TRANS ENERGY INC
Form 10QSB
November 29, 2005

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

FORM 10-QSB

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

For the Quarter Ended September 30, 2005

OR

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

For the transition period from to

Commission File Number 0-23530

TRANS ENERGY, INC.
(Exact name of small business issuer as specified in its charter)

Nevada	93-0997412
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

210 Second Street, P.O. Box 393, St. Marys, West Virginia 26170
(Address of principal executive offices)

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

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Class	Outstanding as of October 31, 2005
Common Stock, $.001 par value	4,976,766

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PART I

Item 1. Financial Statements

The accompanying consolidated balance sheet of Trans Energy, Inc. at September 30, 2005 (unaudited) and December 31, 2004, related unaudited consolidated statements of operations for the three and nine months ended September 30, 2005 and 2004, stockholders' equity (deficit) and cash flows for the nine months ended September 30, 2005 and 2004, have been prepared by our management in conformity with accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments considered necessary for a fair presentation of the consolidated results of operations and consolidated financial position have been included and all such adjustments are of a normal recurring nature. Operating results for the quarter ended September 30, 2005, are not necessarily indicative of the results that can be expected for the fiscal year ending December 31, 2005.

TRANS ENERGY, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005 and December 31, 2004

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets

ASSETS

	September 30, 2005 (Unaudited)	December 31, 2004
CURRENT ASSETS		
Cash	$ 239,010	$ 79,662
Accounts receivable, net	2,349,150	653,917
Other receivables	4,222	8,825
Prepaid expenses	84,799	1,223
Total Current Assets	2,677,181	743,627
PROPERTY AND EQUIPMENT, NET	7,099,209	3,372,599
OTHER ASSETS		
Bonds	--	50,159
Deposits	29,574	1,400
Investment in Texas Keystone Wells	175,000	--
Customer lists, net	557,563	--
Life insurance, cash surrender value	67,726	66,326
Total Other Assets	829,863	117,885
TOTAL ASSETS	$10,606,253	$ 4,234,111

The accompanying notes are an integral part
of these condensed consolidated financial statements.

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Balance Sheets (Continued)

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

	September 30, 2005 (Unaudited)	December 31, 2004
CURRENT LIABILITIES		
Accounts payable - trade	$ 2,120,291	$ 1,277,375
Related party payables (Note 5)	1,142,012	719,199
Accrued expenses	1,089,764	844,858
Judgments payable (Note 3)	70,379	70,379
Debentures payable	50,000	50,000
Notes payable - current portion	713,004	762,247
Total Current Liabilities	5,185,450	3,724,058
LONG-TERM LIABILITIES		
Notes payable	4,074,786	108,190
Asset retirement obligation	962,877	1,571,749
Total Long-Term Liabilities	5,037,663	1,679,939
Total Liabilities	10,223,113	5,403,997
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY (DEFICIT) (Note 7)		
Preferred stock; 10,000,000 shares authorized at $0.001 par value; -0- shares issued and outstanding	--	--
Common stock; 500,000,000 shares authorized at $0.001 par value; 4,956,765 and 3,555,074 shares issued and outstanding, respectively	4,957	3,555
Treasury stock, 244,633 shares held at cost	(286,467)	--
Capital in excess of par value	30,795,793	27,854,647
Comprehensive Income	(1,808)	--
Deferred expenses	(74,000)	--
Accumulated deficit	(30,055,335)	(29,028,088)
Total Stockholders' Equity (Deficit)	383,140	(1,169,886)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 10,606,253	$ 4,234,111

The accompanying notes are an integral part
of these condensed consolidated financial statements.

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Other Comprehensive Loss
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
REVENUES	$ 3,958,510	$ 325,652	$ 9,847,711	$ 1,460,627
COSTS AND EXPENSES				
Cost of oil and gas	3,081,216	319,548	7,416,403	1,387,919
Salaries and wages	45,540	107,230	162,219	287,252
Depreciation, depletion amortization and accretion	443,529	89,574	1,164,307	230,414
Selling, general and administrative	702,445	17,986	1,818,062	125,645
Total Costs and Expenses	4,272,730	534,338	10,560,991	2,031,230
LOSS FROM OPERATIONS	(314,220)	(208,686)	(713,280)	(570,603
OTHER INCOME (EXPENSE)				
Gain (loss) on extinguishment of debt	(2,306)	288,398	--	41,562
Net gain (loss)on sale of assets	(152,411)	--	(160,275)	175,910
Other income	116,064	225	124,357	9,353
Tax assessment	--	(18,102)	--	(18,102
Interest expense	(82,029)	(52,559)	(278,049)	(161,759
Total Other Income (Expense)	(120,682)	217,962	(313,967)	46,964
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	(434,902)	9,276	(1,027,247)	(523,639
INCOME TAXES	--	--	--	--

NET INCOME (LOSS)	$ (434,902)	$ 9,276	$ (1,027,247)	$ (523,639

The accompanying notes are an integral part of these condensed consolidated financial statements.

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statements of Operations and Other Comprehensive Loss (continued)
(Unaudited)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2005	2004	2005	2004
NET INCOME (LOSS)	$ (434,902)	$ 9,276	$(1,027,247)	$ (523,639)
OTHER COMPRHENSIVE LOSS Changes due to hedging activities	--	--	(1,808)	--
NET COMPREHENSIVE INCOME (LOSS)	$ (434,902)	$ 9,276	$(1,029,055)	$ (523,639)
BASIC LOSS PER SHARE	$ (0.09)	$ 0.00	$ (0.22)	$ (0.27)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	4,876,118	1,957,108	4,692,358	1,950,411

The accompanying notes are an integral part of these condensed consolidated financial statements.

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity (Deficit)
(split table)

	Preferred Stock		Common Stock	
	Shares	Amount	Accumulated Shares	Amount
Balance, December 31, 2004	--	$ --	3,555,074	$ 3,555
Common stock issued for services to be rendered (unaudited)	--	--	50,000	50
Common stock issued for the conversion of debt (unaudited)	--	--	25,000	25
Common stock issued for the conversion of debt (unaudited)	--	--	141,667	142
Common stock issued for purchase of Arvilla (unaudited)	--	--	1,185,024	1,185
Changes due to hedging activities (unaudited)	--	--	--	--
Contributed services (unaudited)	--	--	--	--
Stock exchanged for the sale of Cobham (unaudited)	--	--	--	--
Net loss for the nine months ended September 30, 2005 (unaudited)	--	--	--	--
Balance, September 30, 2005 (unaudited)	--	$ --	4,956,765	$ 4,957

(continued)

The accompanying notes are an integral part
of these condensed consolidated financial statements.

TRANS ENERGY, INC. AND SUBSIDIARIES
Consolidated Statement of Stockholders' Equity (Deficit)

(continued)

	Capital In Excess of Par Value	Comprehensive Income	Deficit
Balance, December 31, 2004	$ 27,854,647	$ --	$(29,028,088)
Common stock issued for services to be rendered (unaudited)	92,450	--	--
Common stock issued for the conversion of debt (unaudited)	49,975	--	--
Common stock issued for the conversion of debt (unaudited)	254,858	--	--
Common stock issued for purchase of Arvilla (unaudited)	2,368,863	--	--
Changes due to hedging activities (unaudited)	--	(1,808)	--
Contributed services (unaudited)	175,000	--	--
Stock exchanged for the sale of Cobham (unaudited)	--	--	--
Net loss for the nine months ended September 30, 2005 (unaudited)	--	--	(1,027,247)
Balance, September 30, 2005 (unaudited)	$ 30,795,793	$ (1,808)	$(30,055,335)

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

	For the Nine Months Ended September 30, 2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,027,247)	$ (523,639)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, amortization and accretion	1,164,307	230,414
Amortization of deferred expenses	18,500	--
Net loss (gain) from sale of assets	160,275	(175,910)

(Gain) loss on extinguishment of debt	--	(41,563)
Contributed services	175,000	--
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(564,511)	(38,595)
Decrease in prepaids	(83,576)	--
Decrease in other current assets	7,833	--
Decrease in other assets	(1,400)	--
Increase in accounts payable and current liabilities	384,160	670,681
Increase in accrued expenses	53,123	--
Net Cash Provided by Operating Activities	286,464	121,388
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payment for other assets	(236,791)	--
Proceeds from sale of assets	76,575	201,000
Borrowings from life insurance policy	--	1,708
Cash acquired from subsidiary	408,333	--
Expenditures for property and equipment	(556,155)	(440)
Net Cash Provided (Used) by Investing Activities	(308,038)	202,268
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in bank overdraft	--	(49,120)
Payments on related party payables	(67,765)	(141,757)
Proceeds from related party notes	637,088	--
Principal payments on notes payable	(378,401)	(119,993)
Net Cash Provided (Used) by Financing Activities	190,922	(310,870)
NET INCREASE IN CASH	159,348	12,786
CASH, BEGINNING OF PERIOD	79,662	183
CASH, END OF PERIOD	$ 239,010	$ 12,969

The accompanying notes are an integral part
of these condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2005	2004

CASH PAID FOR:

Interest	$ --	$ 44,057
Income taxes	$ --	$ --

NON-CASH FINANCING ACTIVITIES:

Common stock issued for debt relief	$ 305,000	$ 47,856
Common stock issued for services to be rendered	$ 92,500	$ 26,000
Common stock issued for the net assets over liabilities in the purchase of Arvilla Inc. and subsidiary	$ 2,370,048	$ --
Contributed services	$ 175,000	$ --

The accompanying notes are an integral part of these condensed consolidated financial statements.

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TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2005 and December 31, 2004

NOTE 1 - BASIS OF FINANCIAL STATEMENT PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted in accordance with such rules and regulations. The information furnished in the interim condensed consolidated financial statements includes normal recurring adjustments and reflects all adjustments, which, in the opinion of management, are necessary for a fair presentation of such financial statements. Although management believes the disclosures and information presented are adequate to make the information not misleading, it is suggested that these interim condensed consolidated financial statements be read in conjunction with the Company's most recent audited financial statements and notes thereto included in its December 31, 2004 Annual Report on Form 10-KSB. Operating results for the three and nine months ended September 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005.

NOTE 2 - GOING CONCERN

The Company's condensed consolidated financial statements are prepared using accounting principles generally accepted in the United States of America applicable to a going concern which contemplates the realization of assets and liquidation of liabilities in the normal course of business. The Company has incurred cumulative operating losses through September 30, 2005 of

$30,055,335 and has a working capital deficit at September 30, 2005 of $2,526,769. Revenues have not been sufficient to cover its operating costs and to allow it to continue as a going concern. he potential proceeds from the sale of common stock, other contemplated debt and equity financing, and increases in operating revenues from new development would enable the Company to continue as a going concern. There can be no assurance that the Company can or will be able to complete any debt or equity financing. If these are not successful, management is committed to meeting the operational cash flow needs of the Company.

NOTE 3 - CONTINGENCIES AND COMMITTMENTS

Core Laboratories, Inc.

On July 28, 1999, Core Laboratories, Inc. (Core) obtained a judgment against the Company for non-payment of an accounts payable. The judgment calls for monthly payments of $351 and is bearing interest at 10.00% per annum. At September 30, 2005 the Company had accrued a balance including interest of $13,587 which is included in judgments payable. The Company is currently in default on this judgment.

NOTE 3 - CONTINGENCIES AND COMMITMENTS (continued)

RR Donnelly

On July 1, 1998, RR Donnelly (RR) obtained a judgment against the Company for non-payment of accounts payable. The judgment calls for monthly payments of $3,244 and is bearing interest at 10.00% per annum. At September 30, 2005, the Company has accrued a balance including interest of $56,792 which is included in judgment payable as a current liability. The Company is currently in default on this judgment.

Tioga Lumber Company

On September 22, 2000, Tioga Lumber Company obtained a judgment of $43,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler Construction Company for breach of contract. On February 28, 2002, we reached a negotiated payment schedule with Tioga and made the initial payment. We believe that we have satisfied the balance owed to Tioga of $26,233.58, although the judgment has not yet been released. We are proceeding to secure the release of the judgment.

Arvilla Oilfield Services is required under a certain loan agreement to maintain specific financial ratios under covenants contained in the loan agreement. At September 30, 2005 and December 31, 2004 Arvilla was in compliance with those covenants.

NOTE 4 - BUSINESS SEGMENTS

The Company adopted SFAS No. 131, "Disclosure about Segments of an

Enterprise and Related Information." Prior period amounts have been restated to conform to the requirements of this statement. The Company conducts its operations principally as oil and gas sales with Trans Energy and Prima Oil and pipeline transmission with Ritchie County and Tyler Construction.

Certain financial information concerning the Company's operations in different industries is as follows:

	For the Nine Months Ended September 30	Oil and Gas Sales	Pipeline Transmission	Well Servicing
Oil and gas revenue	2005	$ 833,933	$ 1,880,110	$ 7,133,668
	2004	295,963	1,164,664	--
Operating loss applicable to industry segment	2005	(518,151)	(37,305)	(157,824)
	2004	(473,915)	(96,688)	--
General corporate expenses not allocated to industry segments	2005	--	--	--
	2004	--	--	--

NOTE 4 - BUSINESS SEGMENTS (Continued)

	For the Nine Months Ended September 30	Oil and Gas Sales	Pipeline Transmission	Well Servicing
Interest expense	2005	(59,090)	(25,345)	(193,614)
	2004	(140,275)	(21,484)	--
Other income (expenses)	2005	(157,760)	3,609	118,233
	2004	163,812	44,911	--
Assets (net of intercompany accounts)	2005	2,317,856	813,396	7,475,001
	2004	756,602	335,380	--
Depreciation, depletion, Amortization and accretion	2005	260,205	55,321	848,781

	2004	169,341	61,073	--
Property and equipment Acquisitions (Deletions)	2005	187,875	36,881	254,824
	2004	440	--	--

NOTE 5 - RELATED PARTIES

Marketing Agreement - Sancho

Natural gas delivered through the Company's pipeline network is sold either to Sancho Oil and Gas Corporation ("Sancho"); a company controlled by the Vice President of the Company, to Dominion Gas, a local utility, on an on-going basis at a variable price per month per Mcf.

Under its contract with Sancho, the Company has the right to sell natural gas subject to the terms and conditions of a 20-year contract, as amended, that Sancho entered into with Dominion Gas in 1988. This agreement is a flexible volume supply agreement whereby the Company receives the full price which Sancho charges the end user less a $0.05 per Mcf marketing fee paid to Sancho.

Certain officers and directors of the Company have personally guaranteed specific notes payable.

NOTE 6 - OTHER COMPREHENSIVE INCOME

The Company has entered into a loan arrangement containing an interest rate hedge. The hedge is based on the difference between the lending institutions floating rate index plus 280 basis points and the existing LIBOR rate. At September 30, 2005, the difference in rates resulted in additional interest of $1,808 that was recorded as other comprehensive income.

NOTE 7 - EQUITY

In January 2005, the Company issued 50,000 shares of common stock for services to be rendered valued at $92,500.

In January 2005, the Company issued 25,000 shares of common stock for debt relief of $50,000.

In January 2005, the Company issued 1,185,024 shares of common stock for the acquisition of Arvilla, Inc.

In July 2005, the Company issued 141,667 shares of common stock for debt relief of $255,000.

Through September 30, 2005, certain officers and directors have contributed services valued at $175,000.

On August 31, 2005, the Company sold its wholly owned subsidiary,

Cobham Oil & Gas Industries, Inc. along with certain assets and liabilities of that entity to its previous owner in exchange for the return of 244,633 shares of the Company's common stock. These shares remain outstanding and are being held by the Company as Treasury Stock and have been valued at $286,467 representing the fair value of the stock on the date of the Cobham transaction.(See Note 8)

Under FASB Statement 123, the Company estimates the fair value of each stock award at the grant date by using the Black-Scholes option pricing model with the following weighted average assumptions used for grants, respectively; dividend yield of zero percent for all years; expected volatility of 68.72%; risk-free interest rate of 4.08 and expected lives of 10 years for the nine months ended September 30, 2005.

Had compensation cost for the Company's stock options granted to directors and employees been based on the fair value as determined by the Black-Scholes option pricing model at the grant date under the accounting provisions of SFAS No. 123, the Company would have recorded an additional expense of $837,416 for the nine months ended September 30, 2005. Also under these same provisions, the Company's net loss would have been changed by the pro forma amounts indicated below:

NOTE 7 - EQUITY (continued)

	For the Three Months Ended September 30,		For Nine Mont Septemb
	2005	2004	2005
Net loss:			
As reported	$ (434,902)	$ 9,276	$ (1,027,247)
Pro forma	$ (434,902)	$ 9,276	$ (1,864,663)
Basic loss per share:			
As reported	$ (0.09)	$ 0.00	$ (0.22)
Pro forma	$ (0.09)	$ 0.00	$ (0.40)

Stock Options - A summary of the status of the warrants granted under various agreements at September 30, 2005 and 2004, and changes during the periods then ended is presented below:

September 30, 2005	September 30, 2004

	Weighted Average Shares	Exercise Price	Weighted Average Shares	Exercise Price
Outstanding at beginning of period	--	$ --	--	$ --
Granted	553,324	1.95	--	--
Exercised	--	--	--	--
Forfeited	--	--	--	--
Expired	--	--	--	--
Outstanding at end of Period	553,324	$ 1.95	--	$ --
Weighted average fair value of options granted during the year	553,324	$ 1.95	$ --	$ --

A summary of the status of the warrants granted under the various agreements at September 30, 2005, are presented in the table below:

	Warrants Outstanding			Warrant
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable
$1.95	553,324	9.25 years	$ 1.95	553,324
	553,324			553,324

TRANS ENERGY, INC. AND SUBSIDIARIES
Notes to the Unaudited Condensed Consolidated Financial Statements
September 30, 2005 and December 31, 2004

NOTE 8 - SIGNIFICANT EVENTS

On November 5, 2004, the Company acquired Cobham Gas Industries, Inc. and certain wells, leases, pipelines, gas purchase agreements, oil hauling agreements, equipment, right of ways and other miscellaneous items related to the leases located in West Virginia. On September 1, 2005, the Company sold a portion of these acquired assets to the previous owner. These assets include the following:

- Certain leases for the production of oil and natural gas located in Marion County, West Virginia;

- Certain oil or natural gas wells located on the Marion County Leases, together with all equipment and other tangible personal property attached to the wells;

- Certain vehicles and other equipment, parts, inventories and hand tools;

- Miscellaneous well logs, maps, production data, sales records and histories, royalty payment records and other information concerning the Marion County Leases and Marion County Wells;

- A $50,000 reclamation bond pursuant to which all of the Marion County Wells, and others, are permitted;

- Certain cash and trade accounts receivable generated by the operations and results of operations of the Marion County Leases and Marion County Wells, realized on or after August 1, 2005; and

- All outstanding capital common stock of Cobham Gas Industries held by Trans Energy, Inc. or any affiliate.

In consideration for the above referenced assets, the buyer will provide to us:

- The return to us of 244,633 shares of Trans Energy, Inc. common stock initially issued to acquire Cobham, to be valued at the closing price per share of our common stock on the closing date;

- The return to us of all of buyer's options, warrants and future rights to acquire any securities of Trans Energy or any of our affiliates;

- The Company retain the right to use through December 31, 2005 the $50,000 reclamation bond in order to comply with certain West Virginia boding requirements; and

- Buyer will assume responsibility for the payment of certain loans in the amount of $96,839, liabilities related to the plugging of certain of the Marion County Wells, all expenses related to operation, maintenance and ownership of the Marion County Leases and the Marion County Wells incurred on or after August 1, 2005.

In addition to the above, we have agreed to fulfill the remaining payment obligations to the buyer under that certain agreement dated November 5, 2004, and we will retain responsibility for the payment of certain debts related to Cobham.

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

Recent Developments

Arvilla, Inc.

On January 31,2005, we acquired Arvilla, Inc., a provider of well servicing, workover and related transportation services to independent oil and natural gas producers in northeast United States. It also performs ongoing maintenance and major overhauls necessary to optimize the level of production from existing oil and natural gas wells and provides certain ancillary services

during the drilling and completion of new wells. Arvilla offers its services in Ohio, Pennsylvania, New York, Virginia, Kentucky and West Virginia.

Cobham Gas Industries, Inc.

On November 5, 2004, we acquired Cobham Gas Industries, Inc. and certain wells, leases, pipelines, gas purchase agreements, oil hauling agreements, equipment, right of ways and other miscellaneous items related to the leases located in West Virginia. On September 1, 2005, we sold a portion of these acquired assets to Texas Energy Trust Company and its trustee, George Hillyer. These assets include the following:

- Certain leases for the production of oil and natural gas located in Marion County, West Virginia;
- Certain oil or natural gas wells located on the Marion County Leases, together with all equipment and other tangible personal property attached to the wells;
- Certain vehicles and other equipment, parts, inventories and hand tools;
- Miscellaneous well logs, maps, production data, sales records and histories, royalty payment records and other information concerning the Marion County Leases and Marion County Wells;
- A $50,000 reclamation bond pursuant to which all of the Marion County Wells, and others, are permitted;
- Certain cash and trade accounts receivable generated by the operations and results of operations of the Marion County Leases and Marion County Wells, realized on or after August 1, 2005; and
- All outstanding capital common stock of Cobham Gas Industries held by Trans Energy, Inc. or any affiliate.

In consideration for the above referenced assets, the buyer will provide to us:

- The return to us of 244,633 shares of Trans Energy, Inc. common stock initially issued to acquire Cobham, to be valued at the closing price per share of our common stock on the closing date;
- The return to us of all of buyer's options, warrants and future rights to acquire any securities of Trans Energy or any of our affiliates;
- We retain the right to use through December 31, 2005 the $50,000 reclamation bond in order to comply with certain West Virginia boding requirements; and
- Buyer will assume responsibility for the payment of certain loans in the amount of $96,839, liabilities related to the plugging of certain of the Marion County Wells, all expenses related to operation, maintenance and ownership of the Marion County Leases and the Marion County Wells incurred on or after August 1, 2005.

In addition to the above, we have agreed to fulfill the remaining payment obligations to the buyer under that certain agreement dated November 5, 2004, and we will retain responsibility for the payment of certain debts related to

Cobham.

Stock Split

On November 29, 2004, our board of directors and stockholders holding a majority of our outstanding common stock approved a one share for 150 shares reverse split of our common stock. The reverse split was effected on January 28, 2005. All references to per share data and common stock have been restated to reflect the effect of this reverse split.

Results of Operations

The following table sets forth the percentage relationship to total revenues of principal items contained in the our unaudited consolidated statements of operations for the three and nine month periods ended September 30, 2005 and 2004. It should be noted that percentages discussed throughout this analysis are stated on an approximate basis.

	Three Months Ended September 30,		Nine months End June 30,
	2005	2004	2005
	(Unaudited)		(Unaudited)
Total Revenues....................	100%	100%	100%
Total costs and expenses..........	108	164	107
Loss from operations.............	(8)	(64)	(7)
Other income (expense)............	(3)	67	(3)
Net income (loss).................	(11)	3	(10)

Revenues for the three months ("third quarter") and nine months ("first nine months") ended September 30, 2005 increased 1116% and 574%, respectively, compared to the 2004 periods, primarily due to the acquisition of Arvilla and inclusion of its revenues for the 2005 periods. Increased consolidated revenues also reflect increased oil and gas prices and volume. Our cost of oil and gas for the third quarter and first nine months of 2005 increased 864% and 434%, respectively, compared to the 2004 periods, also due to price and volume increases.

Selling, general and administrative expenses increased from $17,986 in the third quarter of 2004 to $702,445 for the third quarter of 2005, and from $125,645 for the first nine months of 2004 to $1,818,062 for the first nine months of 2005. These increases are attributed to the acquisition of Arvilla and the associated expenses of our expanded operations. Salaries and wages decreased 58% and 44% for the third quarter and first nine months of 2005, respectively, when compared to the 2004 periods primarily due to a reduction in accrued wages. Depreciation, depletion, amortization and accretion expense increased 395% and 405% for the third quarter and first nine months of 2005, respectively, due to the addition of Arvilla Assets.

Loss from operations for the third quarter and first nine months of 2005 was $314,220 and $713,280, respectively, compared to a loss of $208,686 and %$570,603 for the like periods of 2004. The improvement for the first nine

months of 2005 is related to the acquisition of Arvilla and its increased contribution to revenues, price and volume increases, although the loss for the third quarter increased from the 2004 period due to a decrease in April revenues in Arvilla related to poor weather conditions. We realized total other expenses of $120,682 and $313,967 during the third quarter and first nine months of 2005, respectively, compared to total other income of $217,962 and $46,964 for the 2004 periods. The 2005 results were primarily attributed to the net loss on the sale of assets and increase in interest expense in 2005, and was partially offset the increase in other income in 2005.

As a percentage of total revenues, total costs and expenses decreased from 164% in the third quarter of 2004 to 108% for the third quarter of 2005, and also decreased from 139% for the first nine months of 2004 to 107% for the first nine months of 2005. This improvement is also attributed to the acquisition of Arvilla and cost reductions in servicing of the Cobham wells.

Our net loss for the third quarter and first nine months of 2005 was $434,902 and $1,029,055 (after a $1,808 adjustment due to hedging activities), respectively, compared to a net income of $9,276 for the third quarter of 2004 and a net loss of $523,639 for the first nine months of 2004.

For the remainder of fiscal year 2005, management expects selling, general and administrative expenses to remain at approximately the same rate as the first nine months of 2005 and significantly higher than the prior year, reflecting the Arvilla acquisition. The cost of oil and gas produced is expected to fluctuate with the amount produced and with prices of oil and gas, and management anticipates that revenues are likely to increase during the remainder of 2005.

Liquidity and Capital Resources

Historically, we have satisfied our working capital needs with operating revenues and from borrowed funds. At September 30, 2005, we had a working capital deficit of $2,508,269 compared to a deficit of $2,980,431 at December 31, 2004. This 16% decrease in working capital deficit is primarily attributed to the acquisition of Arvilla and the reduction of current liabilities and debt.

During the first nine months of 2005, operating activities provided net cash of $286,464 compared to net cash provided of $121,388 for the first nine months of 2004. These results are primarily attributed to increases in depreciation and accounts payable. Also during the first nine months of 2005, net cash used by investing activities was $308,038, compared to net cash provided of $202,268 for the first nine months of 2004. This result is primarily attributed to payment for other assets and expenditures for property and equipment.

During the first nine months of 2005, we realized net cash from financing activities of $190,922 compared to $310,870 in the first nine months of 2004. These results are attributed to the increase in proceeds from related party notes.

We anticipate meeting our working capital needs during the remainder of the current fiscal year with revenues from our newly acquired subsidiaries and from our ongoing operations, particularly from our Powder River Basin interests in Wyoming and New Benson gas wells drilled in West Virginia, which gas goes into our 6-inch pipeline. In the event revenues are not sufficient to meet our working capital needs, we will explore the possibility of additional funding from either the sale of debt or equity securities. There can be no assurance such funding will be available to us or, if available, it will be on acceptable or favorable terms.

As of September 30, 2005, we had total assets of $10,606,253 and total

stockholders' equity of $383,140, compared to total assets of $4,234,111 and total stockholders' deficit of $1,169,886 at December 31, 2004.

In 1998, we issued $4,625,400 face value of 8% Secured Convertible Debentures Due June 30, 1999. A portion of the proceeds were used to acquire the GCRL properties and interest in Wyoming. During 2000, all but one of the remaining outstanding debentures were converted into commons stock. At September 30, 2005, we owed $50,000 for a debenture plus approximately $25,000 in interest.

Because we have incurred significant cumulative operating losses through September 30, 2005 and have a working capital deficit at September 30, 2005 of $2,526,769, there exists substantial doubt about our ability to continue as a going concern. Historically, our revenues have not been sufficient to cover operating costs and we may potentially need to rely on proceeds from sale of common stock, debt or equity financing, and increased operating revenues from new developments 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.

We have included a footnote to our financial statements for the periods ended September 30, 2005 stating that because of our continued losses, working capital deficit and need for additional funding, there is substantial doubt as to whether we can continue as a going concern. See Note 2 to the consolidated financial statements.

Inflation

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

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 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;

- volatility of the stock market, particularly within the technology sector; and

- general economic conditions.

Although we believe the expectations reflected in these forward-looking

statements are reasonable, such expectations cannot guarantee future results, levels of activity, performance or achievements.

Item 3. Controls and Procedures

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of management, including our chief executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934. Based upon that evaluation, our chief executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to cause the material information required to be disclosed by us in the reports that we file or submit under the Exchange Act to be recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date we carried out our evaluation.

PART II

Item 1. Legal Proceedings

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

- On September 22, 2000, Tioga Lumber Company obtained a judgment of $43,300 plus interest in the Circuit Court of Pleasants County, West Virginia, against Tyler Construction Company for breach of contract. On February 28, 2002, we reached a negotiated payment schedule with Tioga and made the initial payment. We believe that we have satisfied the balance owed to Tioga of $26,233.58, although the judgment has not yet been released. We are proceeding to secure the release of the judgment.

- On July 1, 1998, RR Donnelly (RR) obtained a judgment against us for non-payment of accounts payable. The judgment calls for monthly payments of $3,244 and is bearing interest at 10.00% per annum. At September 30, 2005, we had accrued a balance including interest of $56,792 as a current liability. We are currently in default on this judgment.

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

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

On July 1, 2005, we issued 141,668 shares to our Chief Executive Officer, Clarence Smith, in exchange for his forgiving a debt of $255,000. On October 19, 2005, we issued 20,000 shares to John Corp as a signing bonus for becoming a director and officer of Trans Energy. The issuances were made in isolated, private transactions to affiliates and executive officers and were, therefore, exempt from the registration requirements of the Securities Act of 1933 pursuant to Section 4(2) of that Act.

Item 3. Defaults Upon Senior Securities

In 1998, we issued $4,625,400 face value of 8% secured convertible debentures due September 30, 1999. Interest on the debentures accrued upon the

date of issuance until payment in full of the principal sum was been made or duly provided for. Holders of the debentures have the option, at any time, until maturity, to convert the principal amount of their debenture, or any portion of the principal amount which is at least $10,000 into shares of the our common stock at a conversion price for each share equal to the lower of (a) seventy percent (70%) of the market price of the our stock averaged over the five

trading days prior to the date of conversion, or (b) the market price on the issuance date of the debentures. Any accrued and unpaid interest shall be payable, at our option, in cash or in shares of our common stock valued at the then effective conversion price. During 2000, all but one of the remaining outstanding debentures were converted into commons stock. At September 30, 2005, we owed $50,000 to one debenture holder plus approximately $25,000 in interest.

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

Not applicable.

Item 5. Other Information

The following reports were filed with the SEC on Form 8-K during the three month period ended September 30, 2005.

September 16, 2005 - reporting under Item 2.01 the sale of certain assets previously acquired upon the acquisition of Cobham Gas Industries, Inc.

The September 16, 2005 report also reported under Item 5.01 the resignation John G. Corp as a director and Vice President. However, the report inadvertently stated that Mr. Corp resigned as a director, although his resignation was only as an officer and he remains as a director.

Item 6. Exhibits

Exhibit 31.1	Certification of C.E.O. Pursuant to Section 302 of the Sarbanses-Oxley Act of 2002.
Exhibit 31.2	Certification of Principal Accounting Officer Pursuant to Section 302 of the Sarbanses-Oxley Act of 2002.
Exhibit 32.1	Certification of C.E.O. Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of Principal Accounting Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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

thereunto duly authorized.

TRANS ENERGY, INC.

Date: November 25, 2005 By /S/ Clarence E. Smith
\---
Clarence E. Smith
Chief Executive Officer and Director

Date: November 25, 2005 By /S/ William F. Woodburn
\---
WILLIAM F. WOODBURN
Secretary / Treasurer
(Principal Accounting Officer)

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ear. Under the provisions of the Profit Sharing Plan, criteria established each year will include:

designation of one or more performance periods for the fiscal year,

determination of the formula for determining the profit share pool for each performance period, including the performance goals used in the formula,

assignment of an initial profit share pool allocation for each performance period for each eligible employee of the Bank and the Company based on responsibility level, and

designation of a performance rating factor for each eligible employee of the Bank and the Company.

The Profit Sharing Plan also provides that the Compensation Committee of the Board may designate any employee, including an executive officer, as ineligible to receive a profit sharing allocation at its complete discretion. Additionally, the Committee may adjust any employee s profit sharing allocation from the profit sharing pool at its discretion. However, no individual profit sharing allocation can exceed 7.5% of the entire profit sharing pool for any performance period, and total profit sharing allocations for any performance period cannot exceed 100% of the profit sharing pool for the performance period. Lastly, no individual profit sharing allocation can exceed 50% of that individual s base salary, and total profit sharing allocations made to executive officers of the Company cannot exceed 25% of the profit sharing pool in any performance period.

The performance goals established by the Compensation Committee for the Profit Sharing Plan for 2011 include measures based on the Company s strategic goals for 2011. The Compensation Committee reviewed and approved management s recommended thresholds for each criterion. In 2011, the Company had to meet the following minimum criteria in order for a profit sharing pool to be established:

a consolidated return on average assets, which is calculated as consolidated net income divided by average total assets, of at least 0.75%;

a ratio of total regulatory capital to risk-weighted assets of at least 10%;

a ratio of tier one regulatory capital to risk-weighted assets of at least 6%;

a ratio of tier one regulatory capital to total average assets of at least 5%; and

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a ratio of classified assets to total risk-based regulatory capital for the Bank of no more than 35%. Classified assets include loans classified as substandard, doubtful or loss assets within the Bank s internal risk rating system, plus other real estate owned and other repossessed assets.

Once the above criteria are met, the profit sharing pool for 2011 is calculated by multiplying pre-tax net income by 5% for the consolidated return on average assets up to 1.00%. For consolidated return on average assets in excess of 1% and up to 1.25%, the Company multiplies pre-tax net income by 3%. No additional profit sharing pool is established if the Company s consolidated return on average assets exceeds 1.25%. The Compensation Committee approved management s recommendation based upon the calculated payout under the Profit Sharing Plan s methodology resulting in an aggregate payout of $786,000 for 2011, $143,000 of which was paid, in the aggregate, to the named executive officers.

Options and Other Stock-Based Compensation The Compensation Committee is of the philosophy that offering stock-based incentives to executives and key employees: (i) attracts and retains the best available personnel for the long-term; (ii) enhances long-term profitability and shareholder value; and (iii) encourages employees to acquire and maintain stock ownership in the Company, thereby more closely aligning the interests of employees and shareholders. The Compensation Committee follows this philosophy and, subject to the Company s employee stock incentive plans, may determine the employees eligible to receive options and awards and to assess the amount of each option and award.

The Company s 2010 Stock Incentive Plan (2010 Plan), an omnibus plan approved by shareholders, authorizes the Board or the Compensation Committee to administer the Plan and to grant to eligible key employees nonqualified stock options, restricted stock, restricted units, performance shares, performance units, stock appreciation rights, or dividend equivalent rights. The Compensation Committee has not delegated any aspect of the administration of any of the Company s stock incentive plans, including the 2010 Plan, to any other persons.

The 2010 Plan is designed to afford the Compensation Committee flexibility, consistency, and balance in determining and governing the terms and mix of the annual grant of long-and-shorter-term equity based compensation awards to the Company s executive officers and other employees key to the safe and profitable operation of the Bank. The majority of participants in the Plan are members of the Bank s senior management team. Participants, including the Company s named executives, are grouped within five tier levels for purposes of granting awards. These tiers are defined by the scope of the participants responsibility and roles within the organization. The proportion of stock options and restricted stock units granted may vary depending upon an employee s position within the five tier levels.

The Compensation Committee believes that the awards of stock options and shorter-term restricted units serve to tie the executives interests to those of the Company s shareholders. These awards also provide an incentive for the executives long-term retention given the competitive climate in the Bank s marketplace for experienced and seasoned bankers. The methodology for calculating the total value of equity awards that will be awarded to employees, including the executives, starts with calculating that aggregate value that will be allocated to employees. The aggregate value is calculated by taking the Company s market capitalization times 0.50%. This value is then allocated to employees based on tiers. Employees are placed into tiers based on their level of responsibility within the Company. The Chief Executive Officer recommends proposed grantees and proposed award levels based on performance. The Committee has full discretion to approve, deny, or change any recommendations from the Chief Executive Officer. The Compensation Committee also analyzes the financial impact of the grant on the Company s income statement and the potential dilution of the grant to existing shareholders compared to prior grants and the Company s peer group.

The Company has not established any program whereby executives, key personnel, or directors are required to own and purchase within any specific schedule a defined number of shares of the Company s common stock.

Retirement and Other Deferred Benefits

Deferred Compensation Plan Effective as of January 1, 1995, as amended effective as of October 3, 1996 and January 1, 2005, the Bank established a Deferred Compensation Plan (DCP) for the purpose of providing benefit planning to key employees of the Bank by permitting them to defer the receipt of compensation. All offi-

cers of the Bank and the Company, including the named executive officers, are eligible to participate and other key employees may become eligible to participate if so notified by the Compensation Committee.

The DCP provides that on or prior to December 31 of each year the plan is in effect, any eligible employee may elect in writing to defer receipt of at least five percent to a maximum of one hundred percent of their salary to be paid in the calendar year following the year of election. Any election is irrevocable as to any salary payable in the next year and effective with respect to future years unless revoked by the participant prior to December 31 of the year preceding the year in which the deferral is to take effect. Under the DCP, eligible employees, including the named executive officers, may elect to defer receipt of all or a portion of their remaining salary to be paid in the current calendar year if such written election is made within 30 days after she or he is first notified by the Compensation Committee of her or his eligibility to become a participant. The DCP provides that any eligible employee may elect to defer receipt of at least five percent to a maximum of one hundred percent of their performance based payments for services to be performed in a succeeding plan year under the same conditions described above. All amounts deferred are credited to participant accounts with interest compounded annually. According to the DCP, interest is based on the Bank s average yield on its total assets calculated on January 1, based on the prior year s performance, less one percentage point. Therefore, the rate of interest calculated for 2011 was 2.94%. None of the named executive officers elected to defer receipt of compensation in 2011.

The DCP, as amended effective January 1, 2005 to comply with new regulations under Internal Revenue Code section 409A, provides that Pre-2005 Grandfathered Accounts will be administered separately from Post-2004 Accounts, meaning that amounts deferred and vested prior to 2005 shall be credited to a Pre-2005 Grandfathered Account, while Post-2004 deferrals shall be credited to a Post-2004 Account and administered in accordance with Internal Revenue Code Section 409A.

As to the form and timing of payments, participants having *Pre-2005 Grandfathered Accounts*, shall be paid in installments or as a lump sum in accordance with the participant s deferral election. The Compensation Committee may elect at its sole discretion to accelerate payments if an irrevocable written request is made within at least 30 days prior to the date of the first scheduled payment. If an accelerated payment is made, then the participant will be subject to a penalty payable to the Bank in an amount equal to two percent of the accelerated amount. If installment payments are elected, a level series of monthly payments will be computed based on account balance, time period selected, and applicable interest rate in effect as of the benefit commencement date. In this case, the applicable interest rate will be 50 basis points over the average of U.S. Treasury Note Rate for the preceding 12 months, that precede the commencement of payments and will be the nearest quoted rate for a maturity representing two-thirds of the installment pay-out period. Any deferral must be for a minimum period of two years with a distribution of a participant s account beginning on the first day of the month following sixty days after the earliest of voluntary or involuntary termination of employment, disability, or expiration of the deferred election.

The DCP provides that a participant s *Post-2004 Account* will be 100% vested and non-forfeitable at all times and shall become payable to her or him upon expiration of the deferral election. Any deferral election for this account to a specified future distribution date must be for at least two plan years. By December 31, 2010, all participants elected to receive their *Post-2004 Account* at the end of her or his deferral period in a lump sum or in annual installments not to exceed 10 years, and new participants after December 31, 2010 must elect at the time they become participants to receive their *Post-2004 Account* at the end of their deferral period in a lump sum or in annual installments not to exceed 10 years.

The DCP sets forth limitations as to Section 162(m) of the Internal Revenue Code of 1986. Also, the intent of the DCP, as written, is to comply with the provisions of Internal Revenue Code Section 409A.

Northrim Bank Savings Incentive Plan 401k Executive officers participate in the Company s qualified retirement plan, the Northrim Bank Savings Incentive Plan (401k Plan) to the same extent and subject to the same rules and limitations as the Company s and the Bank s other employees. The 401k Plan provides for a mandatory $0.25 match for each $1.00 contributed by an employee up to 6% of the employee s salary. The 401k Plan also provides for a three-tier discretionary service based match regardless of the employee s participation in the 401k Plan. The first tier matches 1% of an employee s salary if an employee has worked at the Bank for more than one but less than three years. The second tier matches 2% of an employee s salary if an employee has

worked at the Bank for more than three but less than six years, and the third tier matches 4% of an employee s salary if an employee has worked at the Bank in excess of six years. The 401k Plan allows for an additional discretionary contribution of up to $0.75 for each $1.00 contributed by an employee up to 6% of that employee s salary. A residual discretionary contribution after all the previously listed contributions have been made is also provided for under the 401k Plan. Based upon the Bank s performance in 2011, the service based match was approved by the Compensation Committee and the Board of Directors. There was no discretionary match approved in 2011 due to the implementation of the Bank s new Profit Sharing Plan.

Supplemental Executive Retirement Plan Effective July 1, 1994, the Bank adopted the Northrim Bank Supplemental Executive Retirement Plan (SERP) for the benefit of its executive officers, including the named executive officers. As provided by the SERP, the Company makes annual contributions to participant accounts on January 1 at a percentage rate of annual base salary determined and approved by the Compensation Committee. The Compensation Committee can exercise its authority to determine and approve increases to this percentage, as well as approve new participants under the SERP. The Compensation Committee generally makes these determinations based upon recommendations of the Chief Executive Officer or the Chief Operating Officer and upon consideration of the percentage rates of annual base salary contributed by the Company for each SERP participant and relative levels of each participant s current responsibility.

Earnings under the SERP are credited for the year on January 1 and based on the Bank s average yield on its total assets, less a three year rolling average of net loan charge-offs as a percentage of average loans outstanding for the respective periods. The SERP provides for payment of a specified amount to plan beneficiaries or their survivors upon retirement, with early retirement permitted after the participant s 55th birthday, if she or he has been a plan participant for at least five years prior to retirement. Benefits are payable monthly beginning 90 days after retirement, with the amount payable being equal to the total plan account balance for that participant (including interest at a specified fixed rate) divided by 12 months, divided by the number of years over which the participant elects to receive payments, with 15 years being the maximum period over which payout is permitted. If the participant dies prior to commencement of benefits, benefits are paid to the participant s survivors in equal installments over 15 years unless the Compensation Committee elects to accelerate payment.

Supplemental Executive Retirement Deferred Compensation Plan The Compensation Committee, the Board and management have deemed it prudent for the Bank to have life insurance protection on certain executives, considering the out-of-pocket costs related to replacing an executive officer, as well as the intangible but real loss due to disruptions in management and loss of existing or new business because of the death of a key individual. For these reasons, the Compensation Committee and the Board authorized the Bank to establish the Supplemental Executive Retirement Deferred Compensation Plan (SERDCP), a non-qualified deferred compensation plan. Certain executives, as identified by the Compensation Committee, including each of the named executive officers except for Mr. Hartung, are entitled to participate in the SERDCP. The SERDCP is intended to provide a source of funds for participants retirement through the Bank s purchase and ownership of key man insurance coverage in the form of a variable adjustable life policy in an amount approved by the Compensation Committee and the Board for each participant. The annual premium payment covers the cost of providing the Bank with a full death benefit for the face amount of the policy, and the cost of providing the executive the deferred compensation retirement benefit or a death benefit to the executive s beneficiaries in the event of the executive s death before retirement. The amount of payment is equal to the greater of the policy s then cash surrender value or a stated amount which is less than the death benefit of the policy. Earnings are based upon the participant s discretionary selection of investment opportunities available through the insurance provider to develop the cash surrender value of the portion of the premiums paid and allocated for that purpose.

In the event of the participant s retirement, the cash surrender value of the policy can be paid out in a lump sum or in installments not to exceed ten years. The participant can also elect to receive the insurance policy net of a distribution of cash value sufficient to pay taxes upon receipt of the policy. In the event of the participant s death, an amount equal to the greater of the cash surrender value or a stated death benefit, as described in the SERDCP document, would be paid to the participant s beneficiary.

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Tax and Accounting Treatment of Executive Compensation

Deductibility of Executive Compensation

The Compensation Committee is aware of the limits set on individual grants to provide for the Company s deductibility of options and performance-based awards under Section 162(m) of the Internal Revenue Code (the Code). Individual grants of options and stock appreciation rights are limited to 100,000 shares during any three consecutive calendar years; individual grants of restricted stock, restricted stock units, performance shares, and performance units are limited to 50,000 during any three consecutive calendar years. Performance measures are included in the 2010 Plan as required for performance shares and performance units to qualify for exemption under Section 162(m).

Nonqualified Deferred Compensation

Section 409A of the Code imposes election, payment, and funding requirements on nonqualified deferred compensation plans. If a nonqualified deferred compensation arrangement subject to Section 409A of the Code fails to meet, or is not operated in accordance with, the requirements of Section 409A, then compensation deferred under the arrangement may become immediately taxable and subject to a 20% additional tax. Certain awards that may be issued under the plan may constitute a deferral of compensation subject to the requirements of Section 409A of the Code.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information regarding compensation earned by our Chief Executive Officer, our Chief Financial Officer and three other most highly compensated officers for the fiscal years ended December 31, 2011, December 31, 2010, and 2009, as well as certain other compensation information for the named executive officers during the years indicated:

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards ($)[1]	Option Awards ($)[2]	Non-Equity Incentive Plan Compensation ($)[3]	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)[4]	All Other Compensation ($)[5]	Total ($)
R. Marc Langland,	2011	$ 324,012	N/A					$ 180,945	$ 504,957
	2010	$ 324,012	N/A					$ 183,060	$ 507,072
Chairman, President,									
Chief Executive Officer	2009	$ 324,012	N/A	$ 34,221	$ 8,552		$ 147	$ 183,060	$ 549,992
Joseph M. Schierhorn,	2011	$ 238,366	N/A	$ 26,680	$ 16,906	$ 36,113		$ 102,118	$ 420,183
	2010	$ 233,496	N/A	$ 38,581	$ 12,862	$ 30,551	$ 12,020	$ 108,286	$ 435,796
Executive Vice President,									
Chief Financial Officer	2009	$ 225,008	N/A	$ 42,556	$ 14,152		$ 21,456	$ 99,294	$ 402,466
Christopher N. Knudson, Executive Vice President,	2011	$ 237,911	N/A	$ 21,344	$ 13,526	$ 36,052		$ 112,777	$ 421,610
	2010	$ 234,610	N/A	$ 30,803	$ 10,272	$ 30,192		$ 115,725	$ 421,602
Chief Operating Officer	2009	$ 234,610	N/A	$ 37,346	$ 11,338			$ 115,724	$ 399,018
Joseph M. Beedle,	2011	$ 245,337	N/A	$ 26,680	$ 16,906	$ 37,177		$ 142,504	$ 468,604
	2010	$ 240,000	N/A	$ 45,815	$ 15,276	$ 31,200		$ 145,929	$ 478,220
Executive Vice President	2009	$ 229,628	N/A	$ 42,556	$ 14,152		$ 24,643	$ 143,163	$ 454,142
of the Company; President and CEO of the Bank									
Steven L. Hartung,	2011	$ 223,976	N/A	$ 26,680	$ 16,906	$ 33,937		$ 76,875	$ 378,374
	2010	$ 216,923	N/A	$ 38,635	$ 12,884	$ 30,500		$ 69,246	$ 368,188
Executive Vice President,									
Chief Credit Officer	2009	$ 191,858	N/A	$ 42,556	$ 14,152			$ 63,040	$ 311,606

(1) The amounts listed for each named executive officer s stock award represent the aggregate grant date fair value of the awards determined in accordance with FASB ASC Topic 718 and is based on the price of the Company s stock at the close of business on the date of grant.

(2) The amount listed for each named executive officer s option award represents the aggregate grant date fair value of the awards determined in accordance with FASB ASC Topic 718. See further discussion about the assumptions used in the pricing model at Note 18 in the Company s Annual Report on Form 10-k for the year ended December 31, 2011.

(3) The amount listed for each named executive officer represents the individual s performance based payment earned in such fiscal year, but paid in the following fiscal year, as calculated according to the provisions of the Company s Profit Sharing Plan in 2011 and according to the Company s Incentive Plan in 2010 and 2009, as approved by the Compensation Committee. See *Non-Equity Incentive Plan Awards* and *Employment Agreements* contained herein this Proxy Statement.

(4) The amount listed for each named executive officer under this category is the excess earnings on the named executive officer s account over 120% of the federal rate for each applicable year. There were no excess earnings in 2011.

(5) The amount listed for each named executive officer represents items of compensation not reflected elsewhere in this *Summary Compensation Table:*

The aggregate total of all other compensation disclosed for Mr. Langland is equal to the amounts of $13,475 and $10,157, representing contributions to the Company s 401k savings plan for Mr. Langland and a car lease, respectively, as well as the Company s contributions to the SERP and SERDCP for Mr. Langland in the amounts of $64,802 and $92,511, respectively. These amounts contributed to the SERP and SERDCP for Mr. Langland are disclosed in the footnotes to the Nonqualified Deferred Compensation table.

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The aggregate total of all other compensation disclosed for Mr. Schierhorn is equal to the amounts of $13,475 and $8,400, representing contributions to the Company s 401k savings plan for Mr. Schierhorn and a car allowance, respectively, as well as the Company s contributions to the SERP and SERDCP for Mr. Schierhorn in the amounts of $35,251 and $44,992, respectively. These amounts contributed to the SERP and SERDCP for Mr. Schierhorn are disclosed in the footnotes to the Nonqualified Deferred Compensation table.

The aggregate total of all other compensation disclosed for Mr. Knudson is equal to the amounts of $13,475 and $8,400, representing contributions to the Company s 401k savings plan for Mr. Knudson and car allowance, respectively, as well as the Company s contributions to the SERP and SERDCP for Mr. Knudson in the amounts of $35,192 and $55,710, respectively. These amounts contributed to the SERP and SERDCP for Mr. Knudson are disclosed in the footnotes to the Nonqualified Deferred Compensation table.

The aggregate total of all other compensation disclosed for Mr. Beedle is equal to the amounts of $8,575 and $8,400, representing contributions to the Company s 401k savings plan for Mr. Beedle and a car allowance, respectively, as well as the Company s contributions to the SERP and SERDCP for Mr. Beedle in the amounts of $36,000 and $89,529, respectively. These amounts contributed to the SERP and SERDCP for Mr. Beedle are disclosed in the footnotes to the Nonqualified Deferred Compensation table.

The aggregate total of all other compensation disclosed for Mr. Hartung is equal to the amounts of $13,475 and $8,400, representing contributions to the Company s 401k savings plan for Mr. Hartung and car allowance, respectively, as well as the Company s contribution to the SERP for Mr. Hartung in the amount of $55,000. This amount contributed to the SERP for Mr. Hartung is disclosed in the footnotes to the Nonqualified Deferred Compensation table.

Employment Agreements

The Company and the Compensation Committee share the philosophy that employment agreements serve to further strengthen the relationships between the Company, its key executives, and its shareholders, particularly in light of the highly competitive climate in which the Bank and the Company currently operate. The Compensation Committee approved and the Company adopted employment agreements for each of the above named executive officers each becoming effective on January 1 and continuing through December 31 of 2011, 2010 and 2009, respectively.

The existing employment agreements at December 31, 2011 for Messrs. Langland, Schierhorn, Knudson, Beedle, and Hartung include the following entitlements: a monthly automobile allowance, reasonable health insurance, disability and other employee benefits on a basis at least as favorable as that accorded to any other officer, as well as allowance for adjustments to annual base salary as deemed appropriate by the Compensation Committee. The named executive officers agree to a *Covenant Not to Compete*, which stipulates that for a period of two years following termination of the agreement, or one year following the close of a transaction constituting a change of control, they will not be directly or indirectly employed by or own any business activity that is competitive with the Company or Bank. As defined in each of their employment agreements, each of the named executive officers is entitled to the severance benefits discussed herein under the heading *Potential Payments Upon Termination or Change of Control*.

The employment agreements for the executive officers are all dated January 1, 2011 and are between the Company, the Bank, and respective executive officers listed below. All of the employment agreements except that of Mr. Langland reflect the executive officer s eligibility to receive, under the Company s Incentive Plan, an annual target bonus equal to 30% of base salary, the amount payable for ambitious, but expected, results as determined by the Compensation Committee and the Board. The bonus could have been more or less than this amount at the Compensation Committee s and the Board s discretion but could not exceed the maximum of 40% of base salary. Effective November 17, 2011, the Company s Board approved the discontinuance of the Executive Incentive Plan in conjunction with the approval of the new Profit Sharing Plan. This change in the Company s incentive compensation structure supersedes this bonus provision in the employment contracts.

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R. Marc Langland

The employment agreement dated January 1, 2011 between the Company, the Bank, and R. Marc Langland, our Chairman, President and Chief Executive Officer, reflects Mr. Langland s current annual salary, $324,012. The Compensation Committee honored Mr. Langland s request that the provisions for *Stock Options* and *Incentive Compensation* be eliminated from the agreement between him and the Company and the Bank starting in 2009. Mr. Langland is entitled to receive an annual contribution equal to 20% of annual base salary in accordance with the Company s SERP, which may be adjusted at the Compensation Committee s and the Board s discretion. Interest on the accruing contributions is credited based on the average yield of the Bank s assets less a three year moving average rate of loan charge-offs. Mr. Langland s employment agreement also provides for his participation in the Company s SERDCP which is designed to provide the Bank with key man insurance protection for $2.5 million and a future retirement benefit for Mr. Langland.

Joseph M. Schierhorn

The employment agreement dated January 1, 2011 between the Company, the Bank, and Joseph M. Schierhorn, our Executive Vice President and Chief Financial Officer reflects Mr. Schierhorn s annual salary of $235,008. In April 2011, as recommended by the Chairman and approved by the Compensation Committee, it was deemed appropriate to increase Mr. Schierhorn s annual salary from $235,008 to $239,119. A profit sharing allocation of $36,113 was earned by Mr. Schierhorn in 2011 under the provisions of the Profit Sharing Plan. Mr. Schierhorn is entitled to receive an annual contribution equal to 15% of annual base salary in accordance with the Company s SERP, which may be adjusted at the Compensation Committee s and the Board s discretion. Interest on the accruing contributions is credited based on the average yield of the Bank s assets less a three year moving average rate of loan charge-offs. Mr. Schierhorn s agreement also provides for his participation in the Company s SERDCP which is designed to provide the Bank with key man insurance protection for $1 million and a future retirement benefit for Mr. Schierhorn.

Christopher N. Knudson

The employment agreement dated January 1, 2011 between the Company, the Bank, and Christopher N. Knudson, our Executive Vice President and Chief Operating Officer reflects Mr. Knudson s annual salary of $234,610. In April 2011, as recommended by the Chairman and approved by the Compensation Committee, it was deemed appropriate to increase Mr. Knudson s annual salary from $234,610 to $238,716. A profit sharing allocation of $36,052 was earned by Mr. Knudson in 2011 under the provisions of the Profit Sharing Plan. Mr. Knudson is entitled to receive an annual contribution equal to 15% of annual base salary in accordance with the Company s SERP, which may be adjusted at the Committee s and the Board s discretion. Interest on the accruing contributions is credited based on the average yield of the Bank s assets less a three year moving average rate of loan charge-offs. Mr. Knudson s agreement also provides for his participation in the Company s SERDCP which is designed to provide the Bank with key man insurance protection for $2,130,000 and a future retirement benefit for Mr. Knudson.

Joseph M. Beedle

The employment agreement dated January 1, 2011 between the Company, the Bank, and Joseph M. Beedle, our President and Chief Executive Officer of the Bank, reflects Mr. Beedle s annual salary of $240,000. In April 2011, as recommended by the Chairman and approved by the Compensation Committee, it was deemed appropriate to increase Mr. Beedle s annual salary from $240,000 to $244,200. In August 2011, as recommended by the Chairman and approved by the Compensation Committee, it was deemed appropriate to increase Mr. Beedle s annual salary from $244,200 to $250,000. A profit sharing allocation of $37,177 was earned by Mr. Beedle in 2011 under the provisions of the Profit Sharing Plan. Mr. Beedle is entitled to receive an annual contribution equal to 15% of annual base salary in accordance with the Company s SERP, which may be adjusted at the Committee s and the Board s discretion. Interest on the accruing contributions is credited based on the average yield of the Bank s assets less a three year moving average rate of loan charge-offs. Mr. Beedle s agreement also provides for his participation in the Company s SERDCP which is designed to provide the Bank with key man insurance protection for $2 million and a future retirement benefit for Mr. Beedle.

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Steven L. Hartung

The employment agreement dated January 1, 2011 between the Company, the Bank, and Steven L. Hartung, our Executive Vice President and Chief Credit Officer, reflects Mr. Hartung s annual salary of $220,000. In April 2011, as recommended by the Chairman and approved by the Compensation Committee, it was deemed appropriate to increase Mr. Hartung s annual salary from $220,000 to $226,002. A profit sharing allocation of $33,937 was earned by Mr. Hartung 2011 under the provisions of the Profit Sharing Plan. Mr. Hartung is entitled to receive an annual contribution equal to 25% of annual base salary in accordance with the Company s SERP, which may be adjusted at the Committee s and the Board s discretion. Interest on the accruing contributions is credited based on the average yield of the Bank s assets less a three year moving average rate of loan charge-offs.

Potential Payments Upon Termination or Change in Control

If the Company or the Bank is subjected to a change of control, any outstanding stock option grants or stock awards held by the named executive officers would not automatically vest. However, if the awards were not assumed by or replaced with comparable awards by the successor company, the Compensation Committee may, at its sole discretion, immediately vest all shares. For Mr. Schierhorn, Mr. Knudson, Mr. Beedle and Mr. Hartung, if the Company or the Bank is subjected to a change of control and either the Company terminates a named executive officer s employment without cause or if a named executive terminates his employment for good reason within seven hundred and thirty days of the change in control, the named executive is entitled to:

all base salary earned and all reimbursable expenses incurred through the termination date in a lump sum payable by the Company in a lump sum no later than forty five days after the day on which employment is terminated or sooner, pursuant to applicable Internal Revenue Code,

an amount equal to one times his highest base salary over the prior three years also payable by the Company in a lump sum no later than forty five days after the day on which employment is terminated or sooner, pursuant to applicable Internal Revenue Code,

the continuation of health and insurance benefits for 18 months following the termination date of his agreement.

For Mr. Langland, if the Company or the Bank is subjected to a change of control and either the Company terminates Mr. Langland s employment without cause or Mr. Langland terminates his employment for good reason within seven hundred and thirty days of the change in control, Mr. Langland is entitled to all base salary earned and all reimbursable expenses incurred through the termination date in a lump sum payable by the Company no later than forty five days after the day on which employment is terminated or sooner, pursuant to applicable Internal Revenue Code.

If the Company terminates any of the named executive officer s employment without cause, or if he terminates his employment for good reason, the named executive officer s is entitled to:

all base salary earned and all reimbursable expenses incurred under the agreement through his termination date payable by the Company in a lump sum no later than 45 days after the day on which employment is terminated,

an amount equal to one times his highest base salary over the prior three years, to be paid on the first day of the month following a period of six months after the termination of employment or sooner, pursuant to applicable Internal Revenue Code,

continuation of health and insurance benefits for 18 months following the termination date of his agreement.

In the event the Company terminates a named executive officer s employment for cause or a named executive officer terminates his employment for without good reason, the named executive officer is entitled to payment of all base salary earned and all reimbursable expenses incurred through the termination date payable upon the effective date of termination.

If the Company terminates a named executive officer s employment on account of any mental or physical disability that prevents him from performing his duties, then he is entitled to one lump sum payment, on the first

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day of the month following a period of six months after employment was terminated, of all base salary earned and reimbursable expenses incurred through the termination date, as well as full base salary and health and dental insurance benefits provided, at the Company s expense, for one year following the termination date.

If a named executive officer s employment agreement is terminated due to his death, under the terms of the agreement, his beneficiaries will receive that portion of his base salary that otherwise would have been paid to him for the month in which his death occurred and any other amounts due him pursuant to the Company s SERP, any supplemental deferred compensation plan, and any other death, insurance, employee benefit plan or stock benefit plan provided to him by the Company according to the terms of the respective plans.

The following summaries set forth potential payments payable to our named executive officers in the event of termination of their employment or a change of control of the Company or the Bank under the provisions of their employment agreements as described above that became effective January 1 through December 31, 2011. The value of unvested options and restricted stock units in the discussion below is based on the closing price of the Company s common stock on December 30, 2011 at $17.51 per share.

R. Marc Langland

Potential Payments Upon Termination/Change of Control

Name	Salary	Cash Severance	Unvested Stock Options	Unvested Restricted Stock Units	Benefits
R. Marc Langland					
Term by Employer Without Cause	$ 12,462				