

TRANS ENERGY INC  
Form 10-K/A  
September 26, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-K/A**  
**Amendment No. 1**

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

**For the Fiscal Year Ended December 31, 2011**

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

**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 no., including area code: (304) 684-7053**

**Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.001 par value**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 preceding 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 checkmark whether the registrant has submitted electronically and posted on its corporate Website, 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 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 small reporting company) Smaller reporting company

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

Edgar Filing: TRANS ENERGY INC - Form 10-K/A

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter (June 30, 2011) was \$7,840,826 (based on price of \$2.40 per share).

The number of shares outstanding of each of the issuer's classes of common equity, as of March 30, 2012, was 12,979,828.

**Table of Contents**

EXPLANATORY NOTE

We are filing this amendment to our annual report on Form 10-K for the year ended December 31, 2011, filed on April 16, 2012, to reflect changes made in response to comments we received from the staff of the Division of Corporation Finance of the Securities and Exchange Commission ( SEC ) in connection with the staff's review of our annual report.

Significant changes include the following:

Included in Item 2. Properties

Expanded disclosure to discuss technology used to establish appropriate level of certainty for material additions to our reserve estimates

Expanded disclosure of our internal controls used reserve estimation process

Expanded disclosure on number of producing wells to include net number of wells

Revisions

Exhibits 31.1 & 31.2- revised to include updated Small business issuer language, current management and the current date

Exhibit 32- revised to reflect current management and the current date

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

**Table of Contents**

TRANS ENERGY, INC.

Table of Contents

	Page
<b><u>PART I</u></b>	
Item 1 <u>Business</u>	2
Item 1A <u>Risk Factors</u>	5
Item 1B <u>Unresolved Staff Comments</u>	14
Item 2 <u>Properties</u>	15
Item 3 <u>Legal Proceedings</u>	18
Item 4 <u>Mine Safety Disclosures</u>	19
<b><u>PART II</u></b>	
Item 5 <u>Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	19
Item 6 <u>Selected Financial Data</u>	19
Item 7 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
Item 7A <u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
Item 8 <u>Consolidated Financial Statements and Supplementary Data</u>	24
Item 9 <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	24
Item 9A <u>Controls and Procedures</u>	24
Item 9B <u>Other Information</u>	25
<b><u>PART III</u></b>	
Item 10 <u>Directors, Executive Officers, and Corporate Governance</u>	25
Item 11 <u>Executive Compensation</u>	26
Item 12 <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	26
Item 13 <u>Certain Relationships and Related Transactions and Director Independence</u>	26
Item 14 <u>Principal Accounting Fees and Services</u>	26
<b><u>PART IV</u></b>	
Item 15 <u>Exhibits and Financial Statement Schedules</u>	26
<u>Signatures</u>	27

**Table of Contents**

PART I

Item 1 Business

History

Trans Energy, Inc. is engaged in the acquisition, exploration, development and production of natural gas and oil, and, to a lesser extent, the marketing and transportation of natural gas. We own interests in and operate approximately 300 oil and gas wells in West Virginia, of which 122 are currently active. We also own and operate an aggregate of 19 miles of 6-inch and 4-inch gas transmission lines located within West Virginia in the counties of Marion, Doddridge, Ritchie, Wetzel and Tyler. We also have 52,301 gross acres under lease in West Virginia primarily in the counties of Wetzel, Marshall, Marion, and Doddridge.

Our principal executive offices are located at 210 Second Street, P.O. Box 393, St. Marys, West Virginia 26170, and our telephone number is (304) 684-7053.

Recent Events

On February 22, 2012, we incorporated American Shale Development under the laws of the State of Delaware as our direct wholly owned subsidiary. American Shale was established in order to accommodate certain provisions related to the terms of the proposed credit agreement (the Credit Agreement ) from Chambers Energy Management, LP ( the Chambers facility ). The proposed credit facility is in the aggregate amount of \$50 million, the proceeds of which are to be used to refinance existing debt and accounts payable as well as to allow for continued development of the company s Marcellus acreage (the Marcellus Properties ). We expect to receive the proceeds of the Chambers facility prior to April 30, 2012.

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

Trans Energy drilled six wells in 2011. Four wells were drilled in a horizontal joint venture with Republic Partners and a farm out with an unaffiliated third party. A farm out agreement was entered into whereby the third party would purchase a working interest in the wellbores. Trans Energy retains a 5% working interest in the wellbores and the third party retains 45% working interest. Once the third party receives 100% of their investment; then Trans Energy s working interest will increase to 10% and the third party s working interest will be reduced to 40%. Republic Partners elected to retain 50% working interest in these wells as permitted by the terms of the joint venture. The wells drilled under these agreements are the Whipkey 3H, Lucey 2H, Goshorn 1H and Goshorn 2H.

The Whipkey 3H and the Lucey 2H were drilled and completed in 2011. The Goshorn 1H and Goshorn 2H were drilled in 2011 awaiting completion in 2012. These wells average a vertical total depth of 7,500 feet and an average lateral of 5,000 feet. The primary target of these wells is the Marcellus Shale.

The Dewhurst 110H and Dewhurst 111H were drilled in the fourth quarter of 2011. These wells will be completed by the second quarter of 2012. The wells were horizontal joint ventures with Republic Partners. Republic Partners elected to obtain 50% paid working interests in these wells as permitted by the terms of the joint venture. These wells average a vertical total depth of 7,500 feet and an average lateral of 5,000 feet. The primary target of these wells is the Marcellus Shale.



## **Table of Contents**

### Business History

Our business strategy is to economically increase reserves, production and the sale of natural gas and oil from existing and acquired properties in the Appalachian Basin and elsewhere, in order to maximize shareholders' return over the long term. Our strategic location in West Virginia enables us to actively pursue the acquisition and development of producing properties in that area that will enhance our revenue base without proportional increases in overhead costs.

The Company has been an oil and gas developer for more than twenty years, but began a more aggressive focus on development and growth in early 2006. We began an effort to leverage the company's acreage and reserves to fund development, and have drilled more than 30 wells since early 2006 and significantly increased production and reserves. During late 2007, we redirected our focus from shallow drilling to drilling exclusively in the Marcellus Shale. Management intends to continue to develop and increase the production from oil and natural gas properties that we currently own. We will continue to transport and market natural gas through our pipelines.

### Current Business Activities

We operate our oil and natural gas properties and transport and market natural gas through our transmission systems in West Virginia. Although management desires to acquire additional oil and natural gas properties and to become more involved in exploration and development, this can only be accomplished if we can secure future funding. Management intends to continue to develop and increase the production from the oil and natural gas properties that it currently owns.

### Marketing

We operate exclusively in the oil and gas industry. Natural gas production from wells owned by us is generally sold to various intrastate and interstate pipeline companies and natural gas marketing companies. Sales are generally made under short-term delivery contracts at market prices. These prices fluctuate with natural gas contracts as posted in national publications and on the New York Mercantile Exchange.

The majority of our natural gas is sold to SEI Energy, LLC, Dominion and its subsidiaries or HG Energy, LLC.

Natural gas delivered through Trans Energy's pipeline network is sold primarily to Dominion Gas, a local utility company, on an on-going basis at a variable price per month per Mcf, or to Sancho Oil and Gas Corporation ( "Sancho" ), a company controlled by the Vice President of Trans Energy, at the industrial facilities near Sistersville, West Virginia. Under its contract with Sancho, Trans Energy has the right to sell natural gas subject to the terms and conditions of a contract, as amended, that Sancho entered into with Dominion Gas in 1988. This agreement is a flexible volume supply agreement whereby Trans Energy receives the full price which Sancho charges the end user less a \$0.05 per Mcf marketing fee paid to Sancho. The amount paid to Sancho under this agreement was approximately \$135 in 2011 and approximately \$3,000 in 2010. Approximately 98% is sold to Dominion and 2% is sold to Sancho.

We sell our oil production to third party purchasers under agreements at posted field prices. These third parties purchase the oil at the various locations where the oil is produced and haul it via truck. Trans Energy currently has two oil purchasers, BD Oil Gathering Corp. and Clearfield Appalachian.



## **Table of Contents**

### Competition

We are in direct competition with numerous oil and natural gas companies, drilling and income programs and partnerships exploring various areas of the Appalachian Basin and elsewhere competing for customers. Many competitors are large, well-known oil and gas and/or energy companies, although no single entity dominates the industry. Many of our competitors possess greater financial and personnel resources, sometimes enabling them to identify and acquire more economically desirable energy producing properties and drilling prospects than us. We are more of a regional operator, and have the traditional competitive strengths of one, including long established contacts and in-depth knowledge of the local geography. Additionally, there is increasing competition from other fuel choices to supply the energy needs of consumers and industry. There is also the possibility that future energy-related legislation and regulations may impact competitive conditions. Management believes that there exists a viable market place for smaller producers of natural gas and oil and for operators of smaller natural gas transmission systems. If that situation were to change, management believes the Company would command a competitive price if it became part of a larger company.

### Government Regulation

The oil and gas industry is extensively regulated by federal, state and local authorities. The scope and applicability of legislation is constantly monitored for change and expansion. Numerous agencies, both federal and state, have issued rules and regulations binding on the oil and gas industry and its individual members, some of which carry substantial penalties for noncompliance. To date, these mandates have had no material effect on our capital expenditures, earnings or competitive position.

Legislation and implementing regulations adopted or proposed to be adopted by the Environmental Protection Agency and by comparable state agencies, directly and indirectly, affect our operations. We are required to operate in compliance with certain air quality standards, water pollution limitations, solid waste regulations and other controls related to the discharging of materials into, and otherwise protecting the environment. These regulations also relate to the rights of adjoining property owners and to the drilling and production operations and activities in connection with the storage and transportation of natural gas and oil.

There is a growing concern that future federal legislation may address emissions such as greenhouse gasses that are perceived to present an endangerment to human health and the environment. Such new legislation and regulations could result in the creation of additional costs in the form of taxes, restrictions of output and the investments of additional capital to maintain compliance with laws and regulations. Compliance with new laws and regulations could significantly increase operating costs, reduce demand for our products, impact the cost and availability of capital and increase our exposure to litigation. New legislation could also focus on increasing demand for less carbon intensive energy sources, which could adversely affect demand for the natural gas and oil we market. The implementation of new laws and regulations remains uncertain as do the ultimate impact to our operating costs and business.

We may be required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that any proposed operations may have upon the environment. Requirements imposed by such authorities could be costly, time-consuming and could delay continuation of production or exploration activities. Further, the cooperation of other persons or entities may be required for us to comply with all environmental regulations. It is conceivable that future legislation or regulations may significantly increase environmental protection requirements and, as a consequence, our activities may be more closely regulated which could significantly increase operating costs. However, management is unable to predict the cost of future compliance with environmental legislation. As of the date hereof, management believes that we are in compliance with all present environmental regulations. Further, we believe that our oil and gas explorations do not pose a threat of introducing hazardous substances into the

environment. If such event should occur, we could be liable under certain environmental protection statutes and laws. We presently carry insurance for environmental liability.

## **Table of Contents**

Our exploration and development operations are subject to various types of regulation at the federal, state and local levels. Such regulation includes the requirement of permits for the drilling of wells, the regulation of the location and density of wells, limitations on the methods of casing wells, requirements for surface use and restoration of properties upon which wells are drilled, and governing the abandonment and plugging of wells. Exploration and production are also subject to property rights and other laws governing the correlative rights of surface and subsurface owners.

We are subject to the requirements of the Occupational Safety and Health Act, as well as other state and local labor laws, rules and regulations. The cost of compliance with the health and safety requirements is not expected to have a material impact on our aggregate production expenses. Nevertheless, we are unable to predict the ultimate cost of compliance.

Although past sales of natural gas and oil were subject to maximum price controls, such controls are no longer in effect. Other federal, state and local legislation, while not directly applicable to us, may have an indirect effect on the cost of, or the demand for, natural gas and oil.

### **Employees**

As of the end of our fiscal year on December 31, 2011, we employed twenty-five full-time employees, consisting of eight executives and managers, nine marketing, lease acquisition and clerical persons, and eight field operations employees.

None of our employees are members of any union, nor have they entered into any collective bargaining agreements. We believe that our relationship with our employees is good. With the successful implementation of our business plan, we may seek additional employees in the next year to handle anticipated potential growth.

### **Industry Segments**

We are presently engaged in the principal business of the exploration, development and, production of natural gas and oil. We are also involved in pipeline transportation and marketing of natural gas and oil. Reference is made to the statements of operations contained in the financial statements included herewith for a statement of our revenues and operating income for the past two fiscal years.

### **Item 1A Risk Factors**

You should carefully consider the risks and uncertainties described below and other information in this report. If any of the following risks or uncertainties actually occur, our business, financial condition and operating results, would likely suffer. Additional risks and uncertainties, including those that are not yet identified or that we currently believe are immaterial, may also adversely affect our business, financial condition or operating results.

*We have a history of losses and may realize future losses*

Our revenues increased approximately 141% during the fiscal year ended December 31, 2011, primarily due to an increase in natural gas and natural gas liquid sales from additional Marcellus wells being put in line. However, we may not achieve, or subsequently maintain profitability if anticipated revenues do not

**Table of Contents**

increase in the future. We have experienced operating losses, negative cash flow from operations and net losses in most quarterly and annual periods for the past several years. As of December 31, 2011, our net operating loss carryforward was approximately \$6.2 million and our accumulated deficit was approximately \$12 million. We expect to continue to incur significant costs in connection with exploration and development of new and existing properties.

Accordingly, we will need to generate significant revenues to achieve, attain, and eventually sustain profitability. If revenues do not increase, we may be unable to attain or sustain profitability on a quarterly or annual basis. Any of these factors could cause the price of our stock to decline.

As of December 31, 2011, we had a working capital deficit of approximately \$18 million that makes it more difficult to obtain capital necessary for our operations and which may have an adverse effect on our future business. This deficit in working capital is primarily attributed to the reclassification of notes payable to current. If our business does not produce positive working capital in the future, our business and financial condition would most likely be materially and negatively impacted.

*If we default on our revolving credit facility, our financial condition and future operations would be severely and negatively affected.*

On June 15, 2010, our senior secured revolving credit facility became due in the principal amount of \$30,000,000, plus accrued interest and fees. Subsequently, we sold certain assets, including oil and gas interests, to pay down the principal amount and have worked with the lender to restructure the credit arrangement. In March 2011, we amended our agreement with the lender that extends the maturity date of the credit arrangement to March 31, 2012. The total due under the agreement at March 31, 2011 was \$18,184,978. If we are unable to successfully service and repay the debt, we would be in default under the amended agreement. In that event, the lender would have a first priority, continuing security interest in all of our properties and assets and any proceeds from sales and revenues generated from those assets. This would cause a severe, negative impact on our financial condition. Also, if it becomes necessary to sell off additional assets to service the debt, we may be forced to dispose of valuable assets that would cause additional financial hardship. In March 2012, we amended our agreement with the lender that extends the maturity date to April 30, 2012. It is anticipated that our new financing will be in place by April 30, 2012. On February 29, 2012, the Company's subsidiary, American Shale Development, Inc., entered into a credit agreement, whereby, subject to the satisfaction of certain conditions to funding, certain lenders have committed to provide up to \$50 million in funding to be used to refinance certain outstanding indebtedness of Trans Energy, to fund drilling and completion costs.

Management believes that we may need to seek additional funding in the future for capital expenditures if the \$50 million is not received. If we cannot meet future capital requirements through realized revenues from our ongoing business, we may have to raise additional capital by borrowing or by selling equity or equity-linked securities, which would dilute the ownership percentage of our existing stockholders. Also, these securities could also have rights, preferences or privileges senior to those of our common stock. Similarly, if we raise additional capital by issuing debt securities, those securities may contain covenants that restrict us in terms of how we operate our business, which could also affect the value of our common stock. If we borrow more money, we will have to pay interest and may also have to agree to restrictions that limit operating flexibility. We may not be able to obtain funds needed to finance operations at all, or may be able to obtain funds only on very unattractive terms. Management may also explore other alternatives such as a joint venture with other oil and gas companies. There can be no assurances, however, that we will conclude any such transaction.



**Table of Contents**

*Drilling for and producing oil and natural gas are high risk activities with many uncertainties that could adversely affect our business, financial condition and results of operations.*

Our future success will depend on the success of our exploitation, exploration, development and production activities. Our oil and natural gas exploration and production activities are subject to numerous risks beyond our control, including the risk that drilling will not result in commercially viable oil or natural gas production. Our decisions to purchase, explore, develop or otherwise exploit prospects or properties will depend in part on the evaluation of data obtained through geophysical and geological analyses, production data and engineering studies, the results of which are often inconclusive or subject to varying interpretations. Please read Item 1A. Our estimated reserves are based on many assumptions that may turn out to be inaccurate. Any significant inaccuracies in these reserve estimates or underlying assumptions may materially affect the quantities and present value of our reserves below for a discussion of the uncertainties involved in these processes. Our costs of drilling, completing and operating wells are often uncertain before drilling commences. Overruns in budgeted expenditures are common risks that can make a particular project uneconomical. Further, our future business, financial condition, results of operations, liquidity or ability to finance planned capital expenditures could be materially and adversely affected by any factor that may curtail, delay or cancel drilling, including the following:

delays imposed by or resulting from compliance with regulatory requirements;

unusual or unexpected geological formations;

pressure or irregularities in geological formations;

shortages of or delays in obtaining equipment and qualified personnel;

equipment malfunctions, failures or accidents;

unexpected operational events and drilling conditions;

pipe or cement failures;

casing collapses;

lost or damaged oilfield drilling and service tools;

loss of drilling fluid circulation;

uncontrollable flows of oil, natural gas and fluids;

fires and natural disasters;

environmental hazards, such as natural gas leaks, oil spills, pipeline ruptures and discharges of toxic gases;

adverse weather conditions;

reductions in oil and natural gas prices;

oil and natural gas property title problems; and

market limitations for oil and natural gas.

If any of these factors were to occur with respect to a particular field, we could lose all or a part of our investment in the field, or we could fail to realize the expected benefits from the field, either of which could materially and adversely affect our revenue and profitability.

*We have limited experience in drilling wells to the Marcellus Shale and limited information regarding reserves and decline rates in the Marcellus Shale. Wells drilled to this shale are more expensive and more susceptible to mechanical problems in drilling and completion techniques than wells in other conventional areas.*

We have limited experience in the drilling and completion of Marcellus Shale wells, including limited horizontal drilling and completion experience. Other operators in the Marcellus Shale play may have significantly more experience in the drilling and completion of these wells, including the drilling and completion of horizontal wells. In addition, we have limited information with respect to the ultimate recoverable reserves and production decline rates in these areas. The wells drilled in the Marcellus Shale are primarily horizontal and require more stimulation, which makes them more expensive to drill and complete. The wells will also be more susceptible to mechanical problems associated with the drilling and completion of the wells, such as casing collapse and lost equipment in the wellbore due to the length of the lateral portions of these unconventional wells. The fracturing of these shale formations will be more extensive and complicated than fracturing geological formations in conventional areas of operation.

**Table of Contents**

*Prospects that we decide to drill may not yield oil or natural gas in commercially viable quantities.*

Our prospects are in various stages of evaluation. There is no way to predict with certainty in advance of drilling and testing whether any particular prospect will yield oil or natural gas in sufficient quantities to recover drilling or completion costs or to be economically viable, particularly in light of the current economic environment. The use of seismic data and other technologies, and the study of producing fields in the same area, will not enable us to know conclusively before drilling whether oil or natural gas will be present or, if present, whether oil or natural gas will be present in commercially viable quantities. Moreover, the analogies we draw from available data from other wells, more fully explored prospects or producing fields may not be applicable to our drilling prospects.

*The unavailability or high cost of drilling rigs, equipment, supplies, personnel and services could adversely affect our ability to execute on a timely basis our exploration and development plans within our budget.*

We may, from time to time, encounter difficulty in obtaining, or an increase in the cost of securing, drilling rigs, equipment, services and supplies. In addition, larger producers may be more likely to secure access to such equipment and services by offering more lucrative terms. If we are unable to acquire access to such resources, or can obtain access only at higher prices, our ability to convert our reserves into cash flow could be delayed and the cost of producing those reserves could increase significantly, which would adversely affect our financial condition and results of operations.

*Revisions of oil and gas reserve estimates could adversely affect the trading price of our common stock. Oil and gas reserves and the standardized measure of cash flows represent estimates, which may vary materially over time due to many factors.*

The market price of our common stock may be subject to significant decreases due to decreases in our estimated reserves, our estimated cash flows and other factors. Estimated reserves may be subject to downward revision based upon future production, results of future development, prevailing oil and gas prices, prevailing operating and development costs and other factors. There are numerous uncertainties and uncontrollable factors inherent in estimating quantities of oil and gas reserves, projecting future rates of production, and timing of development expenditures.

In addition, the estimates of future net cash flows from proved reserves and the present value of proved reserves are based upon various assumptions about prices and costs and future production levels that may prove to be incorrect over time. Any significant variance from the assumptions could result in material differences in the actual quantity of reserves and amount of estimated future net cash flows from estimated oil and gas reserves.

*Our estimates of proved reserves have been prepared under current SEC rules, which went into effect for fiscal years ending on or after December 31, 2009, and may make comparisons to prior periods difficult and could limit our ability to book additional proved undeveloped reserves in the future.*

This Form 10-K presents estimates of our proved reserves as of December 31, 2011 and 2010, which have been prepared and presented under current SEC rules. These rules require SEC reporting companies to prepare their reserves estimates using revised reserve definitions and revised pricing based on 12-month unweighted first-day-of-the-month average pricing. The previous rules required that reserve estimates be calculated using year-end pricing. As a result of these changes, direct comparisons to our previously-reported reserves amounts may be more difficult.





## Table of Contents

Under current SEC requirements, subject to limited exceptions, proved undeveloped reserves may only be booked if they relate to wells scheduled to be drilled within five years of the date of booking. This rule may limit our potential to book additional proved undeveloped reserves as we pursue our drilling program, particularly as we develop our acreage in the Marcellus Shale in West Virginia. Moreover, we may be required to write down our proved undeveloped reserves if we do not drill and develop those reserves within the required five-year timeframe.

*Our operations require significant amounts of capital and additional financing may be necessary in order for us to continue our exploration activities, including meeting certain drilling obligations under our existing lease obligations.*

Our cash flow from our reserves, if any, may not be sufficient to fund our ongoing activities at all times. From time to time, we may require additional financing in order to carry out our oil and gas acquisitions, exploration and development activities. Failure to obtain such financing on a timely basis could cause us to forfeit our interest in certain properties as a result of not fulfilling our existing drilling commitments. Certain of our undeveloped leasehold acreage is subject to leases that will expire unless production is established or we meet certain capital expenditure and drilling requirements. If our revenues from our reserves decrease as a result of lower oil and natural gas prices or otherwise, it will affect our ability to expend the necessary capital to replace our reserves or to maintain our current production. If our cash flow from operations is not sufficient to satisfy our capital expenditure requirements, there can be no assurance that additional debt or equity financing will be available to meet these requirements or available to us on favorable terms.

*Certain federal income tax deductions currently available with respect to oil and natural gas exploration and development may be eliminated as a result of future legislation.*

Congress has recently considered, is considering, and may continue to consider, legislation that, if adopted in its proposed or similar form, would deprive some companies involved in oil and natural gas exploration and production activities of certain U.S. federal income tax incentives and deductions currently available to such companies. These changes include, but are not limited to, (i) the repeal of the percentage depletion allowance for oil and natural gas properties, (ii) the elimination of current deductions for intangible drilling and development costs, (iii) the elimination of the deduction for certain domestic production activities, and (iv) an extension of the amortization period for certain geological and geophysical expenditures.

*Deficiencies of title to our leased interests could significantly affect our financial condition.*

Our practice in acquiring exploration leases or undivided interests in natural gas and oil leases is not to incur the expense of retaining lawyers to examine the title to the mineral interest prior to executing the lease. Instead, we rely upon the judgment of lease brokers and others to perform the field work in examining records in the appropriate governmental or county clerk's office before leasing a specific mineral interest. This practice is widely followed in the industry. Prior to drilling an exploration well, the operator of the well will typically obtain a preliminary title review of the drillsite lease or spacing unit within which the proposed well is to be drilled to identify any obvious deficiencies in title to the well and, if there are deficiencies, to identify measures necessary to cure those defects to the extent reasonably possible. It does happen, from time-to-time, that the examination made by the operator's title lawyers reveals that the lease or leases are invalid, having been purchased in error from a person who is not the rightful owner of the mineral interest desired. In these circumstances, we may not be able to proceed with our exploration and development of the lease site or may incur costs to remedy a defect, which could affect our financial condition and results of operations.



**Table of Contents**

*We are subject to complex federal, state and local laws and regulations, including environmental laws, which could adversely affect our business.*

Exploration for and development, exploitation, production and sale of oil and natural gas in the United States are subject to extensive federal, state and local laws and regulations, including complex tax laws and environmental laws and regulations. Existing laws or regulations, as currently interpreted or reinterpreted in the future, or future laws, regulations or incremental taxes and fees, could harm our business, results of operations and financial condition. We may be required to make large expenditures to comply with environmental and other governmental regulations.

It is possible that new taxes on our industry could be implemented and/or tax benefits could be eliminated or reduced, reducing our profitability and available cash flow. In addition to the short-term negative impact on our financial results, such additional burdens, if enacted, would reduce our funds available for reinvestment and thus ultimately reduce our growth and future oil and natural gas production.

Matters subject to regulation include oil and gas production and saltwater disposal operations and our processing, handling and disposal of hazardous materials, such as hydrocarbons and naturally occurring radioactive materials, discharge permits for drilling operations, spacing of wells, environmental protection and taxation. We could incur significant costs as a result of violations of or liabilities under environmental or other laws, including third party claims for personal injuries and property damage, reclamation costs, remediation and clean-up costs resulting from oil spills and discharges of hazardous materials, fines and sanctions, and other environmental damages.

*We must obtain governmental permits and approvals for our drilling operations, which can be a costly and time consuming process, which may result in delays and restrictions on our operations.*

Regulatory authorities exercise considerable discretion in the timing and scope of permit issuance. Requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of our exploration or production operations. For example, we are often required to prepare and present to federal, state or local authorities data pertaining to the effect or impact that proposed exploration for or production of natural gas or oil may have on the environment. Further, the public may comment on and otherwise engage in the permitting process, including through intervention in the courts. Accordingly, the permits we need may not be issued, or if issued, may not be issued in a timely fashion, or may involve requirements that restrict our ability to conduct our operations or to do so profitably.

*Federal and state legislation and regulatory initiatives relating to hydraulic fracturing could result in increased costs and additional operating restrictions or delays.*

Hydraulic fracturing is an important and common practice that is used to stimulate production of natural gas and/or oil from dense subsurface rock formations. The hydraulic fracturing process involves the injection of water, sand, and chemicals under pressure into the formation to fracture the surrounding rock and stimulate production. We commonly use hydraulic fracturing as part of our operations. Hydraulic fracturing typically is regulated by state oil and natural gas commissions, but the EPA has asserted federal regulatory authority pursuant to the Safe Drinking Water Act over certain hydraulic fracturing activities involving the use of diesel. In addition, legislation has been introduced before Congress to provide for federal regulation of hydraulic fracturing under the Safe Drinking Water Act and to require disclosure of the chemicals used in the hydraulic fracturing process. Further, various municipalities in West Virginia have passed ordinances which seek to prohibit hydraulic fracturing. We believe that we follow applicable standard industry practices and legal requirements for groundwater protection in our hydraulic fracturing



**Table of Contents**

activities. Nonetheless, if new or more stringent federal, state, or local legal restrictions relating to the hydraulic fracturing process are adopted in areas where we operate, we could incur potentially significant added costs to comply with such requirements, experience delays or curtailment in the pursuit of exploration, development, or production activities, and perhaps even be precluded from drilling wells.

*The enactment of the Dodd Frank Act could have an adverse impact on our ability to hedge risks associated with our business.*

Congress recently adopted comprehensive financial reform legislation that establishes federal oversight and regulation of the over-the-counter derivatives market and entities, including us, that participate in that market. The new legislation, known as the Dodd Frank Wall Street Reform and Consumer Protection Act (the Dodd Frank Act ), was signed into law by the President on July 21, 2010 and requires CFTC and the SEC to promulgate rules and regulations implementing the new legislation within 360 days from the date of enactment. In its rulemaking under the Dodd Frank Act, the CFTC has proposed regulations to set position limits for certain futures and option contracts in the major energy markets and for swaps that are their economic equivalents. Certain bona fide hedging transactions or positions would be exempt from these position limits. It is not possible at this time to predict when the CFTC will finalize these regulations. The financial reform legislation may also require us to comply with margin requirements and with certain clearing and trade-execution requirements in connection with our derivative activities, although the application of those provisions to us is uncertain at this time. The financial reform legislation may also require the counterparties to our derivative instruments to spin off some of their derivatives activities to a separate entity, which may not be as creditworthy as the current counterparty. The new legislation and any new regulations could significantly increase the cost of derivative contracts (including through requirements to post collateral which could adversely affect our available liquidity), materially alter the terms of derivative contracts, reduce the availability of derivatives to protect against risks we encounter, reduce our ability to monetize or restructure our existing derivative contracts, and increase our exposure to less creditworthy counterparties. If we reduce our use of derivatives as a result of the legislation and regulations, our results of operations may become more volatile and our cash flows may be less predictable, which could adversely affect our ability to plan for and fund capital expenditures. Finally, the legislation was intended, in part, to reduce the volatility of oil and natural gas prices, which some legislators attributed to speculative trading in derivatives and commodity instruments related to oil and natural gas. Our revenues could therefore be adversely affected if a consequence of the legislation and regulations is to lower commodity prices. Any of these consequences could have a material adverse effect on us, our financial condition and our results of operations.

*We depend on a relatively small number of purchasers for a substantial portion of our revenue. The inability of one or more of our purchasers to meet their obligations may adversely affect our financial results.*

We derive a significant amount of our revenue from a relatively small number of purchasers. Our inability to continue to provide services to key customers, if not offset by additional sales to our other customers, could adversely affect our financial condition and results of operations. These companies may not provide the same level of our revenue in the future for a variety of reasons, including their lack of funding, a strategic shift on their part in moving to different geographic areas in which we do not operate or our failure to meet their performance criteria. The loss of all or a significant part of this revenue would adversely affect our financial condition and results of operations.

*There are many competitors in the oil and gas industry*

We encounter many competitors in the oil and gas industry including in the exploration and development of properties and the sale of oil and gas. Management expects competition to continue to intensify in the



**Table of Contents**

future. Many existing and potential competitors have greater financial resources, larger market share and more customers than us, which may enable them to establish a stronger competitive position than we have. If we fail to address competitive developments quickly and effectively, we will not be able to grow and our business will be adversely affected.

*Our operating results are likely to fluctuate significantly and cause our stock price to be volatile which could cause the value of your investment in our shares to decline.*

Quarterly and annual operating results are likely to fluctuate significantly in the future due to a variety of factors, many of which are outside of our control. If operating results do not meet the expectations of securities analysts and investors, the trading price of our common stock could significantly decline which may cause the value of your investment to decline. Some of the factors that could affect quarterly or annual operating results or impact the market price of our common stock include:

our ability to develop properties and to market our oil and gas;

the timing and amount of, or cancellation or rescheduling of, orders for our oil and gas;

our ability to retain key management, sales and marketing and engineering personnel;

a decrease in the prices of oil and gas; and

changes in costs of exploration or marketing of oil and gas.

Due to these and other factors, quarterly and annual revenues, expenses and results of operations could vary significantly in the future, and period-to-period comparisons should not be relied upon as indications of future performance.

*Our business could be adversely affected by any adverse economic developments in the oil and gas industry and/or the economy in general.*

The oil and gas industry is susceptible to significant change that may influence our business development due to a variety of factors, many of which are outside our control. Some of these factors include:

varying demand for oil and gas;

fluctuations in price;

competitive factors that affect pricing;



attempts to expand into new markets;

the timing and magnitude of capital expenditures, including costs relating to the expansion of operations;

hiring and retention of key personnel;

changes in generally accepted accounting policies, especially those related to the oil and gas industry; and

new government legislation or regulation.

Any of the above factors or a significant downturn in the oil and gas industry or with economic conditions generally, could have a negative effect on our business and on the price of our common stock.

Our future success depends on retaining existing key employees and hiring and assimilating new key employees. The loss of key employees or the inability to attract new key employees could limit our ability to execute our growth strategy, resulting in lost profitability and a slower rate of growth.

Our future success depends, in part, on the ability to retain our key employees including executive officers. Also, we do not carry, nor do we anticipate obtaining, key man insurance on our executives. It would be difficult for us to replace any one of these individuals. In addition, as we grow we may need to hire additional key personnel. We may not be able to identify and attract high quality employees or successfully assimilate new employees into our existing management structure.

**Table of Contents**

*If we are unable to manage our growth effectively, our operations and financial performance could be adversely affected.*

The ability to manage and operate our business as we execute our anticipated growth will require effective planning. Significant future growth could strain our internal resources, leading to a lower quality of service and other problems that could adversely affect our financial performance. Our ability to manage future growth effectively will also require us to successfully attract, train, motivate, retain and manage new employees and continue to update and improve our operational, financial and management controls and procedures. If we do not manage our growth effectively, our operations could be adversely affected, resulting in slower growth and a failure to achieve or sustain profitability.

*Future environmental legislation related to climate change*

Because of growing concern over risks related to climate change, Congress has adopted or is considering the adoption of regulatory frameworks to reduce greenhouse gas emissions. Prospective legislation includes possible cap and trade regimes, carbon taxes, increased efficiency standards and incentives or mandates for renewable energy. New laws and regulations could not only make our products more expensive, but also reduce demand for hydrocarbon products. Such current and pending regulations may also increase operating costs and our compliance costs, such as for enhanced monitoring of emissions.

*Going concern issue*

Our ability to continue as a going concern is dependent upon our ability to achieve a profitable level of operations. We may need, among other things, additional capital resources which we will seek through loans from banks or other forms of financing.

*Risks relating to ownership of our common stock*

The price of our common stock is extremely volatile and investors may not be able to sell their shares at or above their purchase price, or at all.

Our common stock is presently traded on the OTC Bulletin Board, although there is no assurance that a viable market will continue. The price of our shares in the public market is highly volatile and may fluctuate substantially because of:

actual or anticipated fluctuations in our operating results;

changes in or failure to meet market expectations;

conditions and trends in the oil and gas industry; and

fluctuations in stock market price and volume, which are particularly common among securities of small capitalization companies.

Future sales or the potential for sale of a substantial number of shares of our common stock could cause the market value to decline and could impair our ability to raise capital through subsequent equity offerings.

If we do not generate necessary cash from our operations to finance future business, we may need to raise additional funds through public or private financing opportunities. The issuance of a substantial number of our common shares to individuals or in the public markets, or the perception that these sales may occur, could cause the market price of our common stock to decline and could materially impair our ability to raise capital through the sale of additional equity securities. Any such issuances would dilute the equity interests of existing stockholders.

**Table of Contents**

*We do not intend to pay dividends*

To date, we have never declared or paid a cash dividend on shares of our common stock. We currently intend to retain any future earnings for growth and development of business and, therefore, do not anticipate paying any dividends in the foreseeable future.

*Possible Penny Stock Regulation*

Trading of our common stock on the Bulletin Board may be subject to certain provisions of the Securities Exchange Act of 1934, commonly referred to as the penny stock rule. A penny stock is generally defined to be any equity security that has a market price less than \$1.00 per share, subject to certain exceptions. If our stock is deemed to be a penny stock, trading in our stock will be subject to additional sales practice requirements on broker-dealers.

These may require a broker dealer to:

make a special suitability determination for purchasers of penny stocks;

receive the purchaser's written consent to the transaction prior to the purchase; and

deliver to a prospective purchaser of a penny stock, prior to the first transaction, a risk disclosure document relating to the penny stock market.

Consequently, penny stock rules may restrict the ability of broker-dealers to trade and/or maintain a market in our common stock. Also, many prospective investors may not want to get involved with the additional administrative requirements, which may have a material adverse effect on the trading of our shares.

**Item 1B Unresolved Staff Comments**

The staff of the Securities and Exchange Commission (SEC Staff) conducted a review of our Annual Report on Form 10-K for the years ended December 31, 2009 and 2010 and issued a letter commenting on certain aspects of these reports. We believe that all matters addressed in the comment letters and our subsequent responses to these letters and discussions with the SEC Staff have been resolved with the exception of certain disclosures related to our proved undeveloped reserves. Based on discussions with staff members at the SEC regarding the response, the remaining unresolved comment will require that the Company file an amendment to its Form 10-K for the years ended December 31, 2009 and 2010 to remove our proven undeveloped reserves that do not meet the criteria to be reported based on our financial situation.

**Table of Contents**

## Item 2 Properties

Our properties consist of working and royalty interests owned by us in various oil and gas wells and leases located in West Virginia. Our proved reserves as of December 31, 2011, 2010, and 2009 are set forth below:

	As of December 31,						
	2011			2010		2009	
	Oil and Condensates (BBL)	Natural Gas (MCF)	NGL (BBL)	Oil (BBL)	Natural Gas (MCF)	Oil (BBL)	Natural Gas (MCF)
Developed Producing	163,316	16,695,133	559,389	148,567	7,795,932	158,545	5,002,524
Developed Non-Producing				35,175	4,995,712		1,562,532
Proved Undeveloped	590	679,280	33,209				
<b>Total Proved</b>	<b>163,906</b>	<b>17,374,413</b>	<b>592,598</b>	<b>183,742</b>	<b>12,791,644</b>	<b>158,545</b>	<b>6,565,056</b>

The increase in reserves is from drilling in the Marcellus Shale formation and not in the typical traditional shallow well formations. The development of the Marcellus Shale has transformed the Appalachian Basin into one of the country's premier natural gas plays. In recent years, the application of lateral well drilling and completion technology has led to the development of the Marcellus Shale. The horizontal lateral exceeds 2,000 feet in length and typically involves multistage fracturing completions.

The 2009 reserves have been restated to remove the proved undeveloped reserves. Proved undeveloped reserves are also not reported for 2010 even though we had wells in process of being drilled. Proved undeveloped reserves have been reported for 2011 since the Company has a farm out interest in two wells and therefore did not have to finance them.

A review of our reserves was conducted at year-end 2011, 2010 and 2009 by Wright and Company, Inc., our independent petroleum consultants. The engineer was selected for their geographic expertise and their historical experience in engineering certain properties. The technical person responsible for reviewing the reserve estimates meets the requirements regarding qualifications, independence, objectivity and confidentiality set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. The Vice President of Operations works closely with our independent petroleum consultants to ensure the integrity, accuracy and timeliness of data furnished to our independent petroleum consultants for their reserves review process. Throughout the year, our technical team meets periodically with representatives from our independent petroleum consultants to review properties and discuss methods and assumptions. While we have no formal committee specifically designated to review reserves reporting and the reserves estimation process, our senior management reviews and approves any internally estimated significant changes to our proved reserves. We provide historical information to our consultants for all of our producing properties such as ownership interest; oil and gas production; well test data; commodity prices and operating and development costs. The consultants perform an independent analysis and differences are reviewed.

The preparation of our proved reserve estimates is completed in accordance with our internal control procedures, which include the verification of input data used by Wright and Company, Inc., as well as extensive management review and approval. All of our reserve estimates are reviewed and approved by our President. He is a graduate of

Marietta College with a Bachelor of Science in Petroleum Engineering and has over thirty years experience in the oil & gas industry.

The general calculations pertaining to the estimate of reserves, both developed and undeveloped, include but are not limited to; 1) extrapolation of historical production trends; 2) log analysis and volumetric calculations; 3) log cross-sections to confirm continuity of certain formations and/or; 4) analogy to similar producing properties producing from the same formation.

The estimates of reserves were based on reliable technologies that have been field tested and have demonstrated consistency and repeatability in the formation being evaluated.

The economic producibility of these reserves assignments has been established by reliable technology to be reasonably certain in the continuous accumulation in the geographic area to which the reserves are assigned.

Effective for the year end 2009, SEC reporting rules require that year-end reserve calculations and future cash inflows be based on the simple average of the first day of the month price for the previous twelve month period. The benchmark prices for 2011 used in the above table were \$4.24 per MMBTU, \$89.73 and \$58.21 per BBL for the oil and condensates, respectively, and \$48.65 per BBL for Natural Gas Liquids (NGL). The benchmark prices for 2010 used in the above table were \$5.29 per MMBTU and \$70.60 per BBL. The benchmark prices used for 2009 were \$4.13 per MMBTU and \$61.18 per BBL. The company's gas processing arrangement did not provide for the separation of condensates or NGL prior to 2011. The separation of the liquid from the gas stream commenced April, 2011 with the opening of the Fort Beeler Operating Facility.

Such reports are, by their very nature, inexact and subject to changes and revisions. Proved developed reserves are reserves expected to be recovered from existing wells with existing equipment and operating

**Table of Contents**

methods. Proved undeveloped reserves are expected to be recovered from new wells drilled to known reservoirs on undrilled acreage for which existence and recoverability of such reserves can be estimated with reasonable certainty, or from existing wells where a relatively major expenditure is required to establish production. No estimates of reserves have been included in any reports to any federal agency other than the SEC in 2011, 2010 and 2009. See Note 18, Supplementary Information on Oil and Gas Producing Activities included as part of our consolidated financial statements.

**Productive Gas Wells**

The following table summarizes the total number of wells and undrilled locations to which proved developed reserves and proved undeveloped reserves, respectively, are attributed.

	Gross as of December 31,					
	2011		2010		2009	
	Oil	Natural Gas	Oil	Natural Gas	Oil	Natural Gas
Producing Wells	31	76	71	84	5	183
Non-Producing Wells			6	12	1	117
Undrilled Well Locations		2				
Total Wells and Well Locations	31	78	77	96	6	300

	Net as of December 31,					
	2011		2010		2009	
	Oil	Natural Gas	Oil	Natural Gas	Oil	Natural Gas
Producing Wells	30	70	67	75	5	181
Non-Producing Wells			6	11	1	117
Undrilled Well Locations						
Total Wells and Well Locations	30	70	73	86	6	298

We have removed unproved drilling locations for the year ended December 31, 2009, as well as excluding them for the year ended December 31, 2010 based on our discussions with the SEC (See Item 1B). Furthermore, we excluded all shallow wells with no or minimal production since we do not plan on a rework program at this time. In addition, we have reclassified certain wells for 2010 and 2011 that are now primarily producing oil.

**Drilling Activity**

The following table summarizes completed drilling activity for the past three years. Gross wells reflect the sum of all wells in which we own an interest. Net wells reflect the sum of our working interests in gross wells.

	During the Year Ended, December 31,					
	2011		2010		2009	
	Gross	Net	Gross	Net	Gross	Net
Development Wells						
Productive	2.0	0.1	2.0	1.0	2.0	1.0
Dry						
Exploratory Wells						
Productive						
Dry						
Total	2.0	0.1	2.0	1.0	2.0	1.0

The Dewhurst 110H, Dewhurst 111H, Goshorn 1H, and Goshorn 2H were drilled in the fourth quarter of 2011 as discussed under recent events. These wells will be completed by the second quarter of 2012, and are not reflected in the table above. The net wells drilled for 2011 reflect our farm out interest in the Whipkey 3H and Lucey 2H.



**Table of Contents**

## Oil and Gas Acreage

The following table summarizes our gross and net developed and undeveloped oil and gas acreage under lease as of December 31, 2011 and 2010.

	Developed Acres		Undeveloped Acres		Total	
	Gross	Net	Gross	Net	Gross	Net
West Virginia:						
2011	27,550	13,997	24,751	7,039	52,301	21,036
2010	24,779	14,925	24,432	11,629	49,211	26,554

Net acreage decreased due to the sale of acreage to Republic and leases expiring in Tyler County.

The following table sets forth, for our continuing operations, the gross and net acres of undeveloped acreage that will expire during the periods indicated if not ultimately held by production by drilling efforts:

Year Ending December 31,	Expiring Acreage	
	Gross	Net
2012	2,313	1,072
2013	10,859	2,837
2014	2,250	449
2015	2,776	722
2016	6,087	1,855
2017		
2018	322	55
2019		
2020	151	50
Total	24,758	7,040

The following table sets forth certain information regarding production volumes, revenue, average prices received and average production costs associated with our sales of oil and natural gas for the periods noted.

	Year Ended December 31,	
	2011	2010
Net Production:		
Oil (Bbl)	15,876	16,578
Natural Gas (Mcf)	2,769,410	995,101
NGL (Bbl)	42,691	
Natural Gas Equivalent (Mcf)	3,120,812	1,094,569

Edgar Filing: TRANS ENERGY INC - Form 10-K/A

Oil and Natural Gas Sales:

Oil	\$ 1,554,923	\$ 878,090
Natural Gas	\$ 10,214,728	\$ 4,803,589
NGL	\$ 2,527,232	
Total	\$ 14,293,883	\$ 5,681,679

**Table of Contents**

Average Sales Price:		
Oil (\$ per Bbl)	\$ 97.94	\$ 52.97
Natural Gas (\$ per Mcf)	\$ 3.69	\$ 4.83
NGL (\$ per Bbl)	\$ 59.20	\$
Natural Gas Equivalent (\$ per Mcfe)	\$ 4.58	\$ 5.19
Oil and Natural Gas Costs:		
Lease operating expenses	\$ 3,314,707	\$ 1,841,788
Average production cost per Mcfe	\$ 1.06	\$ 1.68

It is our intention to purchase assets and/or property for the purpose of enhancing our primary business operations. We are not limited as to the percentage amount of our assets we may use to purchase any additional assets or properties.

**Facilities**

We currently occupy approximately 4,000 square feet of office space in St. Marys, West Virginia, which we share with our subsidiaries, Tyler Construction Company and Ritchie County Gathering Systems. We lease this space from an unaffiliated third party under a verbal arrangement for \$1,800 per month, inclusive of utilities.

**Item 3 Legal Proceedings**

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

On May 11, 2011, we filed an action in the U.S. District Court for the Northern District of West Virginia against EQT Corporation, a Pennsylvania corporation (Trans Energy, Inc., et al. v. EQT Corporation). The action relates to our attempt to quiet title to certain oil and gas properties referred to as the Blackshere Lease, consisting of approximately 22 oil and/or gas wells on the Blackshere Lease. The defendant, EQT Corporation, has filed with the Court an answer and counterclaim wherein it claims it holds title to the natural gas within and underlying the Blackshere Lease. We believe that we will ultimately prevail in the action, but it is too early in the proceedings to accurately assess the final outcome. Currently the Company has no plans to drill on this acreage.

On March 6, 2012, James K. Abcouwer ( Abcouwer ), former Chief Executive Officer of the Company, filed an action in the Circuit Court of Kanawha County, West Virginia against the Company (James K. Abcouwer vs. Trans Energy, Inc). The action relates to the Stock Option Agreement (the Agreement ) entered into between the Company and Abcouwer on February 7, 2008. By his complaint, Abcouwer alleges that the Company has breached the Agreement by not permitting Abcouwer to exercise options that are the subject of the Agreement. The Company believes that per the terms of the Agreement all options and other rights described in the Agreement terminated ninety (90) days after the termination of Abcouwer s employment with the Company. Mr. Abcouwer is requesting an amount for his loss of the value of the stock options that are subject to the Agreement. Said amount has not been determined.

We may be engaged in various 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.

**Table of Contents**

## Item 4 Mine Safety Disclosures

Not Applicable

## PART II

## Item 5 Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our common stock is quoted on the OTC Bulletin Board under the symbol TENG. Set forth in the table below are the quarterly high and low prices of our common stock as obtained from the OTC Bulletin Board for the past two fiscal years.

	High	Low
2011		
First Quarter	\$ 3.05	\$ 2.70
Second Quarter	\$ 3.00	\$ 2.30
Third Quarter	\$ 3.02	\$ 2.30
Fourth Quarter	\$ 3.10	\$ 2.40
2010		
First Quarter	\$ 5.10	\$ 2.10
Second Quarter	\$ 4.75	\$ 2.50
Third Quarter	\$ 4.00	\$ 2.75
Fourth Quarter	\$ 3.25	\$ 2.80

As of March 31, 2011, there were approximately 420 holders of record of our common stock, which figure does not take into account those shareholders whose certificates are held in the name of broker-dealers or other nominee accounts. We estimate there to be approximately 1,600 such shareholders.

## Dividend Policy

We have not declared or paid cash dividends or made distributions in the past, and we do not anticipate that we will pay cash dividends or make distributions in the foreseeable future. We currently intend to retain and reinvest future earnings to finance operations.

## Item 6 Selected Financial Data

Not applicable.

## Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations

The following information should be read in conjunction with the consolidated financial statements and notes thereto appearing elsewhere in this Form 10-K.

## Business Strategy

Trans Energy is an independent energy company engaged in the acquisition, exploration, development, and production of natural gas and crude oil properties, with interests in West Virginia. The Company executed a major increase in development activity and leasehold acquisitions during the years ended December 31, 2011 and 2010. The Company has had asset sales in 2011 and 2010 to pay down debt and

**Table of Contents**

to finance the drilling program. In addition, we had good success in our drilling program, adding both natural gas and crude oil reserves to the Company's proved reserve base. Furthermore, the Company established major interconnects with interstate pipelines to allow increased access to the market. The Company's significant overall increase in reserves has greatly increased the present value of our forecasted cash flows.

We intend to focus our development and exploration efforts in our West Virginia properties and utilize our attractive opportunities to expand our reserve base through continuing to drill higher risk/higher reward exploratory and development drilling in the Marcellus Shale for 2012 and beyond with our new financing as discussed under item 1. Management intends to use a portion of the proceeds from the Chambers facility financing to fund this drilling program. We will evaluate our properties on a continuous basis in order to optimize our existing asset base. We plan to employ the latest drilling, completion and fracturing technology in all of our wells to enhance recoverability and accelerate cash flows associated with these wells. We believe that our extensive acreage position will allow us to grow through high risk drilling in the near term.

In summary, our strategy is to increase our oil and gas reserves and production while keeping our development costs and operating costs as low as possible. We will implement this strategy through drilling exploratory and development wells from our inventory of available prospects that we have evaluated for geologic and mechanical risk and future reserve or resource potential. The success of this strategy is contingent on various risk factors, as discussed elsewhere in this Form 10-K.

The implementation of our strategy requires that we continually incur significant capital expenditures in order to replace current production and find and develop new oil and gas reserves. In order to finance our capital and exploration program, we depend on cash flow from operations or bank debt and equity offerings as discussed below in Liquidity and Capital Resources.

**Results of Operations**

The most significant event in 2011 was the sale of 2,950 net acres to Republic Energy Ventures, LLC at \$4,750 per net acre for total pretax proceeds of \$14,012,500. Proceeds from this transaction were used to repay \$5 million to CIT in April, with the remainder being used to partially fund the drilling and completion expenses for certain wells. The reduction of debt reduced our interest expense. The new wells, including the two gross JV wells (one net) and the two farm-out wells (0.1 net) that are expected to be completed during the second quarter of 2012, will increase our revenue and related expenses in the future just as our 2009 and 2010 wells increased this year's revenue and expenses.

The following table sets forth the percentage relationship to total revenues of principal items contained in our consolidated statements of operations for the two most recent fiscal years ended December 31, 2011 and 2010. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Fiscal Year Ended December 31,	
	2011	2010
Total revenues	100%	100%
Total costs and expenses	(113%)	(154%)
Gain on sale of assets	86%	406%

Edgar Filing: TRANS ENERGY INC - Form 10-K/A

Income from operations	73%	352%
Other expenses	(11%)	(51%)
Income Taxes	(1%)	(7%)
Net income	61%	294%

**Table of Contents**

Total revenues of \$14,721,233 for the year ended December 31, 2011 increased \$8,621,280 or 141% compared to \$6,099,953 for the year ended December 31, 2010. The increase in revenue is due to an increase in production as a result of new drilling, as well as enhanced processing of the natural gas liquids in our production stream, which sell at a higher price per MMBTU than if they were left in the production stream. We focused our efforts during 2011 and 2010 on the implementation of our drilling program in Marshall County, West Virginia. We expect more production increases from the drilling program throughout 2012.

Production costs increased \$1,834,136 or 83% for 2011 as compared to 2010, primarily due to an increase in transportation fees and natural gas liquid processing fees associated with the increased production in 2011.

Depreciation, depletion, amortization and accretion expense increased \$2,479,148 or 80% for 2011 as compared to 2010, primarily due to the depletion associated with our Marcellus drilling and related increased well cost and production.

Impairment of oil and gas properties increased by \$1,071,619 or 495% primarily due to the write down of producing properties in Doddridge County.

Selling, general and administrative expenses increased \$1,778,860 or 46% for 2011 as compared to 2010, primarily due to increased legal and consulting fees associated with our debt restructuring and share based compensation.

Gain on sale of assets decreased by \$12,163,133 in 2011 as compared to 2010. We sold certain acreage to Republic Ventures, LLC ( Republic ) for \$24.8 million during the third quarter of 2010, and we sold additional acreage to Republic for \$14.0 million in the first quarter of 2011. The 2010 sale included more acreage than the 2011 sale and included a sale of certain overriding royalty interests.

Our income from operations for 2011 was \$10,769,966 compared to \$21,475,582 for 2010. This change is primarily due to the larger sale of acreage in 2010 which was offset by higher production income from wells in 2011.

Interest expense decreased \$1,552,950 or 48% for 2011 as compared to 2010, due to a lower principal balance in 2011, as well as a reduction in forbearance fees, which were included in interest expense in both periods.

We have accumulated approximately \$6.2 million of net operating loss carryforwards as of December 31, 2011, which may be offset against future tax obligations through 2030. The use of these losses to reduce future income taxes will depend on the generation of sufficient taxable income prior to the expiration of the net operating loss carryforwards based on the anticipated funding event as described in recent events. In the event of certain changes in control, there would be an annual limitation on the amount of net operating loss carryforwards which can be used. We recorded \$214,000 and \$450,000 in income tax expense in 2011 and 2010, respectively. No tax benefit has been reported in the financial statements for the year ended December 31, 2011 because the potential tax benefit of the loss carryforward is offset by a valuation allowance of the same amount.

**Off Balance Sheet Arrangements**

None.



## **Table of Contents**

### Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues, borrowed funds and the proceeds of acreage sales. At December 31, 2011, we had a working capital deficit of \$18,362,177 compared to a working capital deficit of \$19,699,824 at December 31, 2010. This decrease in deficit is primarily attributed to an increase in cash and a reduction of the current portion of notes payable, offset in part by an increase in accounts payable. The company intends to repay both the funded debt as well as payables that are outstanding upon the expected closing of the Chambers financing.

During 2011, net cash provided by operating activities was \$16,531,927 compared to net cash used of \$728,961 in 2010. This increase in cash flow from operating activities is primarily due to a significant increase in deferring cash payments and increasing liabilities such as accounts payable, adding interest to debt principle, as well as an increase in production income.

We expect our cash flow provided by operations for 2012 to increase because of higher projected production from the drilling program, combined with 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 2011, net cash used for investing activities was \$3,848,414 compared to net cash provided of \$12,175,704 in 2010. The reason for the change was a decrease in cash proceeds from acreage sales and increased expenditures for oil and gas properties during 2011 compared to 2010. See notes 6 and 7 to the financial statements for additional information.

During 2011, net cash used by financing activities was \$5,835,802 compared to \$15,010,972 in 2010. The decrease in the cash used by financing activities was primarily the result of paying down debt to CIT by \$5,000,000 in 2011 compared to \$15,000,000 in 2010.

We anticipate meeting our working capital needs with revenues from our ongoing operations, and subsequent to the anticipated funding of the Chambers facility, with proceeds from that facility.

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.

## Table of Contents

### Recent Events

On February 22, 2012, we incorporated American Shale Development under the laws of the State of Delaware as our direct wholly owned subsidiary. American Shale was established in order to accommodate certain provisions related to the terms of the proposed Credit Agreement from Chambers Energy Management, LP ( the Chambers facility ). The proposed credit facility is in the aggregate amount of \$50 million, the proceeds of which are to be used to refinance existing debt and accounts payable as well as to allow for continued development of the Marcellus Properties. We expect to receive the proceeds of the Chambers facility prior to April 30, 2012.

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

### 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.

### Critical accounting policies

We consider accounting policies related to our estimates of proved reserves, accounting for derivatives, share-based payments, accounting for oil and natural gas properties, asset retirement obligations and accounting for income taxes as critical accounting policies. The policies include significant estimates made by management using information available at the time the estimates are made. However, these estimates could change materially if different information or assumptions were used. These policies are summarized in Note 1 of Notes to Consolidated Financial Statements.

**Table of Contents**

New Accounting Standards

Accounting Standards Update No. 2010-20 Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses ( ASU No. 2010-20 )

In July 2010, the FASB issued ASU 2010-20. ASU 2010-20 amends disclosure requirements with respect to the credit quality of financing receivables and the related allowance for credit losses. Entities will be required to disaggregate by portfolio segment or class certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures will be effective for financial statements issued for fiscal years ending on or after December 15, 2010. Since ASU 2010-20 only amended disclosure requirements, not current accounting practice, this ASU did not have any impact on the Company's balance sheets, statements of income or statements of cash flows.

Trans Energy reviewed all other recently issued, but not yet effective, accounting pronouncements and does not believe any such pronouncement will have a material impact on the financial statements.

Item 7A Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 8 Consolidated Financial Statements and Supplementary Data

Our consolidated financial statements as of December 31, 2011 and 2010 and for the fiscal years ended December 31, 2011 and 2010 have been audited to the extent indicated in their report by Maloney + Novotny, LLC, independent registered public accounting firm, and have been prepared in accordance with generally accepted accounting principles. The aforementioned financial statements are included herein starting with page F-1.

Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act )) are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosures.

Evaluation of Controls and Procedures

In connection with the preparation of this Annual Report on Form 10-K, our management, with the participation of our Principle Executive Officer and our Chief Financial Officer, carried out an evaluation of the effectiveness of our disclosure controls and procedures as of December 31, 2011, as required by Rule 13a-15 of the Exchange Act. Based on the evaluation described above, our management, including our principal executive officer and principal financial officer, has concluded that, as of December 31, 2011, our disclosure controls and procedures were effective.



## **Table of Contents**

We concluded that the consolidated financial statements in this Annual Report on Form 10-K present fairly, in all material respects, the Company's financial condition, results of its operations and cash flows for the year ended December 31, 2011 in conformity with U.S. generally accepted accounting principles ( GAAP ).

### **Management's Report on Internal Control over Financial Reporting**

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Internal control over financial reporting is a process designed under the supervision of our principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Due to inherent limitations, internal control over financial reporting may not prevent or detect misstatements and, even when determined to be effective, can only provide reasonable, not absolute, assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to risk that controls may become inadequate as a result of changes in conditions or deterioration in the degree of compliance.

Under the supervision and with the participation of our management, including our Principle Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2011 based on the criteria framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ).

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Based on the assessment, our management has concluded that our internal control over financial reporting was effective as of December 31, 2011, and provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles. The results of management's assessment were reviewed with our Board of Directors.

### **Changes in Internal Control over Financial Reporting**

During the period ended, there were no changes in our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Item 9B Other Information**

None.

## **PART III**

### **Item 10 Directors, Executive Officers, and Corporate Governance**

Information as to Item 10 will be set forth in the Proxy Statement for the Annual Meeting and is incorporated herein by reference.



**Table of Contents**

Item 11 Executive Compensation

Information as to Item 11 will be set forth in the Proxy Statement for the Annual Meeting and is incorporated herein by reference.

Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information as to Item 12 will be set forth in the Proxy Statement for the Annual Meeting and is incorporated herein by reference.

Item 13 Certain Relationships and Related Transactions and Director Independence

Information as to Item 13 will be set forth in the Proxy Statement for the Annual Meeting and is incorporated herein by reference.

Item 14 Principal Accounting Fees and Services

Information as to Item 14 will be set forth in the Proxy Statement for the Annual Meeting and is incorporated herein by reference.

PART IV

Item 15 Exhibits and Financial Statement Schedules

Exhibit No.	Exhibit Name
3.1(1)	Articles of Incorporation and all amendments pertaining thereto, for Apple Corp., an Idaho corporation
3.2(1)	Articles of Incorporation for Trans Energy, Inc., a Nevada corporation
3.3(1)	Articles of Merger for the States of Nevada and Idaho
3.4(1)	By-Laws
4.1(1)	Specimen Stock Certificate
10.1(1)	Marketing Agreement with Sancho Oil and Gas Corporation
21.1(6)	Subsidiaries of Registrant (Revised)
31.1	Certification of CEO Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of CEO Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
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
99.1	Independent Engineer Resource Report for the year ended December 31, 2011.





**Table of Contents**

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANS ENERGY, INC.

By: /s/ JOHN G. CORP  
 John G. Corp,  
 President and Principal Executive Officer  
 Dated: April 14, 2012

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JOHN G. CORP John G. Corp	President and Director (Principal Executive Officer)	April 14, 2012
/s/ JOHN S. TUMIS John S. Tumis	Chief Financial Officer	April 14, 2012
/s/ LOREN E. BAGLEY Loren E. Bagley	Vice President and Director	April 14, 2012
/s/ WILLIAM F. WOODBURN William F. Woodburn	Secretary, Treasurer, C.O.O. and Director	April 14, 2012
/s/ BENJAMIN H. THOMAS Benjamin H. Thomas	Director	April 14, 2012
/s/ RICHARD L. STARKEY Richard L. Starkey	Director	April 14, 2012
/s/ STEPHEN P. LUCADO Stephen P. Lucado	Director	April 14, 2012
/s/ ROBERT L. RICHARDS	Director	April 14, 2012