

Edgar Filing: TRANS ENERGY INC - Form 10-Q

TRANS ENERGY INC  
Form 10-Q  
November 12, 2008  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarter Ended September 30, 2008

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  
incorporation or organization)

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

210 Second Street, P.O. Box 393, St. Marys, West Virginia 26170

Edgar Filing: TRANS ENERGY INC - Form 10-Q

(Address of principal executive offices)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, and accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer" and "small 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 (X)

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

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

<u>-----</u> Class <u>-----</u>	<u>Outstanding as of October 21, 2008</u>
Common Stock, \$0.001 par value	10,507,565

---

# Edgar Filing: TRANS ENERGY INC - Form 10-Q

## Table of Contents

<u>Heading</u>	<u>Page</u>
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements	3
Consolidated Balance Sheets – September 30, 2008 and December 31, 2007 (Unaudited)	4
Consolidated Statements of Operations – Three and Nine Months Ended September 30, 2008 and 2007 (Unaudited)	5
Consolidated Statement of Stockholders’ Deficit – Nine Months Ended September 30, 2008 (Unaudited)	6
Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2008 and 2007 (Unaudited)	7
Notes to Consolidated Financial Statements (Unaudited)	8
Item 2. Management’s Discussion and Analysis or Plan of Operation	13
Item 3. Quantitative and Qualitative Disclosures About Market Risk	16
Item 4. Controls and Procedures	16
PART II OTHER INFORMATION	
Item 1. Legal Proceedings	17
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	17

Edgar Filing: TRANS ENERGY INC - Form 10-Q

Item 3.	Defaults Upon Senior Securities	18
Item 4.	Submission of Matters to a Vote of Securities Holders	18
Item 5.	Other Information	18
Item 6.	Exhibits	18
	Signatures	18

**PART I****Item 1. Financial Statements****TRANS ENERGY, INC. AND SUBSIDIARIES****Consolidated Balance Sheets****(Unaudited)**

	September 30, 2008	December 31, 2007
ASSETS		
CURRENT ASSETS		
Cash	\$ 1,259,509	\$ 1,702,373
Accounts receivable	1,101,617	285,204
Accounts receivable – related parties	1,693,244	478,160
Accounts receivable due from non-operator, net	2,209,521	243,666
Deferred financing costs	167,429	167,429
Derivative – current	43,078	43,095
Prepaid expenses	-	8,000
Total Current Assets	6,474,399	2,927,927
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$275,930 and \$174,311, respectively	858,855	664,942
OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING		
Proved properties	18,106,407	10,764,411
Unproved properties	538,129	250,670
Pipelines	3,941,491	2,764,797
Accumulated depreciation, depletion and amortization	(2,420,053)	(1,801,262)
Oil and gas properties, net	20,165,973	11,978,616
OTHER ASSETS		
Deferred financing costs, net of amortization of \$249,153 and \$119,136, respectively	212,632	242,467
Derivative – non-current	84,525	135,369
Advances to operator	9,000	557,715
Other assets	58,782	58,334
Total Other Assets	364,939	993,885

Edgar Filing: TRANS ENERGY INC - Form 10-Q

TOTAL ASSETS	\$ 27,864,166	\$ 16,565,370
--------------	---------------	---------------

See notes to unaudited consolidated financial statements.

3

---

Edgar Filing: TRANS ENERGY INC - Form 10-Q

**TRANS ENERGY, INC. AND SUBSIDIARIES**  
**Consolidated Balance Sheets (continued)**  
**(Unaudited)**

	September 30, 2008	December 31, 2007
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable, trade	\$ 2,657,487	\$ 2,318,852
Accounts payable – related party	159,050	248,364
Accrued expenses	653,711	929,288
Accrued expenses – related party	-	31,000
Notes payable – current	90,826	86,972
<b>Total Current Liabilities</b>	<b>3,561,074</b>	<b>3,614,476</b>
<b>LONG-TERM LIABILITIES</b>		
Notes payable, net of unamortized discount of \$549,140 and \$791,070, respectively	25,525,708	14,033,528
Asset retirement obligations	178,954	166,895
<b>Total Long-Term Liabilities</b>	<b>25,704,662</b>	<b>14,200,423</b>
<b>Total Liabilities</b>	<b>29,265,736</b>	<b>17,814,899</b>
<b>COMMITMENTS AND CONTINGENCIES</b>		
<b>STOCKHOLDERS' DEFICIT</b>		
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; 10,475,065 and		
9,530,065 shares issued, and 10,474,065 and 9,529,065 shares		
outstanding, respectively	10,475	9,530
Additional paid-in capital	35,029,556	34,117,443
Treasury stock, at cost, 1,000 shares	(750)	(750)
Accumulated deficit	(36,440,851)	(35,375,752)
<b>Total Stockholders' Deficit</b>	<b>(1,401,570)</b>	<b>(1,249,529)</b>

Edgar Filing: TRANS ENERGY INC - Form 10-Q

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 27,864,166	\$ 16,565,370
---	---------------	---------------

See notes to unaudited consolidated financial statements.

4

---



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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
REVENUES	\$ 2,188,071	\$ 416,837	\$ 3,844,791	\$ 1,119,109
COSTS AND EXPENSES				
Production costs	570,513	253,073	1,178,365	547,130
Exploration costs	-	10,000	-	169,105
Dry hole costs	-	-	94,216	-
Depreciation, depletion, amortization and accretion	365,424	28,737	742,006	207,793
Selling, general and administrative	404,554	493,722	1,534,620	1,628,752
Gain on sale of assets	-	-	(1,866)	(775,139)
Total Costs and Expenses	1,340,491	785,532	3,547,341	1,777,641
INCOME (LOSS) FROM OPERATIONS	847,580	(368,695)	297,450	(658,532)
OTHER INCOME (EXPENSES)				
Interest income	3,046	20,599	13,088	23,610
Other income	-	34,918	92,396	80,701
Interest expense	(496,457)	(340,137)	(1,417,172)	(557,615)
Gain (loss) on derivative contracts	92,528	(25,186)	(50,861)	(25,186)
Total Other Expenses	(400,883)	(309,806)	(1,362,549)	(478,490)
NET INCOME (LOSS) BEFORE INCOME TAXES	446,697	(678,501)	(1,065,099)	(1,137,022)
INCOME TAXES	-	-	-	-
NET INCOME (LOSS)	\$ 446,697	\$ (678,501)	\$ (1,065,099)	\$ (1,137,022)
INCOME (LOSS) PER SHARE - BASIC	\$ 0.04	\$ (0.07)	\$ (0.10)	\$ (0.12)
INCOME (LOSS) PER SHARE - DILUTED	\$ 0.04	\$ (0.07)	\$ (0.10)	\$ (0.12)
WEIGHTED AVERAGE SHARES OUTSTANDING - BASIC	10,475,065	9,513,065	10,320,403	9,474,375
WEIGHTED AVERAGE SHARES OUTSTANDING - DILUTED	12,408,036	9,513,065	10,320,403	9,474,375

See notes to unaudited consolidated financial statements.

5

---

**TRANS ENERGY, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Stockholders' Deficit**  
**For the Nine Months Ended September 30, 2008**  
**(Unaudited)**

	<b>Common Stock</b>		<b>Additional</b>	<b>Treasury</b>	<b>Accumulated</b>	<b>Total</b>
	<b>Shares</b>	<b>Amount</b>	<b>Paid in</b> <b>Capital</b>			
Balance, December 31, 2007	9,530,065	\$ 9,530	\$ 34,117,443	\$ (750)	\$ (35,375,752)	\$ (1,249,529)
Fair value of options granted	-	-	118,458	-	-	118,458
Shares issued for stock compensation payable	630,000	630	515,970	-	-	516,600
Shares issued for services	315,000	315	277,685	-	-	278,000
Net loss	-	-	-	-	(1,065,099)	(1,065,099)
Balance, September 30, 2008	10,475,065	\$ 10,475	\$ 35,029,556	\$ (750)	\$ (36,440,851)	\$ (1,401,570)

See notes to unaudited consolidated financial statements.

Edgar Filing: TRANS ENERGY INC - Form 10-Q

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

	For the Nine Months Ended	
	September 30,	
	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net loss	\$ (1,065,099)	\$ (1,137,022)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation, depletion, amortization and accretion	742,006	207,793
Amortization of financing cost and debt discount	371,947	168,822
Share-based compensation	396,458	326,922
Gain on sale of assets	(1,866)	(775,139)
Unrealized loss on derivative contract	50,861	59,419
Changes in operating assets and liabilities:		
Accounts receivable	(816,414)	(29,038)
Accounts receivable – related parties	(1,215,084)	84,824
Accounts receivable - non-operator, net	(1,965,855)	-
Advances to operator, net	548,715	-
Prepaid expenses and other assets	7,552	21,875
Accounts payable and accrued expenses	579,657	476,080
Accounts payable and accrued expenses – related party	(120,314)	9,564
Net cash used by operating activities	(2,487,436)	(666,601)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from sale of assets	5,000	1,442,139
Expenditures for oil and gas properties	(8,813,719)	(4,287,195)
Expenditures for property and equipment	(300,632)	(231,255)
Net cash used by investing activities	(9,109,351)	(3,076,311)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Cash paid for derivative contracts	-	(310,000)
Proceeds from notes payable, net of financing costs and cash discount of \$100,200 and \$701,017, respectively	11,219,574	9,166,800
Payments on notes payable	(65,651)	(3,362,762)
Payments on related party debt	-	(499,739)
Net cash provided by financing activities	11,153,923	4,994,299
<b>NET CHANGE IN CASH</b>	<b>(442,864)</b>	<b>1,251,387</b>
<b>CASH, BEGINNING OF PERIOD</b>	<b>1,702,373</b>	<b>208,815</b>
<b>CASH, END OF PERIOD</b>	<b>\$ 1,259,509</b>	<b>\$ 1,460,202</b>
<b>SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$ 987,944	\$ 246,396
Cash paid for income taxes	\$ -	\$ -

Non-cash investing and financing activities:

Edgar Filing: TRANS ENERGY INC - Form 10-Q

Increase in asset retirement obligation	\$ 6,711	\$ -
Revision of asset retirement obligation	\$ 14,282	\$ -
Common shares issued for stock compensation	\$ 516,600	\$ -
Discount on debt for net profits interest	\$ -	\$ 765,000
Conversion of related-party debt to common stock	\$ -	\$ 50,000

See notes to unaudited consolidated financial statements.

7

---

**TRANS ENERGY, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements**

**(Unaudited)**

**NOTE 1 – BASIS OF FINANCIAL STATEMENT PRESENTATION**

The accompanying unaudited interim consolidated financial statements have been prepared by Trans Energy, Inc. pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been 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, 2007 Annual Report on Form 10-KSB. Operating results for the nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

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

**NOTE 2 – GOING CONCERN**

Trans Energy's unaudited interim consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities in the normal course of business. Trans Energy has incurred cumulative operating losses through September 30, 2008 of \$36,440,851 and had a stockholders' deficit of \$1,401,570 at September 30, 2008. Revenues during the quarter ended September 30, 2008 were sufficient to cover its operating costs and we expect positive cash flow from existing wells and new drilling that will allow us to continue as a going concern. There can be no assurance that Trans Energy can or will be able to complete any debt or equity financing that might be needed to fund operations in the future. Trans Energy's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertain