GeoMet, Inc.
Form 10-Q
November 09, 2012
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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, 2012

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)

909 Fannin, Suite 1850

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). o Yes x No

As of November 1, 2012, 40,690,077 shares and 5,145,156 shares, respectively, of the registrant s common stock and preferred stock, par value $0.001 per share, were outstanding.

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Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

GEOMET, INC. AND SUBSIDIARIES

Consolidated Balance Sheets (Unaudited)

	September 30, 2012	December 31, 2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 7,006,333	$ 457,865
Accounts receivable, net of allowance of $17,634 at September 30, 2012 and December 31, 2011	4,411,710	4,402,065
Inventory	298,807	597,197
Derivative asset natural gas contracts	6,812,576	20,685,187
Other current assets	1,387,418	1,141,310
Total current assets	19,916,844	27,283,624
Gas properties utilizing the full cost method of accounting:		
Proved gas properties	534,401,745	561,451,504
Other property and equipment	3,743,084	3,671,123
Total property and equipment	538,144,829	565,122,627
Less accumulated depreciation, depletion, amortization and impairment of gas properties	(453,432,823)	(388,730,093)
Property and equipment net	84,712,006	176,392,534
Other noncurrent assets:		
Derivative asset natural gas contracts		1,765,450
Deferred income taxes	1,421,903	48,171,298
Other	2,037,729	3,532,882
Total other noncurrent assets	3,459,632	53,469,630
TOTAL ASSETS	$ 108,088,482	$ 257,145,788
LIABILITIES, MEZZANINE AND STOCKHOLDERS (DEFICIT) EQUITY		
Current Liabilities:		
Accounts payable	$ 8,777,675	$ 7,500,768
Accrued liabilities	2,465,657	3,936,070
Deferred income taxes	1,421,903	4,153,099
Derivative liability natural gas contracts	1,065,545	
Asset retirement obligation		32,028
Current portion of long-term debt	14,100,000	91,757
Total current liabilities	27,830,780	15,713,722

Long-term debt		131,500,000		158,171,662
Asset retirement obligation		8,485,761		8,138,551
Derivative liability natural gas contracts		3,703,048		
Other long-term accrued liabilities		151,245		8,145
TOTAL LIABILITIES		171,670,834		182,032,080
Commitments and contingencies (Note 15)				
Mezzanine equity:				
Series A Convertible Redeemable Preferred Stock net of offering costs of $1,660,435; redemption amount $49,893,090; $.001 par value; 7,401,832 shares authorized, 4,989,309 and 4,549,537 shares were issued and outstanding at September 30, 2012 and December 31, 2011, respectively		33,283,310		28,482,624
Stockholders (Deficit) Equity:				
Preferred stock, $0.001 par value 2,598,168 shares authorized, none issued				
Common stock, $0.001 par value authorized 125,000,000 shares; issued and outstanding 40,690,077 and 40,010,188 at September 30, 2012 and December 31, 2011, respectively		40,690		40,010
Treasury stock 10,432 shares at September 30, 2012 and December 31, 2011		(94,424)		(94,424)
Paid-in capital		196,669,112		200,344,209
Accumulated other comprehensive income (loss)		31,738		(1,309,926)
Retained deficit		(293,330,144)		(152,104,329)
Less notes receivable		(182,634)		(244,456)
Total stockholders (deficit) equity		(96,865,662)		46,631,084
TOTAL LIABILITIES, MEZZANINE AND STOCKHOLDERS (DEFICIT) EQUITY	$	108,088,482	$	257,145,788

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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GEOMET, INC. AND SUBSIDIARIES

Consolidated Statements of Operations (Unaudited)

Revenues:				
Gas sales	$ 9,609,586	$ 8,519,980	$ 27,464,729	$ 24,701,708
Operating fees	55,439	64,984	190,650	210,670
Total revenues	9,665,025	8,584,964	27,655,379	24,912,378
Expenses:				
Lease operating expense	4,417,390	2,982,932	13,350,417	8,793,883
Compression and transportation expense	2,217,610	1,082,145	6,757,864	2,959,209
Production taxes	442,129	390,045	1,276,215	1,077,754
Depreciation, depletion and amortization	2,539,531	1,676,872	9,460,420	4,900,669
Impairment of gas properties	25,431,734		83,467,022	
General and administrative	1,097,308	1,159,422	3,765,475	4,083,981
Restructuring costs	187,597		952,830	
Acquisition costs		370,621		370,621
Losses (gains) on natural gas derivatives	4,783,942	(4,225,508)	(341,525)	(6,605,612)
Total operating expenses	41,117,241	3,436,529	118,688,718	15,580,505
Operating (loss) income	(31,452,216)	5,148,435	(91,033,339)	9,331,873
Other income (expense):				
Interest income	814	4,207	5,113	12,968
Interest expense	(1,513,684)	(868,388)	(4,057,927)	(2,532,160)
Write off of debt issuance costs	(1,377,520)		(1,377,520)	
Other	943	12,501	(3,156)	8,176
Total other income (expense):	(2,889,447)	(851,680)	(5,433,490)	(2,511,016)
(Loss) income before income taxes and discontinued operations	(34,341,663)	4,296,755	(96,466,829)	6,820,857
Income tax expense	(6,250)	(1,619,739)	(44,036,950)	(2,527,036)
(Loss) income before discontinued operations	(34,347,913)	2,677,016	(140,503,779)	4,293,821
Discontinued operations, net of tax	(25,655)	(247,141)	(722,036)	(341,129)
Net (loss) income	$ (34,373,568)	$ 2,429,875	$ (141,225,815)	$ 3,952,692
Accretion of Series A Convertible Redeemable Preferred Stock	(485,338)	(449,347)	(1,418,307)	(1,308,519)
Paid-in-kind dividends on Series A Convertible Redeemable Preferred Stock	(903,912)	(1,377,880)	(2,764,257)	(4,009,990)
Cash dividends paid on Series A Convertible Redeemable Preferred Stock	(689)	(792)	(1,985)	(2,014)
Net (loss) income available to common stockholders	$ (35,763,507)	$ 601,856	$ (145,410,364)	$ (1,367,831)
Net (loss) income per common share basic:				
Net (loss) income per common share from continuing operations	$ (0.89)	$ 0.02	$ (3.61)	$ (0.02)
Net loss per common share from discontinued operations			(0.02)	(0.01)
Net (loss) income per common share basic	$ (0.89)	$ 0.02	$ (3.63)	$ (0.03)

Net (loss) income per common share diluted:								
Net (loss) income per common share from continuing operations	$	(0.89)	$	0.02	$	(3.61)	$	(0.02)
Net loss per common share from discontinued operations						(0.02)		(0.01)
Net (loss) income per common share diluted	$	(0.89)	$	0.02	$	(3.63)	$	(0.03)
Weighted average number of common shares:								
Basic		40,286,573		39,640,275		40,018,778		39,576,684
Diluted		40,286,573		39,968,064		40,018,778		39,576,684

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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GEOMET, INC. AND SUBSIDIARIES

Consolidated Statements of Comprehensive (Loss) Income

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2012	**2011**	**2012**	**2011**
Net (loss) income	$ (34,373,568)	$ 2,429,875	$ (141,225,815)	$ 3,952,692
Gain on foreign currency translation adjustment	14,240	3,342	2,019	4,082
Reclassification adjustment for loss on foreign currency translation included in net loss			1,307,906	
Unrealized (loss) gain on available for sale securities	(19,454)		31,738	
Gain on interest rate swap				10,862
Other comprehensive (loss) income	$ (34,378,782)	$ 2,433,217	$ (139,884,152)	$ 3,967,636

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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GEOMET, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Nine months ended September 30, 2012	2011
Cash flows provided by operating activities:		
Net (loss) income	$ (141,225,815)	$ 3,952,692
Adjustments to reconcile net (loss) income to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	9,458,700	5,142,308
Impairment of gas properties	83,467,022	
Amortization of debt issuance costs	530,799	435,702
Write off of debt issuance costs	1,377,520	
Deferred income tax expense	44,018,200	2,508,286
Unrealized losses from the change in market value of open derivative contracts	13,258,958	122,246
Stock-based compensation	512,377	576,345
Loss on sale of Hudson s Hope Gas, Ltd.	683,154	
Loss on sale of other assets	5,200	1,164
Accretion expense asset retirement obligation	584,813	407,708
Changes in operating assets and liabilities:		
Accounts receivable	(13,052)	127,815
Other assets	193,953	(715,323)
Accounts payable	1,577,480	(401,321)
Other accrued liabilities	(833,930)	(574,953)
Net cash provided by operating activities	13,595,379	11,582,669
Cash flows provided by (used in) investing activities:		
Capital expenditures	(856,655)	(12,118,713)
Return of original basis through the settlement of natural gas derivative contracts	7,147,696	
Proceeds from sale of other property and equipment	3,500	
Other assets		246,134
Net cash provided by (used in) investing activities	6,294,541	(11,872,579)
Cash flows (used in) provided by financing activities:		
Proceeds from revolving credit facility borrowings	10,500,000	24,300,000
Payments on revolving credit facility	(22,800,000)	(23,800,000)
Proceeds from exercise of stock options		3,791
Deferred financing costs	(853,578)	(172,507)
Payments on other debt	(188,965)	(111,083)
Purchase and cancellation of treasury stock	(2,039)	(2,145)
Cash dividends paid on Series A Convertible Redeemable Preferred Stock	(1,985)	(2,014)
Net cash (used in) provided by financing activities	(13,346,567)	216,042
Effect of exchange rate changes on cash	5,115	57
Increase (decrease) in cash and cash equivalents	6,548,468	(73,811)
Cash and cash equivalents at beginning of period	457,865	536,533

Cash and cash equivalents at end of period	$	7,006,333	$	462,722
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest expense	$	5,960,054	$	2,573,915
Cash paid during the period for income taxes	$	18,750	$	18,750
Significant noncash investing and financing activities:				
Accrued capital expenditures	$	609,017	$	1,484,715
Fair value of common stock received in exchange for Hudson s Hope Gas, Ltd.	$	293,769	$	

See accompanying Notes to Consolidated Financial Statements (Unaudited)

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GEOMET, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Organization and Our Business

GeoMet, Inc. (GeoMet, Company, we, or our) (formerly GeoMet Resources, Inc.) was incorporated under the laws of the State of Delaware on November 9, 2000. We are a natural gas producer primarily involved in the exploration, development and production of natural gas from coal seams (coalbed methane). Our principal operations and producing properties are located in Alabama, Virginia and West Virginia.

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, 2011 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 March 30, 2012.

Note 2 Liquidity Considerations

As of September 30, 2012, we had a working capital deficit of $7.9 million. The working capital deficit as of September 30, 2012 was primarily the result of the classification of $14.1 million of our borrowings under our Fifth Amended and Restated Credit Agreement (the Credit Agreement), as described in Note 11 Long-Term Debt, as a current liability for scheduled payments over the next twelve months. We believe that our cash flows from operating activities, as well as the return of original basis through the settlement of natural gas derivative contracts, will provide us with sufficient resources to fund our working capital deficit and to meet our obligations in connection with operating our properties for at least the next twelve months. However, there can be no assurance that future borrowing base determinations will not result in additional payment obligations under the Credit Agreement or that our cash flows will not be adversely impacted by events beyond our control.

Note 3 Recent Pronouncements

On June 16, 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2011-05, Presentation of Comprehensive Income, which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in Accounting Standards Codification (ASC) 220 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. The ASU does not change the items that must be reported in other comprehensive income. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company has adopted and applied the provisions of this update for the three and nine months ended September 30, 2012.

On May 12, 2011, the FASB issued ASU 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS). The ASU is the result of joint efforts by the FASB and IASB to develop a single, converged fair value framework that is, converged guidance on how (not when) to measure fair value and on what disclosures to provide about fair value measurements. Thus, there are few differences between the ASU and its international counterpart, IFRS 13. While the ASU is largely consistent with existing fair value measurement principles in U.S. GAAP, it expands ASC 820 s existing disclosure requirements for fair value measurements and makes other amendments. Many of these amendments were made to eliminate unnecessary wording differences between U.S. GAAP and IFRS. However, some could change how the fair value measurement guidance in ASC 820 is applied. The ASU is effective for interim and annual periods beginning after December 15, 2011. The Company has adopted and applied the provisions of this update for the three and nine months ended September 30, 2012. See disclosure provided in these Notes to Consolidated Financial Statements (Unaudited).

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Note 4 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 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 common shares would have an anti-dilutive effect. A reconciliation of Net (loss) income per common share is as follows:

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Net (loss) income	$ (34,373,568)	$ 2,429,875	$ (141,225,815)	$ 3,952,692
Accretion of Series A Convertible Redeemable Preferred Stock	(485,338)	(449,347)	(1,418,307)	(1,308,519)
Paid-in-kind dividends on Series A Convertible Redeemable Preferred Stock	(903,912)	(1,377,880)	(2,764,257)	(4,009,990)
Cash dividends paid on Series A Convertible Redeemable Preferred Stock	(689)	(792)	(1,985)	(2,014)
Net (loss) income available to common stockholders	$ (35,763,507)	$ 601,856	$ (145,410,364)	$ (1,367,831)
Net (loss) income per common share basic:				
Net (loss) income per common share from continuing operations	$ (0.89)	$ 0.02	$ (3.61)	$ (0.02)
Net loss per common share from discontinued operations			(0.02)	(0.01)
Net (loss) income per common share basic	$ (0.89)	$ 0.02	$ (3.63)	$ (0.03)
Net (loss) income per common share diluted:				
Net (loss) income per common share from continuing operations	$ (0.89)	$ 0.02	$ (3.61)	$ (0.02)
Net loss per common share from discontinued operations			(0.02)	(0.01)
Net (loss) income per common share diluted	$ (0.89)	$ 0.02	$ (3.63)	$ (0.03)
Weighted average number of common shares:				
Basic	40,286,573	39,640,275	40,018,778	39,576,684
Add potentially dilutive securities:				
Stock options, non-vested restricted stock and non-vested restricted stock units		327,789		
Diluted	40,286,573	39,968,064	40,018,778	39,576,684

Net loss per common share diluted for the three months ended September 30, 2012 excluded the effect of outstanding options exercisable to purchase 2,397,603 shares, 116,732 weighted average restricted stock units for which common shares are distributed upon achievement of certain performance targets, 273,301 weighted average restricted shares outstanding, and 4,838,181 shares of Series A Convertible Redeemable Preferred Stock (37,216,776 in dilutive shares, as converted, which assumes conversion on the first day of the period) because we reported a net loss available to common stockholders which caused the options, restricted stock units, restricted shares and preferred shares to be anti-dilutive.

Net loss per common share diluted for the nine months ended September 30, 2012 excluded the effect of outstanding options exercisable to purchase 2,397,603 shares, 170,570 weighted average restricted stock units for which common shares are distributed upon achievement of certain performance targets, 262,896 weighted average restricted shares outstanding, and 4,549,537 shares of Series A Convertible Redeemable Preferred Stock (34,996,440 in dilutive shares, as converted, which assumes conversion on the first day of the period) because we reported a net loss available to common stockholders which caused the options, restricted stock units, restricted shares and preferred shares to be anti-dilutive.

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Net income per common share diluted for the three months ended September 30, 2011 excluded the effect of 4,411,749 shares of Series A Convertible Redeemable Preferred Stock (33,936,532 in dilutive shares, as converted, which assumes conversion on the first day of the period) because their effect would have been anti-dilutive. In accordance with ASC 260, in computing the dilutive effect of convertible securities, Net income available to common stockholders is also adjusted to add back any preferred dividends and accretion unless the preferred shares are anti-dilutive. As such, there was no add back to Net income available to common stockholders for the three months ended September 30, 2011 for accretion of, and dividends paid for, Series A Convertible Redeemable Preferred Stock (cash and PIK) of $449,347 and $1,378,672, respectively, in computing Net income per common share diluted as the preferred shares were anti-dilutive.

Net loss per common share diluted for the nine months ended September 30, 2011 excluded the effect of outstanding options exercisable to purchase 2,603,536 shares, 232,089 restricted stock units for which common shares are distributed upon achievement of certain performance targets, 355,705 weighted average restricted shares outstanding, and 4,148,538 shares of Series A Convertible Redeemable Preferred Stock (31,911,830 in dilutive shares, as converted, which assumes conversion on the first day of the period) because we reported a net loss available to common stockholders which caused the options, restricted stock units, restricted shares and preferred shares to be anti-dilutive. For the preferred shares, there was no add back to Net loss available to common stockholders for the nine months ended September 30, 2011 for accretion of, and dividends paid for, Series A Convertible Redeemable Preferred Stock (cash and PIK) of $1,308,519 and $4,012,004, respectively, in computing Net loss per common share diluted as the preferred shares were anti-dilutive.

Note 5 Discontinued Operations

On June 20, 2012, we disposed of Hudson s Hope Gas, Ltd., a subsidiary which held our Canadian gas properties, in exchange for two million shares of Canada Energy Partners, Inc. (CEP Shares) which we are restricted from selling before June 20, 2013. We recognized a loss on the disposition in the amount of $0.7 million, which was made up of a $1.3 million loss related to the currency translation adjustment, offset by $0.3 million in asset retirement obligations conveyed to the buyer and the proceeds consisting of the $0.3 million in estimated fair value of the CEP shares received. The loss on this disposition has been included in Discontinued operations, net of tax, in the Consolidated Statements of Operations (Unaudited). Additionally, all historical operating results related to the disposed company have been removed from Operating (loss) income and included in Discontinued operations, net of tax, in the Consolidated Statements of Operations (Unaudited) for all periods presented.

As a result of the disposition, we are classifying these activities as a discontinued operation for all the periods presented. Results for activities reported as discontinued operations were as follows:

Statements of Operations (Unaudited):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues	$	$	$	$
Total operating expenses		(247,141)	(13,123)	(341,129)
Operating loss		(247,141)	(13,123)	(341,129)
Loss on sale of Hudson s Hope Gas, Ltd.			(683,154)	
Other expense	(25,655)		(25,759)	
Income tax expense				

Net loss	$	(25,655)	$	(247,141)	$	(722,036)	$	(341,129)

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Balance Sheets (Unaudited):

	September 30, 2012		December 31, 2011	
ASSETS				
Total current assets	$		$	33,474
Gas properties utilizing the full cost method of accounting:				