a period of two years. This fine was consistent with the amount the Company anticipated as disclosed in the Form 8-K filed September 3, 2014, that described the civil settlement reached with the Environmental Protection Agency (EPA).

As a result of this plea and the previously disclosed settlement agreement, all civil and criminal matters arising out of the EPA s investigation and complaints arising out of the ponds in Marshall and Wetzel Counties West Virginia have been resolved.

NOTE 7 NOTES PAYABLE

On April 26, 2012, our newly created, wholly owned subsidiary, American Shale, closed a Credit Agreement transaction (hereafter the ASD Credit Agreement) with 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 or Chambers).

The ASD Credit Agreement provided that the Lenders would lend American Shale up to \$50 million, which funds would be used to develop wells and properties that we transferred to American Shale. In order to accommodate the terms of the ASD Credit Agreement Trans Energy transferred certain assets and properties to American Shale. Trans Energy and Prima were not direct parties to the ASD Credit Agreement, but were guarantors of loans to be made there under. We received a portion of the loan proceeds to repay CIT and certain other outstanding debts. The assets and properties transferred are referred to herein as the Marcellus Properties, which at the time of the transfer consisted 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 Wetzel, Marshall, Marion, Tyler, and Doddridge.

The ASD Credit Agreement was originally 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 due annually. These OID costs were netted against notes payable and were being amortized over the life of the loan using the straight-line method, which approximates the effective interest method. For the nine months ended September 30, 2014 and 2013, \$1,189,400 and \$794,118 of the OID was amortized as interest expense, respectively.

On February 28, 2013, American Shale, the Lenders and the Agent amended and restated the ASD Credit Agreement (as amended, the A&R Credit Agreement) in order to facilitate an increase in the principal amount of the borrowings under the facility to \$75 million. The additional funds were received February 28, 2013. The other terms of the credit agreement were unchanged.

Interest was due monthly at 10% plus the greater of 1% or the 3 month LIBOR rate (11% at time of payoff). Principal was due at maturity, February 28, 2015. We had to pay interest through April 26, 2014, on any principal prepayments with respect to the original \$50 million loan at the time of the prepayment prior to April 26, 2014. American Shale was obligated to pay a Termination Fee with respect to the \$25 million loan upon the earliest to occur of (i) a Change of Control (as defined in the A&R Credit agreement), (ii) repayment in full of the loans under the A&R Credit agreement and (iii) certain defaults under the A&R Credit Agreement related to seeking relief from creditors or generally being unable to repay debts as they come due. The Termination Fee was defined as \$12.5 million less all interest payments actually made with respect to the \$25 million loan prior to such date.

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The Company estimated its liability related to the Termination Fee to be approximately \$6.8 million (\$12.5 million gross fee, less \$5.7 million in interest payments) (the Termination Fee Liability).

The Termination Fee Liability was recorded on the Company's condensed consolidated balance sheet as an addition to the related debt balance, offset by an equal debt discount of \$6.8 million (the Termination Fee Debt Discount). The Termination Fee Debt Discount was being amortized to interest expense through the expected payment date of February 28, 2015; however, such amortization was accelerated upon payment of the Termination Fee in conjunction with the Morgan Stanley financing as detailed below. At repayment of the loan the Termination Fee was computed to be \$9,077,778. For the three and nine months ended September 30, 2014, the Company recorded \$0 and \$3,940,689 of amortization related to the Termination Fee.

During the three and nine months ended September 30, 2014, the Company recorded interest expense of \$0 and \$1,115,280 related to the amortization of the Termination Fee Debt Discount.

The A&R Credit Agreement included a contingent interest provision that added 1% of the outstanding principal amount of the loan to the loan balance for any quarter in which American Shale's Consolidated Leverage Ratio exceeds certain levels, as defined in the ASD Credit Agreement. American Shale's Consolidated Leverage Ratio exceeded the allowed level at September 30, 2012, and quarterly thereafter. Therefore, the contingent interest provision had been applied and \$1,149,969 and \$2,030,050 was added to the principal balance and interest expense in 2014 (through the date of the repayment) and September 30, 2013, respectively.

For the months of August, September, and October 2013, Chambers amended the ASD Credit Agreement to add the interest due during those months to the principal balance of the loan. In addition, \$375,000 was added to the principal balance of the loan in connection with this amendment. The \$375,000 was being amortized over the three month period. August, September and October 2013 interest of \$2,186,038 was added to the principal balance of the loan.

On December 20, 2013, American Shale amended the A&R Credit Agreement to increase the principal amount of the borrowings by \$7.5 million to pay a portion of the cost to purchase an outstanding warrant held by Chambers (See Note 7). There were no other changes to the terms of the loan. The additional funds were received December 20, 2013.

On May 21, 2014, our wholly owned subsidiary, American Shale, entered into a credit agreement (hereafter the Credit Agreement) by and among American Shale, several lenders (the Lenders), and Morgan Stanley Capital Group Inc. as the administrative agent (Agent). Trans Energy is a guarantor of the Credit Agreement as is Prima, another of our wholly owned subsidiaries. The Credit Agreement provides that the Lenders will lend American Shale up to \$200 million, including an initial draw of \$102.5 million plus a PIK fee of \$593,750, a contingent committed amount of \$47.5 million and an uncommitted amount of \$50 million (the Loans). The initial draw under the facility was used primarily to repay all of the outstanding debt under the A&R Credit Agreement with Chambers, as well as to fund certain fees and expenses incurred in connection with the Credit Agreement (collectively, the Morgan Stanley Financing).

The Loans will initially bear interest at a per annum rate equal to 9% plus the greater of 1% or LIBOR, for a three month interest period. The interest rate will be automatically lowered if American Shale improves the ratio of the value of its proved developed producing (PDP PV9) properties to its funded debt, less cash and other liquid assets, as further defined under the Credit Agreement (the Net Debt Ratio). Upon the occurrence of certain events of default, the loans will bear interest at an additional 2% per annum above the initial rate, and with respect to other events of default, may bear interest at the higher default rate. Interest will be due and payable monthly in arrears. During the three months ending September 30, 2014, the Company recorded interest expense of \$1,145,486 related to the Credit Agreement.

The initial loan was advanced as a single funding of \$102.5 million plus a PIK fee of \$593,750 on the Funding Date. Additional amounts up to \$47.5 million may be drawn within the two year period after the Funding Date provided that the Net Debt Ratio, pro forma for such subsequent drawdowns, based on the level of PDP PV9 that is projected six months from the date of each drawdown, meets certain pre-defined targets. All principal will be due on December 31, 2018 (the Maturity Date), if not accelerated before that date. Scheduled amortization of the principal amount of the loans may begin on May 1, 2015, unless the Net Debt Ratio exceeds certain defined parameters, in which case scheduled amortization may begin as late as May 1, 2016. No amortization is required if American Shale's Net Debt Ratio meets certain criteria. The minimum amortization required each month will be the greater of (i) 0.75% of the then outstanding balance (after May 1, 2016) or (ii) the amortization amount that would be required for American Shale to achieve a predetermined Net Debt Ratio within six months. Such ratios increase over time.

The principal amount of the Loans may be prepaid, but not reborrowed. If the Loans are prepaid on or prior to the first anniversary of the Funding Date, a make-whole amount will be charged equal to 4.0% of the principal balance of the Loans, plus the sum of the remaining scheduled payments of interest prior to the first anniversary of the Funding Date. Up to \$25 million of prepayments from specified sources will be exempt from this provision if payments are made prior to the first anniversary of the Funding Date. If the Loans are prepaid on or after the first anniversary of the Funding Date but prior to the second anniversary of the Funding Date, a make-whole amount equal to 4.0% of the principal balance of the Loans will be charged. Prepayments between the second and third anniversary of the Funding Date will be charged 3.0% of the principal balance of the Loans.

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The Credit Agreement also includes certain customary affirmative covenants such as minimum hedging requirements, delivery of financial information, operation and maintenance of properties, and maintenance of books and records. Financial covenants include a maximum leverage ratio (latest twelve months EBITDA to net debt) and minimum current ratio (consolidated current assets to consolidated current liabilities). The definition of net debt includes funded debt plus accounts payable, offset by cash as well as accounts receivable. American Shale is also required to apply toward approved capital expenditures a minimum of 50% of the proceeds of any equity issuance that occurs subsequent to the first anniversary of the Funding Date.

Negative covenants include limitations on indebtedness, liens, fundamental changes, dispositions of property, payment of dividends or distributions, capital expenditures, investments and transactions with affiliates. There are also limitations on hedging transactions, creation or acquisition of subsidiaries, use of proceeds, drilling without providing title opinions, amending certain documents and appointing non-approved officers or directors.

Upon the occurrence of a change of control (as defined in the Credit Agreement), the Lenders may require American Shale to pay all of the outstanding interest, make-wholes and fees in addition to 101% of the principal amounts of the Loans under the Credit Agreement.

On the Funding Date, American Shale also entered into a Net Profits Interest Agreement (the "NPI Agreement") with the Agent. The NPI Agreement provides that subsequent to the repayment of the Loans, American Shale will pay a net profits interest to the Agent (the "NPI"). The NPI is to be calculated based on production revenues less certain expenditures, including operating costs, general and administrative expenses, interest and capital expenditures. The amount of interest expense and general and administrative expenses that can be charged are limited based on the amounts that were previously expensed prior to repayment of the Loans. The NPI is earned based on amounts borrowed under the Credit Agreement. As of the Funding Date, a NPI of 6.5% of the net profits, as defined under the NPI Agreement, has been earned. The Agent will earn up to an additional 2.5% of the net profits pro rata for any subsequent borrowing by American Shale under the \$47.5 million contingent commitment. At June 30, 2014, the company recorded a discount related to the NPI of \$3,339,376 on proved property and \$733,034 on unproved property. The total value recorded as a discount on loan payable related to the NPI is \$4,072,410. For the three months ended September 30, 2014, the company recorded accretion of the discount related to the NPI in the amount of \$296,175 which is computed using the straight line method over the life of the loan, which approximates the effective interest method.

The NPI Agreement provides the Agent with the option to sell its NPI for fair value, as defined in the NPI Agreement, alongside American Shale or Trans Energy in the event that either American Shale or Trans Energy sells interests, including partial interests, in the subject properties at a fair value for the NPI that meets or exceeds \$1.5 million for each 1.0% of NPI earned by the Agent prior to such date. In such event, American Shale can also require the Agent to sell all of its NPI to American Shale (or, alternatively, to the buyer of any subject interests) for fair value. In the event of a sale of all or substantially all of the assets of American Shale, fair value is defined as the net cash received that is attributable to the equity interests of either American Shale or Trans Energy in such transaction.

On August 20, 2014, American Shale made a \$5 million draw in accordance with the Credit Agreement.

The following table summarizes the components of total debt recorded on the Company's consolidated balance sheets as of September 30, 2014 and December 31, 2013:

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	September 30, 2014	December 31, 2013
	(unaudited)	(audited)
ASD Credit Agreement	\$	\$ 50,000,000
Unamortized Original Issuance Discount - ASD		(1,235,294)
PIK Contingent Interest Expense		2,530,050
A&R Credit Agreement-February 2013		25,000,000
Termination Fee A&R		6,784,626
Termination Fee Debt Discount A&R		(3,940,659)
PIK Interest Fee-ASD		375,000
PIK Interest A&R		2,186,037
A&R Credit Agreement -December 2013		7,500,000
Other loans - related party		205,314
Other loans - vehicles	8,189	19,239
ASD Credit Agreement - Morgan Stanley Tranche A	107,500,000	
ASD Credit Agreement - Morgan Stanley PIK Fee	593,750	
ASD Credit Agreement - Morgan Stanley NPI	(3,776,235)	
Total debt	\$ 104,325,704	\$ 89,424,313

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On May 9, 2013 our subsidiary, American Shale, entered into costless collars (BP Hedge) covering approximately 85% of its expected natural gas production from wells that were considered proved developed producing (PDP) as of that date. Neither oil nor natural gas liquids have been hedged, but the BTU associated with our ethane production was essentially hedged, since it is sold as part of the natural gas stream. The costless collars consist of long put options (floor) with a strike price of \$4.00 per MMBtu and offsetting short calls (ceiling) with a strike price of \$4.28 per MMBtu. The aforementioned volumes are hedged beginning with the June 2013 contract and ending with the April 2015 contract. A total of 1.6 MMBtu is hedged over this period, with monthly volumes declining from a high of approximately 207,000 MMBtu in June 2013 to 113,000 MMBtu in April 2015. The fair value of these commodity contracts was \$32,174 and \$(125,773) at September 30, 2014 and December 31, 2013, respectively.

On May 21, 2014 American Shale, entered into fixed price hedges (Morgan Stanley Fixed I) covering approximately 90% of its expected natural gas production from PDP wells as of that date. Neither oil nor natural gas liquids have been hedged, but the BTU associated with our ethane production was essentially hedged, since it is sold as part of the natural gas stream. The hedges consist of long put options (floor) with strike prices ranging between \$4.38 per MMBtu to \$4.06 per MMBtu. The hedges begin with the June 2014 contract and end with the December 2018 contract. A total of 13,932,171 MMBtu is hedged over this period, with monthly volumes declining from a high of 444,534 MMBtu in July 2014 to 171,940 MMBtu in November 2018. The fair value of these commodity contracts was \$577,585 at September 30, 2014.

On August 20, 2014 American Shale, entered into fixed price hedges (Morgan Stanley Fixed II) covering approximately 90% of its expected natural gas production from PDP wells as of that date. Neither oil nor natural gas liquids have been hedged, but the BTU associated with our ethane production was essentially hedged, since it is sold as part of the natural gas stream. The hedges consist of long put options (floor) with a fixed strike price of \$3.92 per MMBtu. The hedges begin with the September 2014 contract and end with the December 2018 contract. A total of 10,499,038 MMBtu is hedged over this period, with monthly volumes declining from a high of 326,700 MMBtu in January 2015 to 33,200 MMBtu in November 2014. The fair value of these commodity contracts was \$(878,168) at September 30, 2014.

The Company has a master netting agreement on the gas hedge and therefore the current asset and liability are netted on the condensed consolidated balance sheet and the non-current asset and liability are netted on the condensed consolidated balance sheet.

The use of derivative transactions involves the risk that the counterparties will be unable to meet the financial terms of such transactions. The Company has netting arrangements with BP Energy Company that provide for offsetting payables against receivables from separate derivative instruments.

The following tables summarize the approximate volumes and average contract prices of contracts the Company had in place for gas collars and gas hedges as of September 30, 2014:

Contract Period of BP Hedge	Volumes (MMBtu)	Weighted- Average Floor Price (per MMBtu)	Weighted- Average Ceiling Price (per MMBtu)
2014	371,808	\$ 4.00	\$ 4.28

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2015	464,825	\$	4.00	\$	4.28
All gas collars*	836,633				

* Gas collars are comprised of IF Henry Hub (100%).

Contract Period of Morgan Stanley Fixed I	Volumes (MMBtu)	Weighted-Average Fixed Price (per MMBtu)
2014	971,987	\$ 4.38
2015	3,581,893	\$ 4.11
2016	3,058,358	\$ 4.06
2017	2,528,996	\$ 4.16
2018	2,193,294	\$ 4.29
All gas hedges*	12,334,528	

* Gas hedges are comprised of IF Henry Hub (100%).

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Contract Period of Morgan Stanley Fixed II	Volumes (MMBtu)	Weighted-Average Fixed Price (per MMBtu)
2014	586,700	\$ 3.92
2015	2,249,200	\$ 3.92
2016	2,887,048	\$ 3.92
2017	2,528,996	\$ 3.92
2018	2,193,294	\$ 3.92
All gas hedges*	10,445,238	

* Gas hedges are comprised of IF Henry Hub (100%).

As a part of the ASD Credit Agreement, we entered into a warrant agreement with Chambers which required American Shale to sell the Lenders for a total of \$2 million a warrant for 19,500 shares representing 19.5% of American Shale's stock at \$263.44 per share. The warrant would have contractually expired on February 28, 2015. The warrant included a put option whereby the Lenders could require American Shale to repurchase the warrant as of February 28, 2015, or earlier if certain events occur. Under the put option, American Shale would pay the excess of the fair 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 certain circumstances, American Shale had the option to transfer working interest in all of its wells equal to the value of the put option instead of paying in cash. As a result of the contingent put, the warrant is accounted for as a liability with changes in its fair value reported in earnings.

On December 20, 2013, American Shale entered into an agreement with the holders of all of its outstanding warrants whereby American Shale agreed to purchase the warrants from the holders for \$9 million. The proceeds from the increased borrowings under the A&R Credit Agreement were used to partially fund the purchase of the warrants from the holders.

The following tables detail the fair value of derivatives recorded in the accompanying balance sheets, by category:

	As of September 30, 2014			
	Derivative Assets		Derivative Liabilities	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
Commodity derivative	Current assets	\$ 780,148	Current liabilities	\$ 217,451
Commodity derivative	Noncurrent assets		Noncurrent liabilities	831,106
		\$ 780,148		\$ 1,048,557

As of December 31, 2013			
Derivative Assets		Derivative Liabilities	

	Balance Sheet		Balance Sheet	
	Classification	Fair Value	Classification	Fair Value
Commodity derivative	Current assets	\$	Current liabilities	\$ 58,176
Commodity derivative	Noncurrent assets		Noncurrent liabilities	67,597
		\$		\$ 125,773

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The table below summarizes the realized and unrealized gains and losses related to our derivative instruments for the three and nine months ended September 30, 2014 and 2013.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Realized gains (loss) on commodity derivative	\$ 530,150	\$ 237,419	\$ 80,103	\$ 237,419
Change in fair value of commodity derivative	2,432,946	(136,623)	(142,636)	522,733
Change in fair value of warrant derivative liability		3,806		595,245
Total realized and unrealized gains (loss) recorded	\$ 2,963,096	\$ 104,602	\$ (62,533)	\$ 1,355,397

These realized and unrealized gains and losses are recorded in the accompanying unaudited condensed consolidated statements of operations as derivative gains (losses).

NOTE 9 FAIR VALUE MEASUREMENTS

The authoritative guidance establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions of what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. The hierarchy is broken down into three levels based on the reliability of the inputs as follows:

- Level 1: Quoted prices are available in active markets for identical assets or liabilities;
- Level 2: Quoted prices in active markets for similar assets and liabilities that are observable for the asset or liability; or
- Level 3: Unobservable pricing inputs that are generally less observable from objective sources, such as discounted cash flows models or valuations.

The financial assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of the fair value of assets and liabilities and their placement within the fair value hierarchy levels. The Company's policy is to recognize transfers in and/or out of fair value hierarchy as of the end of the reporting period for which the event or change in circumstances caused the transfer. The valuation policies are determined by the principal financial officer and are approved by the President. Fair value measurements are discussed with the Company's audit committee, as deemed appropriate. Each quarter, the inputs used in the fair value calculations are updated and management reviews the changes from period to period for reasonableness. The Company has consistently applied the valuation techniques discussed below in all periods presented.

The following table presents the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 by level within the fair value hierarchy

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	Level 1	Level 2	Level 3	Total
<u>September 30, 2014</u>				
ASSETS:				
Commodity contracts		\$ 780,148		\$ 780,148
LIABILITIES:				
Commodity contracts		\$ 1,048,557		\$ 1,048,557
<u>December 31, 2013</u>				
ASSETS:				
Commodity contracts				
LIABILITIES:				
Commodity contracts		\$ 125,773		\$ 125,773

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We use Level 2 inputs to measure the fair value of gas commodity collar derivatives. Level 2 assets consist of commodity derivative assets and liabilities (See Note 7 - Derivative and Hedging Financial Instruments). The fair value of the commodity derivative assets and liabilities is estimated by the Company using the income valuation techniques utilizing the income approach and an option pricing model, which take into account notional quantities, market volatility, market prices, contract parameters, counterparty credit risk and discount rates based on published LIBOR rates. The Company validates the data provided by third parties by understanding the pricing models used, obtaining market values from other pricing sources, analyzing pricing data in certain situations and confirming that those securities trade in active markets. Assumed credit risk adjustments, based on published credit ratings, public bond yield spreads and credit default swap spreads, are applied to the Company's commodity derivatives.

As of December 31, 2012, the Company's warrant derivative financial instrument issued as a part of the ASD Credit Agreement were comprised of the warrants issued by the Company to purchase 19,500 shares of common stock with a put option (See Note 7 - Derivative and Hedging Financial Instruments). The warrants were valued by third parties using a binomial lattice-based valuation model and were classified as Level 3 in the fair value hierarchy. The lattice-based valuation technique was utilized because it embodies all of the requisite assumptions (including the underlying price, exercise price, term, volatility, and risk-free interest-rate) that were necessary to measure the fair value of these instruments. The Company uses data from its peers as well as from external sources in the determination of the volatility and risk free interest rates used in the fair value calculations. A sensitivity analysis is performed as well to determine the impact of the inputs on the ending fair value estimate. Estimating fair values of derivative financial instruments requires the development of significant and subjective estimates that may, and are likely to, change over the duration of the instrument due to both internal and external market factors. In addition, option-based techniques are highly sensitive to volatility assumptions. An increase in the volatility would cause an increase in the fair value of the warrants. Likewise, a decrease in the volatility would cause a decrease in the value of the Warrants.

The significant assumptions used in the valuation of the warrant derivative liability as of December 31, 2012 were as follows:

Exercise price	\$1.63 per share
Stock price	\$2.89 per share
Volatility	75%
Remaining Term of Warrants	1.41 years
Risk-free interest rate	0.20%

The following table sets forth a reconciliation of changes in the fair value of financial liabilities classified as Level 3 in the fair value hierarchy:

	September 30, 2014	September 30, 2013
Balance as of beginning of period	\$	\$ (2,216,839)
Total realized and unrealized gains (losses)		
Included in earnings		3,806
Issuances		
Settlements		
Transfers in and out of Level 3		

Balance as of September 30	\$	\$ (2,213,033)
Change in unrealized gains included in earnings		
Relating to instruments still held as of September 30	\$	\$ (3,806)

NOTE 10 STOCKHOLDERS EQUITY

In August 2014, Trans Energy issued 400,000 shares of common stock to William F. Woodburn, a related party, for the exercise of options at a price of \$0.65 per share.

In August 2014, Trans Energy issued 190,000 shares of common stock to Loren E. Bagley, a related party, for the exercise of options at a price of \$0.65 per share.

In August 2014, Trans Energy issued 75,000 shares of common stock to Mark D. Woodburn, a related party, for the exercise of options at a price of \$0.65 per share.

In August 2014, Trans Energy issued 10,000 shares of common stock to Brett Greene, a related party, for the exercise of options at a price of \$0.65 per share.

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In August 2014, Trans Energy issued 20,998 shares of common stock to Jordan Corp, a related party, in a cashless exercise of options at a price of \$0.65 per share.

In August 2014, Trans Energy issued 62,963 shares of common stock to John G. Corp, a related party, in a cashless exercise of options at a price of \$0.65 per share.

In April 2014, we granted 21,000 shares of stock to three employees under the long-term incentive bonus program. The 21,000 shares are not performance based and vest semi-annually over a three year period. The 21,000 shares were valued at \$3.80 per share of common stock using the fair value of the common stock at the date of grant and the fair value will be amortized to compensation expense semi-annually over three years.

In April 2014, we also granted 252,000 common stock options to six employees and five outside board members. These options vest semi-annually over three years and have a five year term. These stock options were granted at an exercise price of \$3.80 per common share and the fair value was determined using the Black Scholes option pricing model. The options are being amortized to share-based compensation expense semi-annually over the vesting period.

In January 2014, Trans Energy issued 25,000 shares of common stock to Jonathan J. Corp, a related party, for the exercise of options at a price of \$0.65 per share.

In January 2014, Trans Energy issued 138,331 shares of common stock to Clarence E. Smith, a 5% Beneficial owner, for the exercise of options at a price of \$1.50 per share.

In December 2013, Trans Energy granted 9,000 shares of common stock to eleven employees. These shares vest immediately and the shares were valued using the fair market value of the common stock at the date of grant. During 2013, we recorded \$25,650 of share-based compensation expense related to these shares.

In November 2013, Trans Energy issued 37,500 shares of common stock to Opco related to their settlement agreement.

In May 2013, we also granted 100,000 common stock options to an 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 and the fair value was determined using the Black Scholes option pricing model. The options are being amortized to share-based compensation expense semi-annually over the vesting period.

In February 2013, we granted 42,000 shares of stock to five employees under the long-term incentive bonus program. Of the 42,000 shares, 36,000 shares are not performance based and vest semi-annually over a three year period and 6,000 shares are performance based and vest semi-annually over a three year period, subject to ongoing employment. The 42,000 shares were valued at \$2.50 per share of common stock using the fair value of the common stock at the date of grant and the fair value will be amortized to compensation expense semi-annually over three years.

In February 2013, we also granted 346,000 common stock options to seven employees and five outside board members. These options vest semi-annually over three years and have a five year term. These stock options were granted at an exercise price of \$2.50 per common share and the fair value was determined using the Black Scholes option pricing model. The options are being amortized to share-based compensation expense semi-annually over the vesting period. Of the 346,000 options granted, 12,000 of the options are performance based.

The Company has computed the fair value of all options granted using the Black-Scholes option pricing model. In order to calculate the fair value of the options, certain assumptions are made regarding components of the model,

including the estimated fair value of the underlying common stock, risk-free interest rate, volatility, expected dividend yield and expected option life. Changes to the assumptions could cause significant adjustments to valuation. The Company estimated a volatility factor utilizing a weighted average of comparable published volatilities of peer companies. The Company has estimated a forfeiture rate of zero as the effect of forfeitures has not been significant and the small number of option holders does not provide a reasonable basis for prediction. The Company estimates the expected term based on the average of the vesting term and the contractual term of the options. The risk-free interest rate is based on the U.S. Treasury yield in effect at the time of the grant for treasury securities of similar maturity. The fair value of all options granted by the Company for 2011 through 2014 was determined using the following assumptions:

Expected volatility	70% - 90%
Risk free interest rate	0.80% - 1.75%
Expected term (years)	3.0 - 5.0
Dividend yield	0%

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As a result of the above stock and option transactions, we recorded total stock-based compensation of \$214,906 and \$283,892 for the three months ended September 30, 2014 and 2013, respectively and \$698,122 and \$919,755 for the nine months ended September 30, 2014 and 2013, respectively.

Stock option activity is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Fair Value
Outstanding December 31, 2012	3,640,324	\$ 1.76	2.69 Years	\$ 6,406,970
Granted	446,000	\$ 2.61		
Exercised	(30,500)	\$ 2.67		
Forfeited	(10,500)	\$ 2.35		
Expired				
Outstanding December 31, 2013	4,045,324	\$ 1.85	2.05 Years	\$ 7,483,849
Granted	252,000	\$ 3.80		
Exercised	(938,331)	\$ 0.78		
Forfeited	(14,000)	\$ 2.43		
Expired				
Outstanding September 30, 2014	3,344,993	\$ 2.01	1.79 Years	\$ 6,723,438
Exercisable at September 30, 2014	3,023,329	\$ 2.09		\$ 6,318,758
Unvested at September 30, 2014	321,664			

NOTE 11 EARNINGS PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. The shares of restricted common stock granted to certain officers and employees of the Company are included in the computation of basic net income (loss) per share only after the shares become fully vested. Diluted net income (loss) per share of common stock includes both vested and unvested shares of restricted stock. Diluted net income (loss) per common share of stock is computed by dividing net income by the diluted weighted-average common shares outstanding. When a loss from continuing operations exists, all potentially dilutive securities are anti-dilutive and are therefore excluded from the computation of diluted earnings per share. As the Company had losses for the three and nine month periods ended September 30, 2014 and 2013, the potentially dilutive shares were anti-dilutive and were thus not included in the net loss per share calculation.

As of September 30 2014, potentially dilutive securities included (i) 49,500 unvested shares of restricted common stock and (ii) 3,344,994 in-the-money outstanding options.

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Our principal operations consist of exploration and production through Trans Energy, American Shale and Prima, and pipeline transmission with Ritchie County Gathering Systems and Tyler Construction Company.

Certain financial information concerning our operations in different segments is as follows:

	For the Three Months Ended September 30	Exploration and Production	Pipeline Transmission	Corporate	Total
Revenue	2014	\$ 6,667,618	\$ 44,256	\$ 63,407	\$ 6,775,281
	2013	4,343,739	35,203	25,801	4,404,743
Income (Loss) from operations	2014	368,873	(21,715)	(7,713,446)	(7,366,288)
	2013	862,737	(10,376)	(1,855,586)	(1,003,225)
Interest expense	2014	2,901,745		1,567	2,903,312
	2013	5,200,033		595	5,200,628
Depreciation, depletion, amortization and accretion	2014	3,087,854	250		3,088,104
	2013	986,393	277		986,670
Property and equipment acquisitions, including oil and gas properties	2014	8,056,902		6,383	8,063,285
	2013	12,242,765	10,000		12,252,765
	For the Nine Months Ended September 30	Exploration and Production	Pipeline Transmission	Corporate	Total
Revenue	2014	\$ 24,816,633	\$ 121,875	\$ 69,840	\$ 25,008,348
	2013	12,559,344	97,093	28,790	12,685,227
Income (Loss) from operations	2014	7,667,821	7,141	(10,689,310)	(3,014,348)
	2013	2,900,923	21,153	(4,701,132)	(1,779,056)
Interest expense	2014	16,703,108		6,156	16,709,264
	2013	10,995,490		6,512	11,002,002
Depreciation, depletion, amortization and accretion	2014	7,447,943	856		7,448,799
	2013	2,364,950	330		2,365,280
	2014	24,064,991		8,470	24,073,461

**Property and
equipment
acquisitions, including
oil and gas properties**

	2013	24,942,086	10,000	24,952,086
Total assets, net of intercompany accounts:				
September 30, 2014		103,597,410	14,670	103,612,080
December 31, 2013		90,098,192	17,129	90,115,321

Property and equipment acquisitions include accrued amounts and reclassifications.

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NOTE 13 - RELATED PARTY TRANSACTIONS

In November 2013, Clarence E. Smith, a 5% Beneficial Owner, issued payment to the Company in the amount of \$200,000. Mr. Smith was exercising 138,331 options at a price of \$1.50 per share. On January 24, 2014, Mr. Smith's stock was issued. The Company is recognizing interest since the funds were held approximately three months before the stock was actually issued. At December 31, 2013, the \$205,314 due to Mr. Smith is recorded as a note payable, related party in the current liability section of the balance sheet.

During 2013 and 2014, the Company has conducted business with two companies owned by Clarence E. Smith. Work was awarded the companies after bids were sought and reviewed. The amount of payments total \$48,000 and \$48,000 for 2013 and 2014, respectively.

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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 Principal 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 Principal 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.

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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: January 9, 2015

By: /s/ JOHN G. CORP
JOHN G. CORP
Principal Executive Officer

Date: January 9, 2015

By: /s/ MICHAEL R. GUZZETTA
MICHAEL R. GUZZETTA
Treasurer