

TRANS ENERGY INC
Form 10-Q
September 30, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2016

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.

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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 September 30, 2016
Common Stock, \$0.001 par value	16,131,648

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	March 31, 2016 Unaudited	December 31, 2015 Audited
ASSETS		
CURRENT ASSETS		
Cash	\$ 337,671	\$ 473,081
Restricted cash	232,412	231,916
Accounts receivable, trade	2,166,524	1,711,926
Accounts receivable due from drilling operator, net	334,414	
Accounts receivable, related parties	18,500	18,500
Commodity derivatives	3,721,680	3,417,887
Advance royalties	391,883	337,133
Prepaid expenses	653,372	642,740
Total current assets	7,856,456	6,833,183
OIL AND GAS PROPERTIES, USING SUCCESSFUL EFFORTS ACCOUNTING		
Proved properties	101,979,040	84,956,392
Unproved properties	7,360,226	6,829,029
Pipelines	4,435,421	4,435,421
Accumulated depreciation, depletion and amortization	(38,748,625)	(26,442,766)
Oil and gas properties, net	75,026,062	69,778,076
PROPERTY AND EQUIPMENT, net of accumulated depreciation of \$414,783 and \$404,669, respectively	416,487	426,601
OTHER ASSETS		
Assets held for sale		13,460,614
Commodity derivatives	2,189,678	2,423,508
Other assets	391,438	390,925
Total other assets	2,581,116	16,275,047
TOTAL ASSETS	\$ 85,880,121	\$ 93,312,907

See notes to unaudited condensed consolidated financial statements.

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

	March 31, 2016 Unaudited	December 31, 2015 Audited
LIABILITIES AND STOCKHOLDERS DEFICIT		
CURRENT LIABILITIES		
Accounts payable, trade	\$ 1,096,360	\$ 1,321,852
Accounts payable due to drilling operator, net		548,086
Accounts payable, related party	1,500	1,500
Accrued expenses	2,276,335	1,954,257
Environmental settlement and related costs	2,000,000	2,000,000
Revenue payable	14,734	8,578
Commodity derivatives	585,950	474,696
Notes payable, net - current (Note 7)	124,306,343	117,512,487
Total current liabilities	130,281,222	123,821,456
LONG-TERM LIABILITIES		
Notes payable, net	2,230,955	2,134,018
Asset retirement obligations	52,041	39,669
Environmental settlement and related costs	3,000,000	3,000,000
Commodity derivatives	956,941	1,253,024
Deferred revenue	62,510	62,510
Total long-term liabilities	6,302,447	6,489,221
Total liabilities	136,583,669	130,310,677
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS DEFICIT		
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; 15,388,977 and 15,263,977 shares issued, and 15,386,977 and 15,261,977 shares outstanding, respectively	15,389	15,264
Additional paid-in capital	46,115,276	45,965,168
Treasury stock, at cost, 2,000 shares	(1,950)	(1,950)
Accumulated deficit	(96,832,263)	(82,976,252)
Total stockholders deficit	(50,703,548)	(36,997,770)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIT	\$ 85,880,121	\$ 93,312,907

See notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2016	2015
OPERATING REVENUES		
Oil and gas sales	\$ 2,061,060	\$ 3,463,209
Natural gas liquid sales	415,646	921,828
Gas transportation, gathering, and processing	19,463	42,716
Other income	133	1,777
Total operating revenues	2,496,302	4,429,530
OPERATING COSTS AND EXPENSES		
Production costs	2,542,191	3,037,186
Depreciation, depletion, amortization and accretion	7,262,821	1,802,830
General and administrative	838,880	1,180,830
Total operating costs and expenses	10,643,892	6,020,846
LOSS FROM OPERATIONS	(8,147,590)	(1,591,316)
OTHER (EXPENSES) INCOME		
Interest income	561	542
Interest expense	(6,892,608)	(3,115,737)
Gains on commodity derivatives	1,183,626	7,375,180
Total other (expenses) income	(5,708,421)	4,259,985
NET (LOSS) INCOME BEFORE INCOME TAXES	(13,856,011)	2,668,669
INCOME TAX		
NET (LOSS) INCOME	\$ (13,856,011)	\$ 2,668,669
NET (LOSS) INCOME PER SHARE		
BASIC	\$ (.90)	\$.18
DILUTED	\$ (.90)	\$.18
WEIGHTED AVERAGE SHARES		
BASIC	15,316,999	14,889,031
DILUTED	15,316,999	15,079,726

See notes to unaudited condensed consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	\$ (13,856,011)	\$ 2,668,669
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation, depletion, and accretion	7,262,821	1,317,781
Amortization of financing costs and debt discount	1,423,275	485,049
Share-based compensation	68,483	555,778
Professional fees paid by common stock issuance	81,750	
Interest and legal expense added to principal	5,467,518	
Total gain on commodity derivatives	(1,183,626)	(7,375,180)
Cash settlement of commodity derivatives	928,834	2,030,176
Changes in operating assets and liabilities:		
Changes in restricted cash	(496)	
Accounts receivable, trade	(454,598)	(253,524)
Accounts receivable due from operator	(334,414)	
Prepaid expenses and other current assets	(65,382)	(48,071)
Other assets	(513)	(497)
Accounts payable and accrued expenses	96,586	(1,665,240)
Accounts payable due to operator	(548,086)	5,903,756
Revenue payable	6,156	(8,947)
Net cash (used in) provided by operating activities	(1,107,703)	3,609,750
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for oil and gas properties	972,293	(7,108,042)
Expenditures for property and equipment		(2,239)
Net cash provided by (used in) investing activities	972,293	(7,110,281)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from notes payable		3,050,000
Payments on notes payable		(279,359)
Stock options exercised		327,016
Net cash provided by financing activities		3,097,657
NET DECREASE IN CASH	(135,410)	(402,874)

CASH, BEGINNING OF PERIOD	473,081	1,585,530
CASH, END OF PERIOD	\$ 337,671	\$ 1,182,656

SUPPLEMENTAL DISCLOSURES FOR CASH FLOW INFORMATION:

CASH PAID FOR:

Interest	\$ 1,816	\$ 3,115,736
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Income taxes

NON-CASH INVESTING AND FINANCING ACTIVITIES:

Accrued expenditures for oil and gas properties	\$ 548,086	\$ 7,254,606
Increase in asset retirement obligation	\$ 6,235	\$ 11,372

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 State 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 condensed consolidated financial statements should be read in conjunction with our most recent audited consolidated financial statements and notes thereto included in our December 31, 2015 Annual Report on Form 10-K. Operating results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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 2015 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, 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 development partners, which are accounted for under the proportional consolidation method. All significant inter-company balances and transactions have been eliminated in consolidation.

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.

Restricted Cash

On September 3, 2015, American Shale entered into a Deposit Account Control Agreement (DACA) with Morgan Stanley Capital Group, Inc., administrative agent for the Lenders (Agent) and United Bank, Inc. Currently, the settlements related to the Company s derivative and hedge financial instruments are deposited directly into depository accounts subject to the DACA. The agent exercises control of the depository accounts subject to the DACA and has the ability to prevent disbursements from those restricted accounts to our unrestricted cash accounts. Amounts deposited into these accounts are generally released to us in a timely manner. As of March 31, 2016, current restricted cash includes \$232,412 of cash temporarily held in accounts controlled by our agent.

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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

The Company follows the successful efforts method of accounting for its oil and gas exploration and production activities. Under this method, all property acquisition costs, and costs of exploratory and development wells are capitalized until a determination is made that the well has found proved reserves or is deemed noncommercial. If an exploratory well is deemed to be noncommercial, the well costs are charged to exploration expense as dry hole costs. Exploration expenses include dry hole costs and geological and geophysical expenses. Noncommercial development well costs are charged to impairment expense if circumstances indicate that a decline in the recoverability of the carrying value may have occurred.

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. Depreciation, depletion, and amortization (DD&A) of capitalized costs related to proved oil and gas properties is calculated on a property-by-property basis using the units-of-production method based upon proved reserves. The computation of DD&A takes into consideration restoration, dismantlement, and abandonment costs as well as the estimated proceeds from salvaging equipment. 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.

Depreciation, depletion, and amortization expenses on oil and gas properties were \$7,246,320 and \$1,297,264 for the three months ended March 31, 2016 and 2015, respectively.

Total additions for oil and gas properties for the three months ended March 31, 2016 and 2015 were \$(972,293) and \$7,108,042, respectively. During 2016 the additions for oil and gas properties of \$75,457 were reduced by \$1,047,750 as a result of change in ownership percentage due to unitization of various leases.

The sale of a partial interest in a proved oil and gas property is accounted for as a normal retirement, and no gain or loss is recognized as long as the treatment does not significantly affect the units-of-production depletion rate. A gain or loss is recognized for all other sales of producing properties. The sale of a partial interest in an unproved oil and gas property is accounted for as a recovery of cost, with any excess of the proceeds over such cost or related carrying amount recognized as gain.

Impairments

GAAP requires that long-lived assets (including oil and gas properties) and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate 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 an impairment for the difference between the carrying value and fair market value of the properties.

No impairments were recorded for the periods ended March 31, 2016 or 2015.

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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 condensed consolidated balance sheets as assets or liabilities. Derivatives are classified in the condensed 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 condensed consolidated statements of operations. The pricing models used for valuation often incorporate significant estimates and assumptions, which may impact the level of precision in the condensed consolidated financial statements.

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 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 three months ended March 31:

	2016	2015
Asset retirement obligations at beginning of period	\$ 39,669	\$ 90,928
Liabilities incurred during the period	6,235	11,372
Accretion expense	6,137	1,000
Liability revisions		
Asset retirement obligations at end of period	\$ 52,041	\$ 103,300