GeoMet, Inc.
Form 10-Q
November 02, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

o 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 001-32960

GeoMet, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**76-0662382**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

1221 McKinney Street, Suite 3840

Houston, Texas 77010

(713) 659-3855

(Address of principal executive offices and telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer o
Non-accelerated filer o	Smaller reporting company x

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

As of November 1, 2015, 40,513,373 shares of the registrant s common stock, par value $0.001 per share, were outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

GEOMET, INC. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

		September 30, 2015		December 31, 2014
ASSETS				
Current Assets:				
Cash and cash equivalents	$	18,626,835	$	22,894,405
Other current assets		199,858		148,302
Total current assets		18,826,693		23,042,707
TOTAL ASSETS	$	18,826,693	$	23,042,707
LIABILITIES, MEZZANINE AND STOCKHOLDERS DEFICIT				
Current Liabilities:				
Accounts payable	$	138,000	$	152,258
Accrued liabilities				123,092
Income tax payable				2,543
Total current liabilities		138,000		277,893
TOTAL LIABILITIES		138,000		277,893
Commitments and contingencies (Note 13)				
Mezzanine equity:				
Series A Convertible Redeemable Preferred Stock, $.001 par value net of offering costs of $1,660,435; redemption amount $72,170,150; 7,401,832 shares authorized, 7,217,015 and 6,786,334 shares were issued and outstanding at September 30, 2015 and December 31, 2014, respectively		52,817,306		48,676,221
Stockholders Deficit:				
Preferred stock, $0.001 par value 2,598,168 shares authorized, none issued				
Common stock, $0.001 par value authorized 125,000,000 shares; 40,523,805 issued and 40,513,373 outstanding at September 30, 2015 and December 31, 2014		40,524		40,524
Treasury stock, at cost 10,432 shares at September 30, 2015 and December 31, 2014		(94,424)		(94,424)
Paid-in capital		176,401,168		182,275,243
Retained deficit		(210,475,881)		(208,132,750)
Total stockholders deficit		(34,128,613)		(25,911,407)
TOTAL LIABILITIES, MEZZANINE AND STOCKHOLDERS DEFICIT	$	18,826,693	$	23,042,707

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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GEOMET, INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended September 30, 2015	Three Months Ended September 30, 2014	Nine Months Ended September 30, 2015	Nine Months Ended September 30, 2014
Expenses:				
Depreciation, depletion and amortization	$	$	$	$ 113,817
General and administrative	925,010	1,212,887	2,381,936	3,160,010
Lease termination costs				427,722
Total operating expenses	925,010	1,212,887	2,381,936	3,701,549
Operating loss	(925,010)	(1,212,887)	(2,381,936)	(3,701,549)
Other income (expense)	8,598	2,457	57,094	(17,746)
Loss before income taxes from continuing operations	(916,412)	(1,210,430)	(2,324,842)	(3,719,295)
Income tax expense	5,789	6,250	18,289	18,750
Loss from continuing operations	(922,201)	(1,216,680)	(2,343,131)	(3,738,045)
Discontinued operations, net of tax (benefit) expense of $0 for the three and nine months ended September 30, 2015, and $(33,275) and $676,444 for the three and nine months ended September 30, 2014, respectively		605,008		62,949,297
Net (loss) income	$ (922,201)	$ (611,672)	$ (2,343,131)	$ 59,211,252
Accretion of Series A Convertible Redeemable Preferred Stock	(1,107,407)	(772,910)	(2,999,449)	(2,122,819)
Paid-in-kind dividends on Series A Convertible Redeemable Preferred Stock		(649,937)	(1,141,636)	(1,802,727)
Cash dividends paid on Series A Convertible Redeemable Preferred Stock	(1,732,083)	(505)	(1,732,990)	(1,563)
Net (loss) income available to common stockholders	$ (3,761,691)	$ (2,035,024)	$ (8,217,206)	$ 55,284,143
Net (loss) income per common share basic:				
Net loss per common share from continuing operations	$ (0.09)	$ (0.07)	$ (0.20)	$ (0.19)
Net income per common share from discontinued operations		0.02		1.55
Net (loss) income per common share basic	$ (0.09)	$ (0.05)	$ (0.20)	$ 1.36
Net (loss) income per common share diluted:				
Net loss per common share from continuing operations	$ (0.09)	$ (0.07)	$ (0.20)	$ (0.19)
Net income per common share from discontinued operations		0.02		1.55
Net (loss) income per common share diluted	$ (0.09)	$ (0.05)	$ (0.20)	$ 1.36
Weighted average number of common shares:				

Basic	40,513,373	40,513,373	40,513,373	40,513,093
Diluted	40,513,373	40,513,373	40,513,373	40,513,093

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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GEOMET, INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

FOR THE NINE MONTHS ENDED SEPTEMBER 30,

	2015	2014
Cash flows used in operating activities:		
Loss from continuing operations	$ (2,343,131)	$ (3,738,045)
Adjustments to reconcile loss from continuing operations to net cash flows used in continuing operating activities:		
Depreciation, depletion and amortization		113,817
Stock-based compensation		20,575
Changes in operating assets and liabilities:		
Other current assets	(51,556)	106,173
Accounts payable	(14,258)	(296,676)
Other accrued liabilities	(125,635)	(168,057)
Net cash used in continuing operating activities	(2,534,580)	(3,962,213)
Income from discontinued operations		62,949,297
Adjustments to reconcile Income from discontinued operations to net cash flows used in discontinued operating activities:		
Depreciation, depletion and amortization		715,892
Amortization of debt issuance costs		218,357
Unrealized losses from the change in market value of open derivative contracts		(1,543,722)
Gain on the sale of gas properties		(62,395,740)
Loss on sale of other assets		22,706
Accretion expense		298,130
Changes in operating assets and liabilities:		
Accounts receivable		3,191,408
Other current assets		617,790
Accounts payable		(6,333,495)
Income taxes payable		126,444
Other accrued liabilities		(1,638,773)
Net cash used in discontinued operating activities		(3,771,706)
Net cash used in operating activities	(2,534,580)	(7,733,919)
Cash flows provided by investing activities:		
Continuing operations:		
Proceeds from the sale of other assets		140,000
Net cash provided by investing activities continuing operations		140,000
Discontinued operations:		
Capital expenditures		(108,597)
Proceeds from the sale of gas properties		95,238,385
Proceeds from sale of other assets		25,511
Net cash provided by investing activities discontinued operations		95,155,299
Net cash provided by investing activities		95,295,299
Cash flows used in financing activities:		
Continuing operations:		
Dividends paid	(1,732,990)	(1,562)

Treasury stock				
Net cash used in financing activities continuing operations		(1,732,990)		(1,562)
Discontinued operations:				
Repayment of borrowings under Credit Agreement				(71,550,000)
Deferred financing costs				
Net cash used in financing activities discontinued operations				(71,550,000)
Net cash used in financing activities		(1,732,990)		(71,551,562)
Increase in cash and cash equivalents		(4,267,570)		16,009,818
Cash and cash equivalents at beginning of period		22,894,405		8,108,272
Cash and cash equivalents at end of period	$	18,626,835	$	24,118,090
Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest expense	$		$	1,448,385
Income taxes	$	20,832	$	18,750

See accompanying Notes to Consolidated Financial Statements (Unaudited).

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GEOMET, INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 Organization and Our Business

GeoMet, Inc. (the Company, GeoMet, we, us or our) (formerly GeoMet Resources, Inc.) was incorporated under the laws of the State of Delaware on November 9, 2000.

On May 12, 2014, we closed the sale of substantially all of our remaining assets as described in Note 3 Sale of our Central Appalachian Assets and Termination of Credit Agreement. Prior to the completion of the sale of substantially all of our remaining assets on May 12, 2014, we were engaged in the exploration, development and production of natural gas from coal seams (coalbed methane or CBM). All of our production was CBM, which is a dry natural gas containing no hydrocarbon liquids. We were originally founded as a consulting company to the coalbed methane industry in 1985 and were active as an operator, developer and producer of coalbed methane properties since 1993 until the Asset Sale (as defined below). Our principal operations and producing properties were located in the Central Appalachian Basin in Virginia, West Virginia and the Cahaba Basin in Alabama.

On August 15, 2014, we became a shell company as defined by Rule 12b-2 of the Securities Exchange Act of 1934, as amended (the Exchange Act), because we no longer had operations and our assets consisted of cash and nominal other assets.

The accompanying unaudited consolidated financial statements include our accounts and those of our wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation. The unaudited consolidated financial statements reflect, in the opinion of our management, all adjustments, consisting only of normal and recurring adjustments, necessary to present fairly the financial position as of, and results of operations for, the interim periods presented. These unaudited consolidated financial statements have been prepared in accordance with the guidelines of interim reporting; therefore, they do not include all disclosures required for our year-end audited consolidated financial statements prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Interim period results are not necessarily indicative of results of operations or cash flows for the full year. These unaudited consolidated financial statements included herein should be read in conjunction with the audited consolidated financial statements for the fiscal year ended December 31, 2014 and the accompanying notes included in our Annual Report on Form 10-K, which we filed with the Securities and Exchange Commission (the SEC) on February 17, 2015.

Note 2 Recent Accounting Pronouncement

In August 2014, the Financial Accounting Standards Board (the FASB) issued Accounting Standard Updated (ASU) No. 2014-15, Presentation of Financial Statements Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity s Ability to Continue as a Going Concern. The ASU provides guidance on determining when and how reporting entities must disclose going-concern uncertainties in their financial statements. The new standard requires management to perform interim and annual assessments of an entity s ability to continue as a going concern within one year of the date of issuance of the entity s financial statements (or within one year after the date on which the financial statements are available to be issued, when applicable). Further, an entity must provide certain disclosures if there is substantial doubt about the entity s ability to continue as a going concern. The ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter and early adoption is permitted. The Company does not expect the adoption of this amendment to have a material impact on its consolidated financial statements.

In January 2015, the FASB issued ASU No. 2015-01, Income Statement - Extraordinary and Unusual Items (Subtopic 225-20), which eliminates the concept of extraordinary items from GAAP as part of its simplification initiative. The ASU does not affect disclosure guidance for events or transactions that are unusual in nature or infrequent in their occurrence. The ASU is effective for interim and annual periods in fiscal years beginning after December 15, 2015. The ASU allows prospective or retrospective application. Early adoption is permitted if applied from the beginning of the fiscal year of adoption. The Company does not expect the adoption of this amendment to have a material impact on its consolidated financial statements.

In February 2015, the FASB issued ASU No. 2015-02, Consolidation (Topic 810) - Amendments to the Consolidation Analysis, which changes the way reporting enterprises evaluate whether (a) they should consolidate limited partnerships and similar entities, (b) fees paid to a decision maker or service provider are variable interests in a variable interest entity (VIE), and (c) variable interests in a VIE held by related parties of the reporting enterprise require the reporting enterprise to consolidate the VIE. The new consolidation guidance is effective for annual and interim periods in fiscal years beginning after December 15, 2015. At the effective date, all previous consolidation analyses that the guidance affects must be reconsidered. This includes the consolidation analyses for all VIEs and for all limited partnerships and similar entities that previously were consolidated by the general partner even though the entities were not VIEs. Early adoption is permitted, including early adoption in an interim period. The Company does not expect the adoption of this amendment to have a material impact on its consolidated financial statements.

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In April 2015, the FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. Entities that have historically presented debt issuance costs as an asset, related to a recognized debt liability, will be required to present those costs as a direct deduction from the carrying amount of that debt liability. This presentation will result is debt issuance cost being presented the same way debt discounts have historically been handled. The ASU does not change the recognition, measurement, or subsequent measurement guidance for debt issuance costs. The Company does not expect the adoption of this amendment to have a material impact on its consolidated financial statements.

In June 2015, the FASB issued ASU No. 2015-10, Technical Corrections and Improvements, which amends a number of Topics in the FASB Accounting Standards Codification. The ASU is part of an ongoing project on the FASB s agenda to facilitate Codification updates for non-substantive technical corrections, clarifications, and improvements that are not expected to have a significant effect on accounting practice or create a significant administrative cost to most entities. The ASU will apply to all reporting entities within the scope of the affected accounting guidance. The amendments that require transition guidance are effective for all entities for fiscal years, and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. All other amendments were effective on issuance. The Company does not expect the adoption of this amendment to have a material impact on its consolidated financial statements.

Note 3 Sale of our Central Appalachian Assets and Termination of Credit Agreement

On May 12, 2014, we closed the sale of substantially all of our remaining assets which consisted of coalbed methane interests and other assets located in the Appalachian Basin in McDowell, Harrison, Wyoming, Raleigh, Barbour and Taylor Counties, West Virginia and Buchanan County, Virginia (the Asset Sale) to ARP Mountaineer Production, LLC, a Delaware limited liability company and a wholly-owned subsidiary of Atlas Resource Partners, L.P., a Delaware limited partnership.

Immediately following the closing of the Asset Sale, GeoMet, Bank of America, N.A., as administrative agent (the Administrative Agent), and the financial institutions party thereto terminated the Fifth Amended and Restated Credit Agreement, dated as of October 14, 2011, by and among GeoMet, the Administrative Agent, the financial institutions party thereto as lenders and the other agents party thereto (as amended, restated, supplemented or otherwise modified from time to time, the Credit Agreement). Immediately prior to termination of the Credit Agreement, we repaid all amounts owed to the lenders party to the Credit Agreement, satisfying all of our obligations under the Credit Agreement. Additionally, we settled all of our remaining outstanding natural gas hedge positions.

Note 4 Results of Discontinued Operations

As a result of the Asset Sale, all operating activities are presented as discontinued operations in the Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2015 and 2014 as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	**2014**	**2015**	**2014**
Revenues:				
Gas sales	$	$	$	$ 13,645,825

Other				27,505
Total revenues				13,673,330
Expenses:				
Lease operating expense				3,924,356
Compression and transportation expense				2,713,296
Production taxes				817,531
Lease termination costs				300,000
Depreciation, depletion and amortization				715,892
(Gains) losses on natural gas derivatives				2,753,190
Total operating expenses				11,224,265
Gain (loss) on the sale of assets		571,733		62,395,740
Operating income		571,733		64,844,805
Interest income				4,284
Interest expense				(1,223,348)
Income tax benefit (expense)		33,275		(676,444)
Income from discontinued operations	$	$ 605,008	$	$ 62,949,297

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Note 5 Pro Forma Financial Information

Pro forma adjustments related to the unaudited pro forma financial information presented below were computed assuming the Asset Sale completed in May 2014 was consummated on January 1, 2014 and include adjustments which give effect to events that are (i) directly attributable to the Asset Sale, (ii) expected to have a continuing impact on the registrant and (iii) factually supportable. As such, included in Net (loss) income, Net (loss) income available to common stockholders and Net (loss) income per common share (basic and diluted) for the nine months ended September 30, 2014 is the gain on the asset sales completed in May 2014 of $62,949,297.

	Three Months Ended September 30, 2015		Three Months Ended September 30, 2014		Nine months Ended September 30, 2015		Nine months Ended September 30, 2014	
Revenue	$		$		$		$	
Loss from continuing operations	$	(922,201)	$	(1,216,680)	$	(2,343,131)	$	(3,738,045)
Net (loss) income	$	(922,201)	$	(1,216,680)	$	(2,343,131)	$	59,211,252
Net (loss) income available to common stockholders	$	(3,761,691)	$	(2,640,032)	$	(8,217,206)	$	55,284,143
Net (loss) income per common share basic	$	(0.09)	$	(0.07)	$	(0.20)	$	1.36
Net (loss) income per common share diluted	$	(0.09)	$	(0.07)	$	(0.20)	$	1.36

Note 6 Net (Loss) Income Per Common Share

Net (loss) income per common share basic is calculated by dividing Net (loss) income available to common stockholders by the weighted average number of shares of our common stock, par value $0.001 per share (Common Stock), outstanding during the period. Net (loss) income per common share diluted assumes the conversion of all potentially dilutive securities and is calculated by dividing Net (loss) income available to common stockholders by the sum of the weighted average number of shares of Common Stock outstanding plus potentially dilutive securities. Net (loss) income per common share diluted considers the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential shares of Common Stock would have an anti-dilutive effect. A reconciliation of Net (loss) income per common share for the three and nine months ended September 30, 2015 and 2014 is as follows:

	Three months ended September 30, 2015		Three months ended September 30, 2014		Nine months ended September 30, 2015		Nine months ended September 30, 2014	
Net (loss) income	$	(922,201)	$	(611,672)	$	(2,343,131)	$	59,211,252
Accretion of Series A Convertible Redeemable Preferred Stock		(1,107,407)		(772,910)		(2,999,449)		(2,122,819)
Paid-in-kind dividends on Series A Convertible Redeemable Preferred Stock				(649,937)		(1,141,636)		(1,802,727)
Cash dividends paid on Series A Convertible Redeemable Preferred Stock		(1,732,083)		(505)		(1,732,990)		(1,563)
Net (loss) income available to common stockholders basic and diluted	$	(3,761,691)	$	(2,035,024)	$	(8,217,206)	$	55,284,143
Net (loss) income per common share basic and diluted:								
Net loss per common share from continuing operations	$	(0.09)	$	(0.07)	$	(0.20)	$	(0.19)

Net income per common share from discontinued operations		0.02		1.55
Net (loss) income per common share basic and diluted	$ (0.09)	$ (0.05)	$ (0.20)	$ 1.36
Weighted average number of common shares:				
Basic and diluted	40,513,373	40,513,373	40,513,373	40,513,093

Net loss per common share diluted for the three months ended September 30, 2015 excluded the effect of 7,217,015 shares of Series A Convertible Redeemable Preferred Stock, par value $0.001 per share (Preferred Stock), (55,515,500 in dilutive shares, as converted, which assumes conversion on the first day of the period) because we reported Loss from continuing operations which caused the options, restricted shares and the Preferred Stock to be anti-dilutive. Additionally, in computing the dilutive effect of convertible securities, Net loss available to common stockholders is also adjusted to add back any convertible preferred dividends and

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accretion unless the shares of Preferred Stock are anti-dilutive. As such, there was no add back to Net loss available to common stockholders for the three months ended September 30, 2015 for accretion of and dividends paid for Preferred Stock of $1,107,407 and $1,732,083, respectively, in computing Net loss per common share diluted as the shares of Preferred Stock were anti-dilutive.

Net loss per common share diluted for the nine months ended September 30, 2015 excluded the effect of 7,217,015 shares of Preferred Stock (55,515,500 in dilutive shares, as converted, which assumes conversion on the first day of the period) because we reported Loss from continuing operations which caused the options, restricted shares and the Preferred Stock to be anti-dilutive. Additionally, in computing the dilutive effect of convertible securities, Net loss available to common stockholders is also adjusted to add back any convertible preferred dividends and accretion unless the shares of Preferred Stock are anti-dilutive. As such, there was no add back to Net loss available to common stockholders for the nine months ended September 30, 2015 for accretion of and dividends paid for Preferred Stock of $2,999,449 and $2,874,626, respectively, in computing Net loss per common share diluted as the shares of Preferred Stock were anti-dilutive.

Net loss per common share diluted for the three months ended September 30, 2014 excluded the effect of 6,383,526 weighted average shares of Preferred Stock (49,104,045 in dilutive shares, as converted, which assumes conversion on the later of the first day of the period or date of issuance) because we reported Loss from continuing operations which caused the Preferred Stock to be anti-dilutive. Additionally, in computing the dilutive effect of convertible securities, Net income available to common stockholders is also adjusted to add back any convertible preferred dividends and accretion unless the shares of Preferred Stock are anti-dilutive. As such, there was no add back to Net income available to common stockholders for the three months ended September 30, 2014 for accretion of and dividends paid for Preferred Stock of $772,910 and $649,897, respectively, in computing Net loss per common share diluted as the shares of Preferred Stock were anti-dilutive.

Net income per common share diluted for the nine months ended September 30, 2014 excluded the effect of 6,193,507 weighted average shares of Preferred Stock (47,642,363 in dilutive shares, as converted, which assumes conversion on the later of the first day of the period or date of issuance), because we reported Loss from continuing operations which caused the options, restricted shares and the Preferred Stock to be anti-dilutive. Additionally, in computing the dilutive effect of convertible securities, Net income available to common stockholders is also adjusted to add back any convertible preferred dividends and accretion unless the shares of Preferred Stock are anti-dilutive. As such, there was no add back to Net income available to common stockholders for the nine months ended September 30, 2014 for accretion of and dividends paid for Preferred Stock of $2,122,819 and $1,802,687, respectively, in computing Net income per common share diluted as the shares of Preferred Stock were anti-dilutive.

Note 7 Derivative Instruments and Hedging Activities

In connection with the closing of the Asset Sale described in Note 3 Sale of our Central Appalachian Assets and Termination of Credit Agreement, we settled all of our outstanding natural gas hedge positions.

Prior to the closing of the Asset Sale, in an effort to reduce the effects of the volatility of the price of natural gas on our operations, management had historically hedged natural gas prices primarily using derivative instruments in the form of three-way collars, traditional collars and swaps. While the use of these hedging arrangements limited the downside risk of adverse price movements, it also limited future gains from favorable movements. We entered into hedging transactions, generally for forward periods up to two years or more, which increased the probability of achieving our targeted level of cash flows. Our price risk management policy strictly prohibited the use of derivatives for speculative positions.

Swaps exchange floating price risk in the future for a fixed price at the time of the hedge. Costless collars set both a maximum ceiling (a sold ceiling) and a minimum floor (a bought floor) future price. We have accounted for these transactions using the mark-to-market accounting method. Generally, we incurred accounting losses on derivatives during periods where prices were rising and gains during periods where prices were falling which caused significant fluctuations in our Consolidated Balance Sheets (Unaudited) and Consolidated Statements of Operations (Unaudited).

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Commodity Price Risk and Related Hedging Activities

At September 30, 2015 and December 31, 2014, we had no natural gas derivative contracts.

The following losses on our hedging instruments have been classified as Discontinued operations on the Consolidated Statements of Operations (Unaudited) for the three and nine months ended September 30, 2015 and 2014.

		Amount of (Gain) or Loss Recognized in Income on Derivatives			
	Location of (Gain) or Loss Recognized in	Three Months Ended September 30,		Nine months Ended September 30,	
Derivatives	**Income on Derivatives**	**2015**	**2014**	**2015**	**2014**
Derivatives not designated as hedging instruments under ASC 815-20-25					
Natural gas collar/swap settled positions	Discontinued operations	$	$	$	$ 4,296,912
Natural gas collar/swap unsettled positions	Discontinued operations				(1,543,722)
Total loss		$	$	$	$ 2,753,190

Note 8 Long-Term Debt

As described in Note 3 Sale of our Central Appalachian Assets and Termination of Credit Agreement, on May 12, 2014, we sold substantially all of our remaining assets in the Asset Sale. Immediately following the closing of the Asset Sale, we repaid all of our outstanding borrowings under the Credit Agreement. For the period January 1, 2014 through May 12, 2014, we had no borrowings and made payments of $71.6 million under the Credit Agreement and interest on the borrowings averaged 5.00% per annum.

Note 9 Income Taxes

We record our income taxes using an asset and liability approach. This results in the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book carrying amounts and the tax basis of assets and liabilities using enacted tax rates at the end of the period. The effect of a change in tax rates of deferred tax assets and liabilities is recognized in the year of the enacted change.

For tax reporting purposes, we have federal and state net operating losses (NOLs) of approximately $121.8 million and $133.3 million, respectively, as of September 30, 2015 that are available to reduce future taxable income. For tax reporting purposes, we had federal and state NOLs of approximately $119.4 million and $133.3 million, respectively, as of December 31, 2014, that were available to reduce future taxable income. Our first material federal NOL carryforward expires in 2024, and the last one expires in 2033.

Additionally, for tax reporting purposes, we have a federal capital loss carryforward generated by the sale of Hudson s Hope Gas, Ltd. in 2012 (the Hudson Sale), of approximately $33.9 million as of September 30, 2015 that is available to reduce future taxable capital gains and expires in 2017. Additionally, we have a federal capital loss carryforward of $0.2 million generated by the sale of other assets in 2014.

As of September 30, 2015, we have a valuation allowance of $61.6 million recorded against our net deferred tax asset, which includes $48.7 million related to our United States operations and $12.9 million related to the capital loss carryforward generated by the Hudson Sale and other assets in 2014.

The income tax expense for the three and nine months ended September 30, 2015 was different than the amount computed using the statutory rate primarily due to an increase of $0.3 million and $0.7 million, respectively, in the valuation allowance on our deferred tax asset. A reconciliation of the effective tax rate to the statutory rate is as follows:

		Three Months Ended September 30, 2015			**Nine months Ended September 30, 2015**	
Amount computed using statutory rates	$	(311,580)	34.00%		(790,446)	34.00%
State income taxes net of federal benefit		6,250	-0.68%		18,750	-0.81%
Valuation Allowance		314,131	-34.28%		738,791	-31.78%
Nondeductible items and other		(3,012)	-0.33%		51,194	-2.20%
Income tax provision	$	5,789	-0.63%	$	18,289	-0.79%

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Note 10 Common Stock

As of both September 30, 2015 and December 31, 2014, shares of the Common Stock issued were 40,523,805 and outstanding were 40,513,373. Included in shares of our Common Stock issued as of September 30, 2015 and December 31, 2014 were 10,432 shares of treasury stock held by the Company. During the nine months ended September 30, 2014, 153 shares of restricted stock were forfeited and canceled upon the termination of an employee by the Company, 2,724 shares of unvested restricted stock expired and were canceled, and 134,420 shares of restricted stock were canceled in conjunction with the termination of the employment agreements with our executive officers.

Note 11 Series A Convertible Redeemable Preferred Stock

As of September 30, 2015 and December 31, 2014, 7,217,015 and 6,786,334 shares of Preferred Stock were issued and outstanding, respectively. As of September 30, 2015, dividends can no longer be paid in-kind (PIK). We measured the fair value of PIK dividends using the closing quoted OTC market price on the dividend date. The following table details the activity related to the Preferred Stock for the nine months ended September 30, 2015:

	Dividend Period (Three Months Ended)	Date Issued	Number of Shares		Balance
Balance on December 31, 2014			6,786,334	$	48,676,221
Accretion of discount on Preferred Stock					2,999,449
PIK dividend Issued for Preferred Stock	3/31/15	3/31/15	212,026		551,268