

Edgar Filing: TRANS ENERGY INC - Form 10-Q

TRANS ENERGY INC  
Form 10-Q  
May 15, 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 March 31, 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>Class</u>                   | <u>Outstanding as of April 30, 2008</u> |
|--------------------------------|-----------------------------------------|
| Common Stock, \$.001 par value | 10,410,065                              |

---



# 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 – March 31, 2008 and<br>December 31, 2007 (Unaudited)                  | 3           |
| Consolidated Statements of Operations – three months ended<br>March 31, 2008 and 2007 (Unaudited)  | 5           |
| Consolidated Statement of Stockholders’ Deficit - three months<br>ended March 31, 2008 (Unaudited) | 6           |
| Consolidated Statements of Cash Flows – three months ended<br>March 31, 2008 and 2007 (Unaudited)  | 7           |
| Notes to Consolidated Financial Statements (Unaudited)                                             | 8           |
| Item 2. Management’s Discussion and Analysis or Plan of Operation                                  | 11          |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk                                 | 13          |
| Item 4. Controls and Procedures                                                                    | 13          |
| PART II OTHER INFORMATION                                                                          |             |
| Item 1. Legal Proceedings                                                                          | 14          |

Edgar Filing: TRANS ENERGY INC - Form 10-Q

|         |                                                             |    |
|---------|-------------------------------------------------------------|----|
| Item 2. | Unregistered Sales of Equity Securities and Use of Proceeds | 14 |
| Item 3. | Defaults Upon Senior Securities                             | 14 |
| Item 4. | Submission of Matters to a Vote of Securities Holders       | 14 |
| Item 5. | Other Information                                           | 15 |
| Item 6. | Exhibits                                                    | 15 |
|         | Signatures                                                  | 15 |



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

|                                                                                                     | March 31,<br>2008 | December 31,<br>2007 |
|-----------------------------------------------------------------------------------------------------|-------------------|----------------------|
| ASSETS                                                                                              |                   |                      |
| CURRENT ASSETS                                                                                      |                   |                      |
| Cash                                                                                                | \$ 421,923        | \$ 1,702,373         |
| Accounts receivable                                                                                 | 282,939           | 285,204              |
| Accounts receivable – related parties                                                               | 584,945           | 478,160              |
| Advances to non-operator, net                                                                       | 346,996           | 243,666              |
| Deferred financing costs                                                                            | 167,429           | 167,429              |
| Derivative – current                                                                                | 8,457             | 43,095               |
| Prepaid expenses                                                                                    | -                 | 8,000                |
| Total Current Assets                                                                                | 1,812,689         | 2,927,927            |
| PROPERTY AND EQUIPMENT, net of accumulated depreciation<br>of \$206,207 and \$174,311, respectively | 674,894           | 664,942              |
| OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING                                         |                   |                      |
| Proved properties                                                                                   | 13,965,727        | 10,764,411           |
| Unproved properties                                                                                 | 279,094           | 250,670              |
| Pipelines                                                                                           | 3,225,715         | 2,764,797            |
| Accumulated depreciation, depletion and amortization                                                | (1,899,883)       | (1,801,262)          |
| Net oil and gas properties                                                                          | 15,570,653        | 11,978,616           |
| OTHER ASSETS                                                                                        |                   |                      |
| Deferred financing costs, net of amortization of \$160,872 and \$119,136, respectively              | 200,731           | 242,467              |
| Derivative – non-current                                                                            | 102,242           | 135,369              |
| Advances to operator                                                                                | 557,715           | 557,715              |
| Other assets                                                                                        | 68,334            | 58,334               |
| Total Other Assets                                                                                  | 929,022           | 993,885              |

Edgar Filing: TRANS ENERGY INC - Form 10-Q

TOTAL ASSETS

\$ 18,987,258

\$ 16,565,370

See notes to consolidated financial statements

3

---



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

|                                                                                     | March 31,<br>2008 | December 31,<br>2007 |
|-------------------------------------------------------------------------------------|-------------------|----------------------|
| <b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>                                        |                   |                      |
| <b>CURRENT LIABILITIES</b>                                                          |                   |                      |
| Accounts payable, trade                                                             | \$ 2,100,166      | \$ 2,318,852         |
| Accounts payable – related party                                                    | 242,592           | 248,364              |
| Accrued expenses                                                                    | 649,722           | 929,288              |
| Accrued expenses – related party                                                    | 31,000            | 31,000               |
| Notes payable                                                                       | 84,543            | 86,972               |
| <b>Total Current Liabilities</b>                                                    | <b>3,108,023</b>  | <b>3,614,476</b>     |
| <b>LONG-TERM LIABILITIES</b>                                                        |                   |                      |
| Notes payable, net of unamortized discount of \$710,727 and \$791,070, respectively | 17,381,434        | 14,033,528           |
| Asset retirement obligations                                                        | 178,953           | 166,895              |
| <b>Total Long-Term Liabilities</b>                                                  | <b>17,560,387</b> | <b>14,200,423</b>    |
| <b>Total Liabilities</b>                                                            | <b>20,668,410</b> | <b>17,814,899</b>    |
| <b>STOCKHOLDERS' DEFICIT</b>                                                        |                   |                      |

Edgar Filing: TRANS ENERGY INC - Form 10-Q

|                                                                                                                                                                         |               |               |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|---------------|
| 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; 10,410,065 and 9,530,065 shares issued, and 10,490,065 and 9,529,065 shares outstanding, respectively | 10,410        | 9,530         |
| Additional paid-in capital                                                                                                                                              | 34,898,649    | 34,117,443    |
| Treasury stock, at cost, 1,000 shares                                                                                                                                   | (750)         | (750)         |
| Accumulated deficit                                                                                                                                                     | (36,589,461)  | (35,375,752)  |
| Total Stockholders' Deficit                                                                                                                                             | (1,681,152)   | (1,249,529)   |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT                                                                                                                             | \$ 18,987,258 | \$ 16,565,370 |

See notes to consolidated financial statements



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

|                                                                           | For the Three Months Ended |              |
|---------------------------------------------------------------------------|----------------------------|--------------|
|                                                                           | March 31,                  |              |
|                                                                           | 2008                       | 2007         |
| REVENUES                                                                  | \$ 427,646                 | \$ 285,520   |
| COSTS AND EXPENSES                                                        |                            |              |
| Production costs                                                          | 257,064                    | 108,934      |
| Depreciation, depletion, amortization and accretion                       | 151,864                    | 71,848       |
| Exploration costs                                                         | -                          | 138,750      |
| Selling, general and administrative                                       | 694,574                    | 494,306      |
| Loss on sale of assets                                                    | 1,286                      | -            |
| Total Costs and Expenses                                                  | 1,104,788                  | 813,838      |
| LOSS FROM OPERATIONS                                                      | (677,142)                  | (528,318)    |
| OTHER INCOME (EXPENSES)                                                   |                            |              |
| Interest income                                                           | 7,391                      | -            |
| Gain on extinguishment of debt                                            | -                          | 45,783       |
| Interest expense                                                          | (476,193)                  | (95,059)     |
| Loss on derivative instruments                                            | (67,765)                   | -            |
| Total Other Income (Expenses)                                             | (536,567)                  | (49,276)     |
| NET LOSS BEFORE INCOME TAXES                                              | (1,213,709)                | (577,594)    |
| INCOME TAXES                                                              | -                          | -            |
| NET LOSS                                                                  | \$ (1,213,709)             | \$ (577,594) |
| LOSS PER SHARE - BASIC AND DILUTED                                        | \$ (0.12)                  | \$ (0.06)    |
| BASIC AND DILUTED WEIGHTED AVERAGE<br>NUMBER OF COMMON SHARES OUTSTANDING | 10,042,592                 | 9,450,565    |

See notes to consolidated financial statements





**TRANS ENERGY, INC. AND SUBSIDIARIES**  
**Consolidated Statement of Stockholders' Deficit**  
**For the Three Months Ended March 31, 2008**

|                                                 | <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<br/>Capital</b> | <b>Stock</b>    | <b>Deficit</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                   |                     |               | 39,486                     |                 |                    | 39,486         |
| Shares issued for stock<br>compensation payable | 630,000             | 630           | 515,970                    |                 |                    | 516,600        |
| Shares issued for services                      | 250,000             | 250           | 225,750                    |                 |                    | 226,000        |
| Net loss                                        |                     |               |                            |                 | (1,213,709)        | (1,213,709)    |
| Balance, March 31, 2008                         | 10,410,065          | \$ 10,410     | \$ 34,898,649              | \$ (750)        | \$ (36,589,461)    | \$ (1,681,152) |

See notes to consolidated financial statements





Edgar Filing: TRANS ENERGY INC - Form 10-Q

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

|                                                                                                         | For the Three Months Ended |                   |
|---------------------------------------------------------------------------------------------------------|----------------------------|-------------------|
|                                                                                                         | March 31,                  |                   |
|                                                                                                         | 2008                       | 2007              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                                            |                            |                   |
| Net loss                                                                                                | \$ (1,213,709)             | \$ (577,594)      |
| Adjustments to reconcile net loss<br>to net cash from operating activities:                             |                            |                   |
| Depreciation, depletion, amortization and accretion                                                     | 151,864                    | 71,848            |
| Amortization of financing cost and debt discount                                                        | 122,079                    | -                 |
| Share-based compensation                                                                                | 265,486                    | 130,768           |
| Gain on debt extinguishment                                                                             | -                          | (45,783)          |
| Loss on sale of assets                                                                                  | 1,286                      | -                 |
| Unrealized loss on derivative contract                                                                  | 67,765                     | -                 |
| Changes in operating assets and liabilities:                                                            |                            |                   |
| Accounts receivable                                                                                     | 2,264                      | 40,877            |
| Accounts receivable – related parties                                                                   | (106,785)                  | -                 |
| Advances to non-operator, net                                                                           | (103,330)                  | -                 |
| Prepaid and other assets                                                                                | 8,000                      | (44,375)          |
| Accounts payable and accrued expenses                                                                   | 18,347                     | (79,806)          |
| Accounts payable – related party                                                                        | (5,772)                    | (8,045)           |
| Net cash used in operating activities                                                                   | (792,505)                  | (512,110)         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                                            |                            |                   |
| Proceeds from sale of assets                                                                            | 5,000                      | 667,001           |
| Expenditures for oil and gas properties                                                                 | (3,708,230)                | (164,226)         |
| Expenditures for property and equipment                                                                 | (49,850)                   | (21,204)          |
| Net cash (used) provided by investing activities                                                        | (3,753,080)                | 481,571           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                                            |                            |                   |
| Proceeds from notes payable, net of financing costs and cash<br>discount of \$0 and \$100, respectively | 3,286,852                  | 374,280           |
| Payments on notes payable                                                                               | (21,717)                   | (27,896)          |
| Payments on related party debt                                                                          | -                          | (272,755)         |
| Net cash provided by financing activities                                                               | 3,265,135                  | 73,629            |
| <b>NET CHANGE IN CASH</b>                                                                               | <b>(1,280,450)</b>         | <b>43,090</b>     |
| <b>CASH, BEGINNING OF PERIOD</b>                                                                        | <b>1,702,373</b>           | <b>208,815</b>    |
| <b>CASH, END OF PERIOD</b>                                                                              | <b>\$ 421,923</b>          | <b>\$ 251,905</b> |
| <b>SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:</b>                                              |                            |                   |
| Cash paid for interest                                                                                  | \$ 122,749                 | \$ 95,059         |
| Cash paid for income taxes                                                                              | \$ -                       | \$ -              |
| <b>Non-cash investing and financing activities:</b>                                                     |                            |                   |
| Increase in asset retirement obligation                                                                 | \$ 6,711                   | \$ -              |

Edgar Filing: TRANS ENERGY INC - Form 10-Q

|                                                     |            |      |
|-----------------------------------------------------|------------|------|
| Revision of asset retirement obligation             | \$ 14,282  | \$ - |
| Common shares issued for stock compensation payable | \$ 516,600 | \$ - |

See notes to 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 three months ended March 31, 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 March 31, 2008 of \$36,589,461 and had a working capital deficit of \$1,295,334 at March 31, 2008. Revenues have not been sufficient to cover its operating costs and to allow it to continue as a going concern. The potential proceeds from the sale of common stock, sale of assets, other contemplated debt and equity financings, and increases in operating revenues from new development and business acquisitions would enable Trans Energy to continue as a going concern. There can be no assurance that Trans Energy can or will be able to complete any debt or equity financing. Trans Energy's consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

**NOTE 3 – OIL AND GAS PROPERTIES**

During the three months ended March 31, 2008, we drilled thirteen new wells in Wetzel and Marion Counties, West Virginia to various formations, including the Gordon, Bayard and Fourth Sand, of which we own a 100% working interest in each well.

On February 23, 2008, Trans Energy completed the drilling of its second joint venture well with Republic Partners in Wetzel County, West Virginia to an approximate total depth of 7,500 feet, with the primary target being the Marcellus Shale. Republic Partners elected to obtain a 50% paid working interest in this well as permitted by the terms in the joint venture contract. This well, in addition to the first joint venture well of which drilling was completed on November 14, 2007 to an approximate total depth of 7,500 feet with the primary target also being the

Marcellus Shale, are expected by management to be completed and begin flow in June 2008.

8

---



**NOTE 4 – DERIVATIVE FINANCIAL INSTRUMENTS**

Trans Energy entered into a derivative contract to provide a measure of stability in the cash flows associated with Trans Energy's gas production and to manage exposure to commodity prices. None of the derivative contracts Trans Energy entered into have been designated as cash flow hedges or fair value hedges. Trans Energy recorded a total unrealized loss of \$67,765 related to its derivative instruments for the three months ended March 31, 2008.

*Natural Gas Derivatives*

Trans Energy entered into participating commodity put options on natural gas whereby Trans Energy receives a floor price. The following table shows the monthly volumes and the floor price.

| <u>Start<br/>Month</u> | <u>End<br/>Month</u> | <u>Volume<br/>MMBTU/Month</u> | <u>Average<br/>Floor<br/>\$/MMBTU</u> |
|------------------------|----------------------|-------------------------------|---------------------------------------|
| July '07               | Dec '07              | 8,241                         | \$ 7.350                              |
| Jan '08                | Dec '08              | 6,915                         | \$ 7.350                              |
| Jan '09                | Nov '09              | 6,370                         | \$ 7.350                              |
| Jan '10                | Dec '10              | 5,560                         | \$ 7.350                              |
| Jan '11                | Dec '11              | 5,244                         | \$ 7.350                              |

**NOTE 5 – NOTES PAYABLE**

On June 22, 2007 Trans Energy finalized a financing agreement with CIT Capital USA Inc. Under the terms of the agreement, CIT will lend up to \$18,000,000 to Trans Energy in the form of a senior secured revolving credit facility. Trans Energy has the ability, at additional cost, to increase the credit facility to \$30,000,000 in the future, with increases in its reserves. For the three months ended March 31, 2008, Trans Energy borrowed an additional \$3,286,852 from CIT which increased the total outstanding credit balance to \$18,000,000, leaving no unused available credit facility.

**NOTE 6 – EQUITY**

During the three months ended March 31, 2008, Trans Energy issued 630,000 shares of common stock as settlement of the December 31, 2007 stock compensation payable of \$516,600 related to the 2007 Long-Term Incentive and Bonus Program.

On January 1, 2008, Trans Energy granted 450,000 common stock options to an officer and an employee as part of their two year employment agreements. The options vest quarterly over two years and have a five year term. The stock options were granted at an exercise price of \$0.80 per common stock, which was equal to the fair market value of the common stock at the date of grant and were valued at \$315,886 using the Black Scholes valuation model. The options are being amortized to share-based compensation expense quarterly over the vesting period, for which \$39,486 of share-based compensation expense was recorded during the three months ended March 31, 2008. The following are the

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

assumptions made in computing the option fair value:

|                                 |         |
|---------------------------------|---------|
| Average risk-free interest rate | 3.3%    |
| Dividend yield                  | 0%      |
| Expected term                   | 5 years |
| Average expected volatility     | 126.19% |

On January 1, 2008, Trans Energy granted 250,000 common shares to one officer under the terms of his employment agreement. The 250,000 shares vested immediately and were valued at \$200,000 using the fair market value of the common stock at the date of grant. The \$200,000 was recorded in the current period as share-based compensation expense.





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

On January 1, 2008, Trans Energy granted 260,000 shares of common stock to three employees under employment agreements. The 260,000 shares are not performance based and vest quarterly over two years, subject to ongoing employment. These shares were valued at \$208,000 using the fair market value of the common stock at the date of grant and will be amortized to compensation expense quarterly over two years. During the three months ended March 31, 2008, we recorded \$26,000 of share-based compensation related to these shares.

As a result of the above stock transactions, Trans Energy recorded total share-based compensation expense of \$265,486 for the three months ended March 31, 2008.

### NOTE 7 – BUSINESS SEGMENTS

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

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

|                                                                             | For the Three<br>Months Ended | Pipeline         |                   |              | <u>Total</u> |
|-----------------------------------------------------------------------------|-------------------------------|------------------|-------------------|--------------|--------------|
|                                                                             |                               | <u>March 31,</u> | Oil and Gas Sales | Transmission |              |
| Revenue                                                                     | 2008                          | \$ 319,504       | \$ 103,487        | \$ 4,655     | \$ 427,646   |
|                                                                             | 2007                          | 215,366          | 70,154            | --           | 285,520      |
| Income (loss) from<br>operations                                            | 2008                          | 46,665           | (53,485)          | (670,322)    | (677,142)    |
|                                                                             | 2007                          | (106,063)        | 62,989            | (485,244)    | (528,318)    |
| Interest expense                                                            | 2008                          | 476,193          | --                | --           | 476,193      |
|                                                                             | 2007                          | 88,472           | 6,587             | --           | 95,059       |
| Depreciation, depletion,<br>amortization and accretion                      | 2008                          | 133,504          | 18,360            | --           | 151,864      |
|                                                                             | 2007                          | 65,088           | 6,760             | --           | 71,848       |
| Property and equipment<br>acquisitions, including<br>oil and gas properties | 2008                          | 3,322,162        | 435,918           | --           | 3,758,080    |
|                                                                             | 2007                          | 181,930          | 3,500             | --           | 185,430      |
| Total assets, net of intercompany accounts:                                 |                               |                  |                   |              |              |
| March 31, 2008                                                              |                               | \$16,367,558     | \$ 2,619,700      | \$ --        | \$18,987,258 |
| December 31, 2007                                                           |                               | 14,502,036       | 2,063,334         | --           | 16,565,370   |





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

Three months ended March 31, 2008 compared to March 31, 2007

The following table sets forth the percentage relationship to total revenues of principal items contained in our unaudited consolidated statements of operations for the three months ended March 31, 2008 and 2007. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

|                               | Three Months Ended<br>March 31, |             |
|-------------------------------|---------------------------------|-------------|
|                               | <u>2008</u>                     | <u>2007</u> |
| Total revenues                | 100%                            | 100%        |
| Total costs and expenses      | (259%)                          | (286%)      |
| Income (loss) from operations | (159%)                          | (186%)      |
| Other income (expense)        | (126%)                          | (18%)       |
| Net income (loss)             | (284%)                          | (204%)      |

Total revenues of \$427,646 for the three months ended March 31, 2008 increased 50% compared to \$285,520 for the three months ended March 31, 2007, primarily due to new drilling, acquisitions, and increased production from the efforts of the work over program. We focused our efforts during the first quarter of 2008 on the implementation of our drilling program in Wetzel County and on a workover program on our wells located in Wetzel and Marion Counties, West Virginia and the implementation of our drilling program. We expect production increases from the drilling program, the workover program and from new pipeline connections throughout 2008.

Production costs increased 132% in the three months ended March 31, 2008 as compared to the same period for 2007, primarily due to workovers and expenses associated with our field production.

Depreciation, depletion, amortization and accretion expense increased 122% in the three months ended March 31, 2008 as compared to the same period for 2007, due to the increase in production and additions of oil and gas properties.

Interest expense increased 384% in the three months ended March 31, 2008 as compared to the same period for 2007, primarily due to increased borrowings for our drilling program.

Our loss from operations for the first quarter of 2008 was \$677,142 compared to a loss from operations of \$528,318 for the first quarter of 2007. This increase is primarily due to an increase in selling, general and administrative expenses. This increase in selling, general and administrative expenses is related to the value of shares issued as part of our Long-term Incentive Bonus Program for our officers, directors, and senior

managers during the quarter and employee stock compensation under employment agreements.

*Liquidity and Capital Resources*

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At March 31, 2008, we had a working capital deficit of \$1,295,334 compared to a deficit of \$686,549 at December 31, 2007. This increase in working capital deficit is primarily attributed to the increased efforts of the drilling program and the completion of the pipeline construction.



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

During the first three months of 2008, net cash used by operating activities was \$792,505 compared to \$512,110 for the same period of 2007. This increased negative cash flow from operating activities is primarily attributable to an increase in depreciation, depletion, and amortization, as well as an increase in share-based compensation and unrealized losses on our derivative contract.

We expect our cash flow provided by operations for 2008 to increase because of higher projected production from the drilling program, workovers and acquisitions, combined with oil and gas prices consistent with 2007 and steady operating, general and administrative, interest and financing costs per Mcfe.

Excluding the effects of significant unforeseen expenses or other income, our cash flow from operations fluctuates primarily because of variations in oil and gas production and prices, or changes in working capital accounts and actual well performance. In addition, our oil and gas production may be curtailed due to factors beyond our control, such as downstream activities on major pipelines causing us to shut-in production for various lengths of time.

During the first three months of 2008, net cash used by investing activities was \$3,753,080 compared to net cash provided of \$481,571 in 2007. We used \$3,708,230 for the purchase of oil and gas properties and \$49,850 to purchase property and equipment for the three month period ended March 31, 2008 compared to \$164,226 for the purchase of oil and gas properties and \$21,204 to purchase property and equipment for the three month period ended March 31, 2007.

During the first three months of 2008, net cash provided by financing activities was \$3,265,135 compared to \$73,629 in the same period of 2007. In 2007, we borrowed \$3,286,852, net of financing cost and cash discount, and repaid \$21,717 in notes payable.

We anticipate meeting our working capital needs with revenues from our ongoing operations, particularly from our wells in Wetzel, Marion and Doddridge Counties, West Virginia and new transportation of gas for third parties in our 6-inch pipeline located in West Virginia. In the event revenues are not sufficient to meet our working capital needs, we will explore the possibility of additional funding from either the sale of debt or equity securities or through an increase in the available credit facility with CIT Capital, as described in detail in Note 5 - Notes Payable. There can be no assurance such funding will be available to us or, if available, it will be on acceptable or favorable terms.

Because of our continued losses, working capital deficit, and need for additional funding, there exists substantial doubt about our ability to continue as a going concern. Historically, our revenues have not been sufficient to cover operating costs. We will need to rely on increased operating revenues from new development or proceeds from debt or equity financings to allow us to continue as a going concern. There can be no assurance that we can or will be able to complete any debt or equity financing.

### *Inflation*

In the opinion of our management, inflation has not had a material overall effect on our operations of Trans Energy.

### *Recent Events*



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

During the three months ended March 31, 2008, we drilled thirteen new wells in Wetzel and Marion Counties, West Virginia to various formations, including the Gordon, Bayard and Fourth Sand, of which we own a 100% working interest in each well.

On February 23, 2008, Trans Energy completed the drilling of its second joint venture well with Republic Partners in Wetzel County, West Virginia to an approximate total depth of 7,500 feet, with the primary target being the Marcellus Shale. Republic Partners elected to obtain a 50% paid working interest in this well as permitted by the terms in the joint venture contract. This well, in addition to the



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

first joint venture well of which drilling was completed on November 14, 2007 to an approximate total depth of 7,500 feet with the primary target also being the Marcellus Shale, are expected to be completed and begin flow in June 2008.

### *Forward-looking and Cautionary Statements*

This report includes “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, and Section 21E of the Securities Exchange Act of 1934. These forward-looking statements may relate to such matters as anticipated financial performance, future revenues or earnings, business prospects, projected ventures, new products and services, anticipated market performance and similar matters. When used in this report, the words “may,” “will,” “expect,” “anticipate,” “continue,” “estimate,” “project,” “intend,” and similar expressions are intended to identify forward-looking statements regarding events, conditions, and financial trends that may affect our future plans of operations, business strategy, operating results, and our future plans of operations, business strategy, operating results, and financial position. We caution readers that a variety of factors could cause our actual results to differ materially from the anticipated results or other matters expressed in forward-looking statements. These risks and uncertainties, many of which are beyond our control, include:

- the sufficiency of existing capital resources and our ability to raise additional capital to fund cash requirements for future operations;
- uncertainties involved in the rate of growth of our business and acceptance of any products or services;
- success of our drilling activities;
- volatility of the stock market, particularly within the energy sector; and
- general economic conditions.

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

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Trans Energy is exposed to market risk, including adverse changes in commodity prices. Trans Energy produces and sells natural gas and crude oil. As a result, Trans Energy’s financial results can be significantly affected if these commodity prices fluctuate widely in response to changing market forces.

Trans Energy uses derivative contracts to minimize the risk of commodity prices. These contracts are entered into with a major financial institution. These derivative contracts are explained in detail in Note 5 – Derivative Financial Instruments.

**Item 4. Controls and Procedures**

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

13

---



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

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

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, management concluded that our disclosure controls and procedures were not effective to cause the information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods prescribed by SEC, and that such information is accumulated and communicated to management, including our chief executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

In our December 31, 2007 10-KSB, we disclosed certain material weaknesses in our internal control over financial reporting. We also disclosed certain remediation measures that we planned to implement during fiscal year 2008 to address those material weaknesses.

The Company's remediation plans included complete implementation and execution of controls and procedures identified in management's assessment of the entity level, financial reporting and other process level controls. As of March 31, 2008, some of these controls have been implemented, however these controls have not been executed a sufficient number of times for management to fully assess their effectiveness. Management will continue its efforts to implement and assess all of these measures and will monitor and evaluate them for effectiveness.

There was no change in our internal controls over financial reporting identified in connection with the requisite evaluation that occurred during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II**

### **Item 1. Legal Proceedings**

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

On September 22, 2000, Tioga Lumber Company obtained a judgment of \$43,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler construction Company for breach of contract. On February 28, 2002, we reached a negotiated payment schedule with Tioga and made the initial payment. We believe that we have satisfied the balance owed to Tioga of \$26,233, although the judgment has not yet been released. We are proceeding to secure the release of the judgment.

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





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

None.

**Item 3. Defaults Upon Senior Securities**

None.

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

No matters were submitted to a vote of our securities holders during the first quarter ended March 31, 2008.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

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

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

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

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

SIGNATURES

Edgar Filing: TRANS ENERGY INC - Form 10-Q

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

TRANS ENERGY, INC.

Date: May 15 , 2008

By /S/ JAMES K. ABCOUWER  
JAMES K. ABCOUWER  
Chief Executive Officer and Director

Date: May 15, 2008

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