

GeoMet, Inc.  
Form 10-Q  
November 14, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2013

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 001-32960

## GeoMet, Inc.

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**76-0662382**  
(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)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

As of October 1, 2013, 40,662,749 shares and 5,818,807 shares, respectively, of the registrant's common stock and preferred stock, par value \$0.001 per share, were outstanding.

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Table of Contents**Part I. FINANCIAL INFORMATION****Item 1. Financial Statements****GEOMET, INC. AND SUBSIDIARIES****Consolidated Balance Sheets (Unaudited)**

	September 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 9,704,630	\$ 7,234,225
Accounts receivable, net of allowance of \$14,744 and \$17,634 at September 30, 2013 and December 31, 2012, respectively	2,613,257	6,248,819
Inventory		262,885
Derivative asset natural gas contracts	371,025	3,929,767
Other current assets	941,331	1,437,819
Total current assets	13,630,243	19,113,515
Gas properties utilizing the full cost method of accounting:		
Proved gas properties	333,396,454	539,077,119
Other property and equipment	3,294,083	3,749,621
Total property and equipment	336,690,537	542,826,740
Less accumulated depreciation, depletion, amortization and impairment of gas properties	(293,173,690)	(467,702,053)
Property and equipment net	43,516,847	75,124,687
Other noncurrent assets:		
Deferred income taxes	105,733	1,125,804
Other	1,100,268	962,451
Total other noncurrent assets	1,206,001	2,088,255
<b>TOTAL ASSETS</b>	<b>\$ 58,353,091</b>	<b>\$ 96,326,457</b>
<b>LIABILITIES, MEZZANINE AND STOCKHOLDERS DEFICIT</b>		
Current Liabilities:		
Accounts payable	\$ 3,146,338	\$ 5,728,879
Royalties payable	3,622,600	3,830,904
Accrued liabilities	913,335	1,793,946
Deferred income taxes	105,733	1,125,804
Derivative liability natural gas contracts		919,572
Asset retirement obligations	180,183	73,706
Current portion of long-term debt	74,000,000	10,300,000
Total current liabilities	81,968,189	23,772,811
Long-term debt		129,000,000
Asset retirement obligations	9,490,684	13,235,318
Derivative liability natural gas contracts	571,386	1,636,348
Other long-term accrued liabilities	120,996	143,682
<b>TOTAL LIABILITIES</b>	<b>92,151,255</b>	<b>167,788,159</b>
Commitments and contingencies (Note 16)		

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Mezzanine equity:

Series A Convertible Redeemable Preferred Stock net of offering costs of \$1,660,435; redemption amount \$58,188,070; \$.001 par value; 7,401,832 shares authorized, 5,818,807 and 5,305,865 shares were issued and outstanding at September 30, 2013 and December 31, 2012, respectively	41,197,933	35,851,887
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; 40,662,749 and 40,690,077 issued and outstanding at September 30, 2013 and December 31, 2012, respectively	40,663	40,690
Treasury stock 10,432 shares at September 30, 2013 and December 31, 2012	(94,424)	(94,424)
Paid-in capital	189,690,990	195,033,585
Accumulated other comprehensive loss	(22,233)	(53,020)
Retained deficit	(264,611,093)	(302,057,496)
Less notes receivable		(182,924)
Total stockholders' deficit	(74,996,097)	(107,313,589)
<b>TOTAL LIABILITIES, MEZZANINE AND STOCKHOLDERS' DEFICIT</b>	<b>\$ 58,353,091</b>	<b>\$ 96,326,457</b>

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents**GEOMET, INC. AND SUBSIDIARIES****Consolidated Statements of Operations****(Unaudited)**

	Three Months Ended September 30,		Nine months Ended September 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Gas sales	\$ 7,391,747	\$ 9,609,586	\$ 30,324,181	\$ 27,464,729
Operating fees	21,325	55,439	104,394	190,650
Total revenues	7,413,072	9,665,025	30,428,575	27,655,379
<b>Operating expenses:</b>				
Lease operating expense	2,022,962	4,417,390	10,615,069	13,350,417
Compression and transportation expense	1,778,752	2,217,610	5,485,553	6,757,864
Production taxes	419,332	442,129	1,617,249	1,276,215
Depreciation, depletion and amortization	869,787	2,539,531	3,746,930	9,460,420
Impairment of gas properties		25,431,734		83,467,022
General and administrative	1,049,372	1,097,308	3,456,126	3,765,475
Restructuring costs	6,000	187,597	93,584	952,830
(Gains) losses on natural gas derivatives	(625,328)	4,783,942	760,142	(341,525)
Total operating expenses	5,520,877	41,117,241	25,774,653	118,688,718
(Loss) gain on the sale of Properties in Alabama	(187,298)		36,948,313	
Operating income (loss)	1,704,897	(31,452,216)	41,602,235	(91,033,339)
<b>Other income (expense):</b>				
Interest income	432	814	1,280	5,113
Interest expense	(857,847)	(1,513,684)	(4,093,452)	(4,057,927)
Write off of debt issuance costs		(1,377,520)		(1,377,520)
Other	(9,564)	943	(44,910)	(3,156)
Total other income (expense):	(866,979)	(2,889,447)	(4,137,082)	(5,433,490)
Income (loss) before income taxes from continuing operations	837,918	(34,341,663)	37,465,153	(96,466,829)
Income tax expense	(6,250)	(6,250)	(18,750)	(44,036,950)
Income (loss) from continuing operations	831,668	(34,347,913)	37,446,403	(140,503,779)
Discontinued operations, net of tax		(25,655)		(722,036)
Net income (loss)	\$ 831,668	\$ (34,373,568)	\$ 37,446,403	\$ (141,225,815)
Accretion of Series A Convertible Redeemable Preferred Stock	(598,611)	(485,338)	(1,624,984)	(1,418,307)
Paid-in-kind dividends on Series A Convertible Redeemable Preferred Stock	(1,277,889)	(903,912)	(3,721,062)	(2,764,257)
Cash dividends paid on Series A Convertible Redeemable Preferred Stock	(634)	(689)	(1,835)	(1,985)
Net (loss) income available to common stockholders	\$ (1,045,466)	\$ (35,763,507)	\$ 32,098,522	\$ (145,410,364)

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Net (loss) income per common share basic:								
Net (loss) income per common share from continuing operations	\$	(0.03)	\$	(0.89)	\$	0.79	\$	(3.61)
Net loss per common share from discontinued operations								(0.02)
Net (loss) income per common share basic	\$	(0.03)	\$	(0.89)	\$	0.79	\$	(3.63)
Net (loss) income per common share diluted:								
Net (loss) income per common share from continuing operations	\$	(0.03)	\$	(0.89)	\$	0.45	\$	(3.61)
Net loss per common share from discontinued operations								(0.02)
Net (loss) income per common share diluted	\$	(0.03)	\$	(0.89)	\$	0.45	\$	(3.63)
Weighted average number of common shares:								
Basic		40,485,875		40,286,573		40,473,460		40,018,778
Diluted		40,485,875		40,286,573		82,707,070		40,018,778

See accompanying Notes to Consolidated Financial Statements (Unaudited)



Table of Contents**GEOMET, INC. AND SUBSIDIARIES****Consolidated Statements of Comprehensive Income (Loss)****(Unaudited)**

	<b>Three Months Ended September 30,</b>		<b>Nine months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net income (loss)	\$ 831,668	\$ (34,373,568)	\$ 37,446,403	\$ (141,225,815)
Gain on foreign currency translation adjustment	45,198	14,240	36,080	2,019
Reclassification adjustment for loss on foreign currency translation included in net loss				1,307,906
Unrealized (loss) gain on available for sale securities	35,116	(19,454)	(5,293)	31,738
Other comprehensive income (loss)	\$ 911,982	\$ (34,378,782)	\$ 37,477,190	\$ (139,884,152)

See accompanying Notes to Consolidated Financial Statements (Unaudited)

Table of Contents**GEOMET, INC. AND SUBSIDIARIES****Consolidated Statements of Cash Flows****(Unaudited)**

	<b>Nine months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows provided by operating activities:</b>		
Net income (loss)	\$ 37,446,403	\$ (141,225,815)
<b>Adjustments to reconcile net income (loss) to net cash flows provided by operating activities:</b>		
Depreciation, depletion and amortization	3,746,930	9,458,700
Impairment of gas properties		83,467,022
Amortization of debt issuance costs	685,422	530,799
Write off of debt issuance costs		1,377,520
Deferred income tax expense		44,018,200
Unrealized losses from the change in market value of open derivative contracts	1,574,208	13,258,958
Stock-based compensation	188,209	512,377
Gain on the sale of Properties in Alabama	(36,948,313)	
Loss on sale of Hudson's Hope Gas, Ltd.		683,154
Loss on sale of other assets	53,366	5,200
Accretion expense - asset retirement obligation	822,601	584,813
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	4,019,863	(13,052)
Other assets	(419,572)	193,953
Accounts payable	(2,724,252)	1,577,480
Other accrued liabilities	(840,525)	(833,930)
<b>Net cash provided by operating activities</b>	<b>7,604,340</b>	<b>13,595,379</b>
<b>Cash flows provided by investing activities:</b>		
Capital expenditures	(580,323)	(856,655)
Return of original basis through the settlement of natural gas derivative contracts		7,147,696
Net proceeds from the sale of Properties in Alabama	60,732,775	
Proceeds from sale of other property and equipment	19,276	3,500
<b>Net cash provided by investing activities</b>	<b>60,171,728</b>	<b>6,294,541</b>
<b>Cash flows used in financing activities:</b>		
Proceeds from revolving credit facility borrowings		10,500,000
Payments on revolving credit facility	(65,300,000)	(22,800,000)
Deferred financing costs	(3,801)	(853,578)
Payments on other debt		(188,965)
Purchase and cancellation of treasury stock	(27)	(2,039)
Cash dividends paid on Series A Convertible Redeemable Preferred Stock	(1,835)	(1,985)
<b>Net cash used in financing activities</b>	<b>(65,305,663)</b>	<b>(13,346,567)</b>
Effect of exchange rate changes on cash		5,115
<b>Increase in cash and cash equivalents</b>	<b>2,470,405</b>	<b>6,548,468</b>

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Cash and cash equivalents at beginning of period		7,234,225		457,865
Cash and cash equivalents at end of period	\$	9,704,630	\$	7,006,333
Supplemental disclosure of cash flow information:				
Cash paid during the period for interest expense	\$	4,169,622	\$	5,960,054
Cash paid during the period for income taxes	\$	18,750	\$	18,750
Significant noncash investing and financing activities:				
Accrued capital expenditures	\$	30,380	\$	609,017
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 primarily engaged in the exploration for and development and production of natural gas from coal seams ( coalbed methane or CBM ). All of our production is 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 have been active as an operator, developer and producer of coalbed methane properties since 1993. Subsequent to the asset sale discussed in Note 2 Sale of Coalbed Methane Properties in Alabama, our core area of operations is the Central Appalachian Basin of Virginia and West Virginia. We also own additional coalbed methane development rights, principally in 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, 2012 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 28, 2013.

**Note 2 Sale of Coalbed Methane Properties in Alabama**

On June 14, 2013, the Company closed the sale of all of its coal bed methane properties located in the state of Alabama. The sale resulted in proceeds of approximately \$62.0 million after purchase price adjustments of \$1.2 million to account for net cash flows from the effective date to the closing date. Simultaneously with the close of the property sale, approximately \$57.0 million was used to repay outstanding borrowings under the Company's Credit Agreement and \$5.0 million was held in reserve to pay transaction related costs and expenses, including the liquidation of certain natural gas hedge positions. After this repayment, borrowings outstanding under the Credit Agreement totaled \$77.0 million. In connection with this repayment the Company no longer has a borrowing base deficiency under the Credit Agreement. The next scheduled borrowing base determination is expected to occur on or around December 15, 2013 and will be based on the Company's reserves at June 30, 2013. The Credit Agreement continues to have a maturity date of April 1, 2014.

GeoMet's net interest in the properties sold produced approximately 9,700 Mcf of natural gas per day during the month of March 2013 (the effective date of the sale was April 1, 2013), or approximately 29% of GeoMet's total production for this time period. As of April 1, 2013 and based on SEC guidelines, GeoMet's net proved reserves attributable to the coalbed methane properties in Alabama being sold were estimated to

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be approximately 43 Bcf, all classified as proved developed reserves.

Total gain on the sale included the following:

Cash proceeds	\$	62,007,639
Buyer's assumption of asset retirement obligations		4,411,201
Buyer's assumption of other liabilities		164,108
Net book value of sold gas properties		(27,998,835)
Net book value of sold inventory		(133,732)
Net book value of sold equipment		(108,642)
Transaction costs		(1,120,654)
Post-closing purchase price adjustments (1)		(272,772)
Total gain on sale	\$	36,948,313

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(1) Post-closing purchase price adjustments results from actual operating revenues and expenses realized related to properties sold that differed from the amounts estimated at the time of closing.

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No current federal or state income taxes payable were recorded in conjunction with the sale of the Alabama properties which is the result of 2013 tax basis operating losses generated in the normal course of business that are estimated to be available to offset the taxable gain. Additionally, our net deferred tax asset and the offsetting valuation allowance recorded against it were both reduced by \$14.1 million as a result of recording the gain on the sale of assets. At September 30, 2013, the remaining net deferred tax asset is \$82.5 million for which a full valuation allowance remains recorded against it.

Pro forma adjustments related to the unaudited pro forma financial information presented below were computed assuming the transaction was consummated on January 1, 2012 and include adjustments which give effect to events that are (i) directly attributable to the transaction, (ii) expected to have a continuing impact on the Company, and (iii) factually supportable. As such, included in Net income (loss), Net (loss) income available to common stockholders and Net (loss) income per common share (basic and diluted) is the total gain on sale of \$36,948,313.

**Consolidated Pro Forma Information**

	Three Months Ended September 30,		Nine months Ended September 30,	
	2013	2012	2013	2012
Revenue	\$ 7,415,443	\$ 6,679,319	\$ 24,186,419	\$ 19,215,088
Income (loss) from continuing operations	\$ 1,705,427	\$ (25,432,968)	\$ 38,801,724	\$ (66,600,078)
Net income (loss)	\$ 1,302,969	\$ (26,473,538)	\$ 36,363,683	\$ (114,527,415)
Net (loss) income available to common stockholders	\$ (574,165)	\$ (27,863,477)	\$ 31,015,802	\$ (118,711,964)
Net (loss) income per common share basic	\$ (0.01)	\$ (0.69)	\$ 0.77	\$ (2.99)
Net (loss) income per common share diluted	\$ (0.01)	\$ (0.69)	\$ 0.44	\$ (2.99)

**Note 3 Going Concern and Management's Plans**

We previously disclosed our engagement of FBR Capital Markets & Co. to assist the Company in exploring strategic alternatives. We have concluded that process, and have engaged Lantana Oil & Gas Partners to assist us in pursuing the possible sale of all or substantially all of our assets.

We currently anticipate that any such sale transaction would be followed by either a merger or a liquidation and distribution of our remaining assets in accordance with applicable law. Generally, in a dissolution, the net proceeds of a sale would be used to repay the amount outstanding under our Credit Agreement and make adequate provision for satisfaction of other known or contingent payment obligations. Remaining assets, if any, would first be used to satisfy all or a portion of the liquidation preference of our outstanding Preferred Stock, then, if any assets remained, be made available for distribution to the holders of our common stock.

Any such sale of assets, and any subsequent merger or liquidation, would require approval by (i) our board of directors, (ii) the holders of a majority of our Preferred Stock (voting separately as a class), and (iii) the holders of a majority of our outstanding shares with holders of the Preferred Stock voting with the common stock on an as-converted basis. On an as-converted basis, the Preferred Stock currently represents approximately 52% of the outstanding shares and therefore would have the ability to control any vote requiring the approval of our shareholders, including a vote to approve a sale transaction and any subsequent merger or liquidation.

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No assurance can be given that a suitable proposal for the sale of all or substantially all of our assets will be presented, that any sale transaction will be consummated, or the terms or structure of any transaction if such a sale transaction is consummated.

Although our recent sale of assets brought us into conformity with the borrowing base under our Credit Agreement, we remain highly leveraged. In addition, our Credit Agreement matures on April 1, 2014, and no assurances can be made that we will be able to refinance, repay or further extend the maturity date of the Credit Agreement. Also, as of September 30, 2013, we had a working capital deficit of \$68.3 million, a retained deficit of \$264.6 million and stockholders' deficit of \$75.0 million. Depressed natural gas prices in 2012 resulted in significant property impairments and full valuation of our deferred tax assets during 2012. On April 2, 2013, all the indebtedness under our Credit Agreement was reclassified to current liabilities. In addition, our Preferred Stock continues to accrue a dividend of 12.5% per annum, which we have been paying through the issuance of additional shares of Preferred Stock. Beginning in September 2015, dividends on the Preferred Stock will accrue at 9.6% per annum and be payable in cash.

These and other factors raise substantial doubt about the Company's ability to continue as a going concern for the next twelve months. The accompanying consolidated financial statements (unaudited) have been prepared in conformity with accounting principles generally accepted in the United States which contemplate continuation of the Company as a going concern.

In the event the assumption of the continuation of the Company as a going concern was no longer appropriate, the Company would implement the liquidation basis of accounting. Under the liquidation basis of accounting, the carrying amounts of assets as of the date of the authorization of a plan for liquidation, would be adjusted to their estimated net realizable values and liabilities, including the estimated costs associated with implementing a plan for liquidation, would be stated at their estimated settlement amounts.

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**Note 4 Recent Pronouncements**

In July 2013, the FASB issued ASU No. 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in ASU 2013-10 permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We are presently assessing the potential impact of ASU 2013-11.

In March 2013, the FASB issued ASU 2013-07, Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties or (b) a plan for liquidation is being imposed by other forces (for example, involuntary bankruptcy). If a plan for liquidation was specified in the entity's governing documents from the entity's inception (for example, limited-life entities), the entity should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified at the entity's inception. The amendments require financial statements prepared using the liquidation basis of accounting to present relevant information about an entity's expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. The entity should include in its presentation of assets any items it had not previously recognized under U.S. GAAP but that it expects to either sell in liquidation or use in settling liabilities (for example, trademarks). The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Entities should apply the requirements prospectively from the day that liquidation becomes imminent. Early adoption is permitted.

In February 2013, the FASB issued ASU No. 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance. The update is effective for interim and annual periods beginning after December 15, 2013 and is required to be applied retrospectively to all prior periods presented for those obligations that existed upon adoption of ASU 2013-04. We are presently assessing the potential impact of ASU 2013-04.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The update requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under accounting principles generally accepted in the United States (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The Company has adopted and applied the provisions of ASU 2012-02 which did not impact its operating results, financial position or cash flows.

In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in this update clarify that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with ASC 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC 210-20-45 or ASC 815-10-45 or subject to an enforceable



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master netting arrangement or similar agreement. The amendments are effective during interim and annual periods beginning on or after January 1, 2013. The Company has adopted and applied the provisions of ASU 2013-01. See disclosure provided in Note 9 Derivative Instruments and Hedging Activities.

Table of Contents**Note 5 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,		Nine months Ended September 30,	
	2013	2012	2013	2012
Net (loss) income available to common stockholders basic	\$ (1,045,466)	\$ (35,763,507)	\$ 32,098,522	\$ (145,410,364)
Dilutive related add back:				
Accretion of Preferred Stock			1,624,984	
Paid-in-kind dividends on Preferred Stock			3,721,062	
Cash dividends paid on Preferred Stock			1,835	
Net (loss) income available to common stockholders diluted	\$ (1,045,466)	\$ (35,763,507)	\$ 37,446,403	\$ (145,410,364)
Net (loss) income per common share basic:				
Net (loss) income per common share from continuing operations	\$ (0.03)	\$ (0.89)	\$ 0.79	\$ (3.61)
Net loss per common share from discontinued operations				(0.02)
Net (loss) income per common share basic	\$ (0.03)	\$ (0.89)	\$ 0.79	\$ (3.63)
Net (loss) income per common share diluted:				
Net (loss) income per common share from continuing operations	\$ (0.03)	\$ (0.89)	\$ 0.45	\$ (3.61)
Net loss per common share from discontinued operations				(0.02)
Net (loss) income per common share diluted	\$ (0.03)	\$ (0.89)	\$ 0.45	\$ (3.63)
Weighted average number of common shares:				
Basic	40,485,875	40,286,573	40,473,460	40,018,778
Potentially dilutive securities:				
Preferred stock			42,117,057	
Restricted stock units			116,553	
Diluted	40,485,875	40,286,573	82,707,070	40,018,778

Net income per common share basic for the nine months ended September 30, 2013 included \$0.91 per common share, net of \$0 tax, resulting solely from the Gain on the sale of Properties in Alabama. Net income per common share diluted for the nine months ended September 30, 2013 included \$0.45 per common share, net of \$0 tax, resulting from the Gain on the sale of Properties in Alabama.

Net loss per common share diluted for the three months ended September 30, 2013 excluded the effect of outstanding options exercisable to purchase 1,591,920 shares, 116,553 weighted average restricted stock units for which common shares are distributed upon achievement of certain performance targets, 176,935 weighted average restricted shares outstanding, and 5,644,456 weighted average shares of Series A Convertible Redeemable Preferred Stock (43,418,898 in dilutive shares, as converted, which assumes conversion on the later of the first day of

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the period or date of issuance) 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 income per common share diluted for the nine months ended September 30, 2013 excluded the effect of outstanding exercisable options to purchase 1,591,920 shares and 204,833 weighted average restricted shares outstanding because they were assumed reacquired under the treasury stock method.

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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 weighted average shares of Series A Convertible Redeemable Preferred Stock (37,216,776 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 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 weighted average shares of Series A Convertible Redeemable Preferred Stock (34,996,440 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 a net loss available to common stockholders which caused the options, restricted stock units, restricted shares and preferred shares to be anti-dilutive.

**Note 6 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 were restricted from being sold 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 the 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 for the three and nine months ended September 30, 2013 and 2012 were as follows:

	<b>Three Months Ended September 30,</b>		<b>Nine months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Revenues	\$	\$	\$	\$
Total operating benefit (expenses)				(13,123)
Operating income (loss)				(13,123)
Loss on sale of Hudson's Hope, Ltd.				(683,154)
Other income (expense)		(25,655)		(25,759)
Income tax expense				
Net loss	\$	\$	\$	\$
		(25,655)		(722,036)

**Note 7 Gas Properties**

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The method of accounting for oil and gas producing activities determines which costs are capitalized and how these costs are ultimately matched with revenues and expenses. We use the full cost method of accounting for our gas properties. Under this method, all direct costs and certain indirect costs associated with the acquisition, exploration, and development of our gas properties are capitalized.

Gas properties are depleted using the units-of-production method. The depletion expense is significantly affected by the unamortized historical and future development costs and the estimated proved gas reserves.

Estimation of proved gas reserves involves professional judgment and use of factors that cannot be precisely determined. Subsequent proved reserve estimates materially different from those reported would change the depletion expense recognized during future reporting periods. No gains or losses are recognized upon the sale or disposition of gas properties unless the sale or disposition represents a significant quantity of gas reserves, which would have a significant impact on the depreciation, depletion and amortization rate.

Under full cost accounting rules, total capitalized costs are limited to a ceiling equal to the present value of estimated future net revenues, discounted at 10% per annum, plus cost of properties not being amortized plus the lower of cost or fair value of unevaluated properties less income tax effects (the ceiling limitation). We perform a quarterly ceiling test to evaluate whether the net book value

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of our full cost pool exceeds the ceiling limitation. If capitalized costs (net of accumulated depreciation, depletion and amortization) less related deferred taxes are greater than the discounted future net revenues or ceiling limitation, a write-down or impairment of the full cost pool is required. A write-down of the carrying value of the full cost pool is a non-cash charge that reduces earnings and stockholders' equity in the period of occurrence and typically results in lower depreciation, depletion and amortization expense in future periods. Once incurred, a write-down is not reversible at a later date.

The ceiling test is calculated using the unweighted arithmetic average of the natural gas price on the first day of each month within the twelve-month period prior to the end of the reporting period, unless prices are defined by contractual arrangements, excluding escalations based on future conditions. In addition, the future cash outflows associated with settling asset retirement obligations were not included in the computation of the discounted present value of future net revenues for the purposes of the ceiling test calculation.

For the twelve months ended September 30, 2013, the unweighted arithmetic average of the Henry Hub spot market price on the first day of each month was \$3.62 per Mcf, resulting in a natural gas price of \$3.68 per Mcf when adjusted for regional price differentials. Based on the ceiling test performed utilizing the aforementioned prices, no write-down of the carrying value of our U.S. full cost pool was required at September 30, 2013.

For the twelve months ended September 30, 2012, the unweighted arithmetic average of the Henry Hub spot market price on the first day of each month was \$2.84 per Mcf, resulting in a natural gas price of \$2.99 per Mcf when adjusted for regional price differentials. For the three and nine months ended September 30, 2012, we recorded a \$25.4 million and \$83.5 million write-down, respectively, of the carrying value of our U.S. full cost pool.

In accordance with the full cost method of accounting for gas properties as prescribed by the SEC, sales of oil and gas reserves in place are generally accounted for as adjustments of capitalized cost, with no gain or loss recognized, unless such adjustments significantly alter the relationship between capitalized costs and proved reserves of oil and gas attributable to a cost center (i.e. depletion rate). A significant alteration would not ordinarily be expected to occur for sales involving less than 25 percent of the reserve quantities of a given cost center. The sale of the Alabama gas properties, as disclosed in Note 2 - Sale of Coalbed Methane Properties in Alabama, would have significantly altered the depletion rate. As such, a gain on the sale was recorded in the Consolidated Statements of Operations for the three and nine months ended September 30, 2013.

**Note 8 Asset Retirement Liability**

We record an asset retirement obligation ( ARO ) on the Consolidated Balance Sheets (Unaudited) and capitalize the asset retirement costs in gas properties in the period in which the retirement obligation is incurred. The amount of the ARO and the costs capitalized are equal to the estimated future costs to satisfy the obligation using current prices that are escalated by an assumed inflation factor up to the estimated settlement date, which is then discounted back to the date we incurred the abandonment obligation using an assumed interest rate. Once the ARO is recorded, it is then accreted to its estimated future value using the same assumed interest rate.

The following table details the changes to our asset retirement liability for the nine months ended September 30, 2013:

Current portion of liability at January 1, 2013	\$	73,706
Add: Long-term asset retirement liability at January 1, 2013		13,235,318
Asset retirement liability at January 1, 2013		13,309,024
Buyer's assumption of asset retirement obligations		(4,411,201)
Revision of estimates		103,287
Settlements		(152,844)
Accretion		822,601
Asset retirement liability at September 30, 2013		9,670,867
Less: Current portion of liability		(180,183)
Long-term asset retirement liability	\$	9,490,684

#### Note 9 Derivative Instruments and Hedging Activities

The energy markets have historically been volatile, and there can be no assurance that future natural gas prices will not be subject to wide fluctuations. At September 30, 2013, we do not have the ability to enter into natural gas hedges because we do not have the credit capacity with our existing natural gas hedge counterparties.

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In an effort to reduce the effects of the volatility of the price of natural gas on our operations, management has 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 limits the downside risk of adverse price movements, it also limits 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 prohibits 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 incur accounting losses on derivatives during periods where prices are rising and gains during periods where prices are falling which may cause significant fluctuations in our Consolidated Balance Sheets (Unaudited) and Consolidated Statements of Operations (Unaudited).

### *Commodity Price Risk and Related Hedging Activities*

At September 30, 2013, we had the following natural gas derivative contracts:

Contract Type	Period	Volume (MMBtu)	Fixed Price or Sold Ceiling/ Bought Floor	Derivative asset current	Derivative liability non-current	Total Fair Value of Contract
Swap	October 2013 through December 2013	552,000	\$3.60	\$ 2,406	\$	\$ 2,406
Swap	October 2013	248,000	\$3.81	77,362		77,362
Swap	November 2013 through March 2014	1,208,000	\$3.81	60,100		60,100
Swap	October 2013 through March 2014	1,096,000	\$3.82	162,168		162,168
Collar	January 2014 through December 2015	3,650,000	\$4.30/\$3.60	76,986	(210,846)	(133,860)
Collar	January 2014 through December 2015	3,650,000	\$4.20/\$3.50	(7,997)	(360,540)	(368,537)
		10,404,000		\$ 371,025	\$ (571,386)	\$ (200,361)

(1) On October 2, 2013, the Company terminated the \$3.81 swap position for a total of 1,208,000 MMBtus for the period November 2013 through March 2014 for which the Company received \$60,100.

At December 31, 2012, we had the following natural gas derivative contracts:

Contract Type	Period	Volume (MMBtu)	Fixed Price or Sold Ceiling/ Bought Floor	Derivative asset current	Derivative liability current	Derivative liability non-current	Total Fair Value of Contract
Collar	January 2014 through December 2015	3,650,000	\$4.30/\$3.60	\$	\$	\$ (556,636)	\$ (556,636)



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Collar	January 2014 through December 2015	3,650,000	\$4.20/\$3.50			(796,266)	(796,266)
Swap	January 2013 through March 2013	360,000	\$6.42	1,100,395			1,100,395
Swap	January 2013 through March 2013	540,000	\$6.50	1,156,734			1,156,734
Swap	January 2013 through December 2013	2,190,000	\$3.60	127,253			127,253
Swap	January 2013 through March 2014	3,640,000	\$3.81	758,669		(144,994)	613,675
Swap	January 2013 through March 2014	3,640,000	\$3.82	786,716		(138,452)	648,264
Swap	April 2013 through December 2013	2,750,000	\$3.25			(919,572)	(919,572)
		20,420,000		\$ 3,929,767	\$	(919,572) \$	(1,636,348) \$ 1,373,847

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At December 31, 2012, we had the following forward sales at NYMEX plus a fixed basis:

Period	Volume (MMBtu)	Fixed Basis
January 2013 through March 2013	450,000	\$ 0.19
January 2013 through March 2013	918,000	\$ 0.22
	1,368,000	

The aforementioned forward physical sale contracts qualified for normal purchase and sale exemption and, as such, we have elected not to record it on the Consolidated Balance Sheets (Unaudited) using mark-to-market accounting.

We have reviewed the financial strength of our hedge counterparties and believe our credit risk to be minimal. Our hedge counterparties are participants or affiliates of the participants in our Credit Agreement and the collateral for the outstanding borrowings under our Credit Agreement is used as collateral for our hedges. We do not have rights to collateral from our counterparties, nor do we have rights of offset against borrowings under our Credit Agreement.

We estimate the fair value of our natural gas derivative contracts using the income approach. The income approach uses valuation techniques that convert future cash flows to a single discounted value. In order to estimate the fair value of our natural gas derivative contracts, a forward price curve and volatility estimates were compiled from sources that include NYMEX settlements and observed trading activity in the Over-the-Counter (OTC) markets. Pricing estimates for the theoretical market value of hedge positions were developed using analytical models accepted and employed by a broad cross-section of industry participants. To extrapolate future cash flows, discount factors incorporating our counterparties' and our credit standing are used to discount future cash flows. The estimated fair value of our natural gas derivative contracts also reflects its nonperformance risk, the risk that the obligation will not be fulfilled. Because nonperformance risk includes our counterparties' and our credit risk, we have considered the effect of credit risk on the fair value of our natural gas derivative contracts. The consideration for discounting our counterparties' liabilities (our assets) was based on the difference between the S&P credit rating of a comparable company to our counterparties and the 1-Year Treasury bill rate, both at the reporting date. The consideration for discounting our liabilities was based on the difference between the market weighted average cost of debt capital plus a premium over the capital asset pricing model and the 1-Year Treasury bill rate.

We did not have any transfers of assets and liabilities between Level 1 and Level 2 of the fair value measurement hierarchy during the three and nine months ended September 30, 2013. Based on the use of observable market inputs, we have designated these types of instruments designated below as Level 2. The fair value of our Level 2 derivative instruments were as follows:

	Asset Derivatives				Liability Derivatives			
	September 30, 2013		December 31, 2012		September 30, 2013		December 31, 2012	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
<b>Derivatives not designated as hedging instruments</b>								
Natural gas hedge positions	Derivative asset (current)	\$ 371,025	Derivative asset (current)	\$ 3,929,767	Derivative liability (current)	\$	Derivative liability (current)	\$ 919,572

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Natural gas hedge positions	Derivative asset (non-current)	Derivative asset (non-current)	Derivative liability (non-current)	Derivative liability (non-current)
			571,386	1,636,348
<b>Total derivatives not designated as hedging instruments</b>	\$ 371,025	\$ 3,929,767	\$ 571,386	\$ 2,555,920

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The (gains) losses on our hedging instruments included in the unaudited Consolidated Statements of Operations are as follows:

**The Effect of Derivative Instruments on the Unaudited Consolidated Statements of  
Operations for the Three and Nine Months Ended September 30, 2013 and 2012**

Derivatives	Location of (Gain) or Loss Recognized in Income on Derivative	Amount of (Gain) or Loss Recognized in Income on Derivative			
		Three Months Ended September 30,		Nine months Ended September 30,	
		2013	2012	2013	2012
<b>Derivatives not designated as hedging instruments under ASC 815-20-25</b>					
Natural gas collar/swap settled positions	(Gains) losses on natural gas derivatives	\$ (361,448)	\$ (3,496,348)	\$ (2,021,116)	\$ (13,600,483)
Natural gas swap positions terminated (1)	(Gains) losses on natural gas derivatives			1,207,050	
Natural gas collar/swap unsettled positions	(Gains) losses on natural gas derivatives	(263,880)	8,280,290	1,574,208	13,258,958
Total (gain) loss		\$ (625,328)	\$ 4,783,942	\$ 760,142	\$ (341,525)

(1) The natural gas swap positions were terminated in order to prevent the Company from being over-hedged after the closing of the sale of its coalbed methane properties in Alabama.

**Note 10 Investment in Canada Energy Partners**

At September 30, 2013 and December 31, 2012, we own two million shares of Canada Energy Partners ( CEP ), discussed in Note 6 Discontinued Operations, which we classify as available for sale and record at fair value in Other noncurrent assets on the Consolidated Balance Sheets (Unaudited) based on the closing price of the shares on the TSX Venture Exchange on that date. Gains or losses related to both market price fluctuation and currency translation adjustment on the shares of CEP are held in Accumulated other comprehensive loss in the Consolidated Balance Sheets (Unaudited). At September 30, 2013 and December 31, 2012, the value of the shares recorded in Other noncurrent assets was \$271,536 and \$240,749, respectively, using a Level 1 input. Accumulated other comprehensive loss of \$22,233 in the Consolidated Balance Sheets (Unaudited) as of September 30, 2013 consisted of a \$25,582 cumulative decrease in market value offset by a \$3,349 cumulative gain related to currency translation on the CEP shares. Accumulated other comprehensive loss of \$53,020 in the Consolidated Balance Sheets (Unaudited) as of December 31, 2012 consisted of a \$61,661 cumulative decrease in market value offset by a \$8,641 cumulative gain related to currency translation on the CEP shares.

**Note 11 Long-Term Debt**

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Under our Credit Agreement, outstanding borrowings may not exceed a borrowing base determined by the lenders. During 2012, the amounts borrowed under our Credit Agreement exceeded the borrowing base. Borrowings under the Credit Agreement at August 8, 2012 totaled \$148.6 million. On August 8, 2012, in connection with the excess of borrowings over the borrowing base, we amended the Credit Agreement to provide for a tranche A loan in the amount of our borrowing base and a tranche B loan in the amount of the borrowing base deficiency.

On June 14, 2013, the Company closed the sale of all of its coal bed methane properties located in the state of Alabama. Simultaneously with the close of the property sale, approximately \$57.0 million was used to repay outstanding borrowings under the Company's Credit Agreement, which eliminated the borrowing base deficiency. After this repayment, borrowings outstanding under the Credit Agreement totaled \$77.0 million. The next scheduled borrowing base determination is expected to occur on or around December 15, 2013 and will be based on the Company's reserves at June 30, 2013.

With the closing of the sale of its coalbed methane properties in Alabama, the Company retained a \$5.0 million reserve to be disbursed from time to time solely to pay transaction related costs as defined in the Credit Agreement, as amended, until the final settlement date of December 31, 2013, at which time, any remaining reserve shall be used to repay the outstanding principal balance

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under the Credit Agreement. At September 30, 2013, a reserve of \$1.8 million remained in Cash and cash equivalents in the Consolidated Balance Sheets (Unaudited). Any unused portion of the reserve will be payable to the bank on December 31, 2013.

The Credit Agreement no longer provides for loans to be available on a revolving basis up to the amount of the borrowing base. As a result, the current outstanding loans, once repaid, may not be re-borrowed by the Company. All outstanding borrowings under the Credit Agreement are due and payable on April 1, 2014. The Credit Agreement provides for interest to accrue at a rate calculated, at our option, at the Adjusted Base Rate plus a margin of 2.00% or the London Interbank Offered Rate (the LIBOR Rate) plus a margin of 3.00%. Adjusted Base Rate is defined to be the greater of (i) the agent's base rate or (ii) the federal funds rate plus one half of one percent or (iii) the LIBOR Rate plus a margin of 1.00%. All financial covenants were deleted by the Amendment and were replaced with a capital expenditure covenant (a maximum of \$1.5 million in 2012 and \$1.5 million in 2013). As of September 30, 2013, we had \$74.0 million of borrowings outstanding under our Credit Agreement. As of September 30, 2013, the interest rates applied to borrowings were 3.24%.

For the three months ended September 30, 2013, we had no borrowings and made payments of \$3.0 million under the Credit Agreement. For the three months ended September 30, 2012, we borrowed no amounts and made payments of \$3.0 million under the Credit Agreement. For the three months ended September 30, 2013 and 2012, interest on the borrowings averaged 3.28% and 3.50% per annum, respectively.

For the nine months ended September 30, 2013, we had no borrowings and made payments of \$65.3 million under the Credit Agreement. For the nine months ended September 30, 2012, we borrowed \$10.5 million and made payments of \$22.8 million under the Credit Agreement. For the nine months ended September 30, 2013 and 2012, interest on the borrowings averaged 4.03% and 3.12% per annum, respectively.

The following is a summary of our long-term debt at September 30, 2013 and December 31, 2012:

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
Borrowings under Credit Agreement	\$ 74,000,000	\$ 139,300,000
Less current maturities included in current liabilities	(74,000,000)	(10,300,000)
<b>Total long-term debt</b>	<b>\$</b>	<b>\$ 129,000,000</b>

We record our debt instruments based on contractual terms. We did not elect to apply the fair value option for recording financial assets and financial liabilities. We measure the fair value of our debt instruments using discounted cash flow analyses based on our current borrowing rates for similar types of borrowing arrangements (categorized as level 3). We do not have any debt instruments with fair value measurements categorized as level 1 or 2 within the fair value hierarchy. Fair value measurement for an asset or liability reflects its nonperformance risk, the risk that the obligation will not be fulfilled. Because nonperformance risk includes our credit risk, we have considered the effect of our credit risk on the fair value of the long-term debt. This consideration involved discounting our long-term debt based on the difference between the market weighted average cost of equity capital plus a premium over the capital asset pricing model and the stated interest rates of the debt instruments included in our long-term debt. The fair value of long-term debt at September 30, 2013 and December 31, 2012 was estimated to be approximately \$72.9 million and \$121.6 million, respectively.

**Note 12 Income Taxes**

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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 \$143.4 million and \$148.0 million, respectively, at September 30, 2013 that are available to reduce future taxable income. For tax reporting purposes, we had federal and state NOLs of approximately \$137.8 million and \$127.0 million, respectively, at December 31, 2012 that were available to reduce future taxable income. Our first material federal NOL carryforward expires in 2022 and the last one expires in 2032.

Additionally, for tax reporting purposes, we have a federal capital loss carryforward generated by the sale of Hudson's Hope Gas, Ltd., as described in Note 6 Discontinued Operations, of approximately \$33.9 million at September 30, 2013 that is available to reduce future taxable capital gains and expiring in 2017.

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At September 30, 2013, we have a valuation allowance of \$82.4 million recorded against our net deferred tax asset which includes \$69.6 million related to our U.S. operations and \$12.8 million related to the capital loss carryforward generated by the sale of Hudson's Hope Gas, Ltd., as described in Note 6 Discontinued Operations.

A reconciliation of the effective tax rate to the statutory rate for the three months ended September 30, 2013 is as follows:

	<b>Total</b>	
Amount computed using statutory rates	\$ 284,892	34.00%
State income taxes net of federal benefit	7,809	0.93%
Reduction of valuation allowance	(722,406)	-86.21%
Nondeductible items and other	435,955	52.03%
Income tax provision	\$ 6,250	0.75%

A reconciliation of the effective tax rate to the statutory rate for the nine months ended September 30, 2013 is as follows:

	<b>Total</b>	
Amount computed using statutory rates	\$ 12,738,152	34.00%
State income taxes net of federal benefit	883,815	2.36%
Reduction of valuation allowance	(14,194,949)	-37.89%
Nondeductible items and other	591,732	1.58%
Income tax provision	\$ 18,750	0.05%

### **Note 13 Common Stock**

At September 30, 2013 and December 31, 2012, there were 40,662,749 and 40,690,077 shares, respectively, of common stock outstanding, both including 10,432 shares of treasury stock held by the Company. Also included in common stock outstanding at September 30, 2013 and December 31, 2012 were 158,870 and 254,260 shares of restricted stock, respectively. The following table details the activity related to our common stock for the three months ended September 30, 2013:

	<b>Date</b>	<b>Shares</b>
Common stock outstanding at January 1, 2013		40,690,077
Purchased by the Company and cancelled for the payment of withholding taxes due on vested shares of restricted stock	01/07/2013	(121)
Purchased by the Company and cancelled for the payment of withholding taxes due on vested shares of restricted stock	03/15/2013	(470)
Forfeited upon default of shareholder loans	06/06/2013	(24,428)
Shares of restricted stock forfeited upon termination of employment	06/14/2013	(1,504)
Shares of restricted stock forfeited upon termination of employment	07/08/2013	(805)
Common stock outstanding at September 30, 2013		40,662,749

### **Note 14 Series A Convertible Redeemable Preferred Stock**



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At September 30, 2013 and December 31, 2012, 5,818,807 and 5,305,865 shares of preferred stock were issued and outstanding, respectively. At September 30, 2013, an additional 1,583,025 shares of our Series A Convertible Redeemable Preferred Stock ( Preferred Stock ) are reserved exclusively for the payment of paid-in-kind dividends ( PIK dividends ). We measure the fair value of PIK dividends using the closing quoted NASDAQ market price on the dividend date (categorized as level 1). The following table details the activity related to the Preferred Stock for the nine months ended September 30, 2013:

	<b>Dividend Period</b> <b>(Three Months Ended)</b>	<b>Date Issued</b>	<b>Number of</b> <b>Shares</b>	<b>Balance</b>
Balance at January 1, 2013			5,305,865	\$ 35,851,887
Accretion of Preferred Stock				1,624,984
PIK Dividend Issued for Preferred Stock	3/31/13	4/1/13	165,745	1,075,685
	6/30/13	7/1/13	170,931	1,367,488
	9/30/13	9/30/13	176,266	1,277,889
Balance At September 30, 2013			5,818,807	\$ 41,197,933

Table of Contents**Note 15 Share-Based Awards**

Our 2006 Long-Term Incentive Plan (the "2006 Plan") authorizes the granting of incentive stock options, non-qualified stock options, stock appreciation rights, stock awards, restricted stock, restricted stock units and performance awards. A maximum of 4,000,000 shares are available for grant under this plan. The 2006 Plan is available to our employees and independent directors. However, the Company does not anticipate any additional grants will be awarded under the 2006 Plan in the immediate future. The exercise price of stock options granted under this plan may not be less than the fair market value of the common stock on the date of grant. The options generally have a term of seven years and vest evenly over three years, except performance based awards which are granted solely to our named executive officers, and options issued to directors. Performance based awards granted under the 2006 Plan vest once the performance criteria have been met. Options granted to our directors vest immediately.

During the three months ended September 30, 2013, we recorded a compensation expense accrual of \$68,835 which was allocated as an addition of \$2,993 to lease operating expenses and an addition of \$65,842 to general and administrative expense. During the nine months ended September 30, 2013, we recorded a compensation expense accrual of \$188,209 which was allocated as an addition of \$16,504 to lease operating expenses and an addition of \$171,705 to general and administrative expense. The future compensation cost of all the outstanding awards is \$112,268 which will be amortized over the vesting period of such stock options and restricted stock. The weighted average remaining useful life of the future compensation cost is 0.56 years.

During the three months ended September 30, 2012, we recorded compensation expense of \$118,840 of which \$7,475 was allocated to lease operating expenses and \$111,365 was allocated to general and administrative expenses. During the nine months ended September 30, 2012, we recorded compensation expense of \$532,989 of which \$29,769 was allocated to lease operating expenses, \$351,481 was allocated to general and administrative expenses, \$131,127 was allocated to restructuring costs, and \$20,612 was capitalized to gas properties.

***Incentive Stock Options***

The table below summarizes incentive stock option activity for the three months ended September 30, 2013:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2012	1,412,739	\$ 1.11		
Forfeited	(195,584)	\$ 1.12		
Outstanding at September 30, 2013	1,217,155	\$ 1.11	3.0	\$
Options exercisable at September 30, 2013	1,062,609	\$ 1.04	3.7	\$

***Non-Qualified Stock Options***

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The table below summarizes non-qualified stock option activity for the three months ended September 30, 2013:

	Number of Options	Weighted Average Exercise Price	Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2012	974,765	\$ 2.33		
Expired	(600,000)	\$ 2.50		
Outstanding at September 30, 2013	374,765	\$ 2.05	0.7	\$
Options exercisable at September 30, 2013	333,242	\$ 2.22	1.8	\$

Table of Contents***Restricted Stock Awards***

The table below summarizes non-vested restricted stock awards activity for the three months ended September 30, 2013:

	Number of Shares		Weighted Average Grant Date Fair Value
Non-vested restricted stock at December 31, 2012	254,260	\$	1.43
Vested	(93,416)	\$	0.74
Forfeited	(1,974)	\$	1.32
Non-vested restricted stock at September 30, 2013	158,870	\$	1.83

***Restricted Stock Unit Awards***

On April 5, 2011, we granted 232,089 restricted stock units to our five executive officers. These restricted stock units vest upon the Company's achievement of certain performance targets, but no earlier than ratably over the three year period following the grant date, at which time one common share will be issued and exchanged for each restricted stock unit held. If the requisite performance targets are not achieved in the seven year period ended April 5, 2018, the restricted stock units will expire. Restricted stock units are included in the calculation of diluted earnings per share utilizing the treasury stock method. On April 30, 2012, 99,108 restricted stock units vested with a vesting date fair value of \$0.53 per share. On June 25, 2012, 16,428 restricted stock units were forfeited. There have been no grants of restricted stock units subsequent to the aforementioned grant. Unrecognized compensation cost related the restricted stock units is \$116,553 at September 30, 2013.

**Note 16 Commitments and Contingencies**

From time to time we are a party to litigation in the normal course of business. While the outcome of lawsuits or other proceedings against us are not possible to reasonably predict, management does not believe that the adverse effect on our financial condition, results of operations or cash flows, if any, will be material.

***Environmental and Regulatory***

As of September 30, 2013, there were no known environmental or other regulatory matters related to our operations that are reasonably expected to result in a material liability to us.

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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

***Statement Regarding Forward-Looking Information***

Included in this quarterly report are certain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). All statements, other than statements of historical fact, included in this quarterly report that address activities, events or developments that we expect or anticipate will or may occur in the future are forward-looking statements, including statements regarding our reserve quantities and the present value thereof, our ability to continue as a going concern, planned capital expenditures, our ability to continue in compliance with our Credit Agreement, or to refinance our Credit Agreement, future cash flows and borrowings, our financial position, business strategy and other plans and objectives for future operations. We use the words may, will, expect, anticipate, estimate, believe, continue, intend, plan, budget and other similar words to identify forward-looking statements. You should read statements that contain these words carefully and should not place undue reliance on these statements. Although we believe that the expectations reflected in these forward-looking statements are reasonable, they do involve certain assumptions, risks and uncertainties. Our results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, among others:

- the continued oversupply of natural gas in the US markets, which depresses the price we receive for our natural gas production and makes our properties less valuable and more difficult to sell;
- further declines in the prices we receive for our natural gas adversely affecting our operating results, cash flows and credit capacity;
- our ability to refinance or repay our indebtedness;
- general international and domestic economic conditions that may be less favorable than expected;
- changes in our business strategy;
- changes in our financial position, including our cash flow and liquidity;
- our ability to sell any or all of our assets, if at all, on terms acceptable to us;
- the effects of our indebtedness, which could adversely restrict our ability to operate, could make us vulnerable to general adverse economic and industry conditions, could place us at a competitive disadvantage compared to our competitors that have less debt, and could have other adverse consequences;
- volatility in the international and domestic capital and credit markets, including fluctuations in interest rates and availability of capital;
- uncertainties in estimating our natural gas reserves;
- our ability to replace our natural gas reserves;
- uncertainties in exploring for and producing natural gas;

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- new natural gas development projects and exploration for natural gas in areas where we have little or no proven natural gas reserves;
- our ability to acquire water supplies needed for drilling, or our ability to dispose of water used or removed from strata at a reasonable cost and within applicable environmental rules;
- other persons could have ownership rights in our advanced natural gas extraction techniques which could force us to cease using those techniques or pay royalties;
- availability of drilling and production equipment and field service providers;
- disruptions, capacity constraints in, or other limitations on the pipeline systems that deliver our natural gas;
- our need to use unproven technologies to extract coalbed methane in some properties;
- our ability to retain key members of our senior management and key technical employees;
- the outcomes of legal proceedings in which we may become involved;
- the possibility that the industry may be subject to future regulatory or legislative actions (including changes to existing tax rules and regulations and changes in environmental regulation);
- the effects of government regulation and permitting and other legal requirements;
- other economic, competitive, governmental, legislative, regulatory, geopolitical and technological factors may negatively impact our businesses, operations or pricing; and
- our ability to operate effectively in a state or jurisdiction where land ownership and coalbed methane rights are complicated or unresolved.

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Other factors which could affect the events discussed in our forward looking statements are described under Item 1A. Risk Factors in our annual report on Form 10-K, which is filed with the SEC, and can be reviewed at [www.sec.gov](http://www.sec.gov). All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this paragraph and elsewhere in this quarterly report. All forward-looking statements speak only as of the date of this quarterly report. Other than as required under securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

**Overview**

GeoMet, Inc. is primarily engaged in the exploration for and development and production of natural gas from coal seams ( coalbed methane or CBM ). All of our production is 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 have been active as an operator, developer and producer of coalbed methane properties since 1993.

Natural gas prices in 2012 were depressed compared with prices generally prevailing during prior years and historically low natural gas prices have continued in 2013. The low natural gas prices in 2012 and 2013 had pervasive adverse consequences to our business, including a borrowing base deficiency under our Credit Agreement. On August 8, 2012, we amended our Credit Agreement to include a conforming tranche equal to the borrowing base, and a non-conforming tranche in the amount of outstanding loans in excess of the borrowing base. The amendment required that we use all of our excess cash flows, as defined, to reduce outstanding borrowings under the Credit Agreement and significantly limited our capital expenditures. On June 14, 2013, we closed the sale of the Alabama properties and used approximately \$57.0 million of the proceeds to repay outstanding borrowings under our Credit Agreement. After this repayment, borrowings outstanding under the Credit Agreement totaled \$77.0 million. In connection with this repayment the non-conforming portion of borrowings was repaid and the Company no longer has a borrowing base deficiency under the Credit Agreement. The next scheduled borrowing base determination is expected to occur on or around December 15, 2013 and will be based on the Company's reserves at June 30, 2013. As of September 30, 2013, the interest rates applied to borrowings was 3.24%. The Credit Agreement continues to have a maturity date of April 1, 2014.

Additionally, depressed natural gas prices resulted in significant property impairments and full valuation of our net deferred tax asset during 2012. We believe that low natural gas prices and our indebtedness contributed to our common stock being delisted by NASDAQ as we had no remaining equity and the market price of our common stock had diminished.

We previously disclosed our engagement of FBR Capital Markets & Co. to assist the Company in exploring strategic alternatives. We have concluded that process, and have engaged Lantana Oil & Gas Partners to assist us in pursuing the possible sale of all or substantially all of our assets.

No assurance can be given that a suitable proposal for the sale of all or substantially all of our assets will be presented, that any sale transaction will be consummated, or the terms or structure of any transaction if such a sale transaction is consummated. We currently anticipate that any such transaction would be followed by a liquidation and a distribution of our remaining assets in accordance with applicable law. This would include the repayment of amounts outstanding under our credit facilities. The terms of our outstanding Preferred Stock provide that the holders of the Preferred Stock would be entitled to a liquidation preference before the remaining assets, if any, were distributed to the holders of our common stock.

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It is possible that a prospective purchaser will prefer that a sale be achieved pursuant to a Chapter 11 bankruptcy process. We also intend to explore the possibility of merging with a viable candidate after completing the sale of all or substantially all of our assets.

Any such sale of assets, and subsequent liquidation, would be subject to approval by our board of directors and by holders of a majority of our outstanding shares, with holders of the Preferred Stock voting with the common stock on an as-converted basis. On an as-converted basis, the Preferred Stock currently represents a majority of the outstanding shares.

In connection with the conclusion of our pursuit of strategic alternatives, we are in the process of terminating our engagement of FBR Capital Markets & Co. ( FBR ) and expect to pay FBR \$250,000 in settlement of our payment obligations under our engagement agreement with FBR. In addition, we would expect to pay a contingent payment of \$300,000 to FBR for a fairness opinion if requested by us, and a second contingent payment of \$300,000 if any assets are sold to certain parties that FBR identified during their engagement and with whom we signed confidentiality agreements prior to the termination of the engagement.

During 2011 and the first five months of 2012, prices received for natural gas in the United States continued to decline significantly which we believe, among other things, was due to an over-supply of natural gas, primarily resulting from shale drilling and reduced demand due to a much warmer winter than normal. On April 21, 2012, the Henry Hub spot price closed at \$1.825/



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MMBtu, its lowest in over ten years. Presented below are the NYMEX Settle Prices for the period January 2011 through November 2013 and the NYMEX Forward Curve Prices (as of November 6, 2013) for natural gas for the period December 2013 through December 2014.

On June 14, 2013, the Company closed the sale of all of its coal bed methane properties located in Alabama. The sale resulted in proceeds of approximately \$62.0 million after purchase price adjustments of \$1.2 million to account for net cash flows from the effective date to the closing date. Approximately \$57.0 million of the sales proceeds was used to repay outstanding borrowings under the Company's Credit Agreement and \$5.0 million was held in reserve to pay transaction related costs and expenses, including the liquidation of certain natural gas hedge positions.

GeoMet's net interest in the coalbed methane properties in Alabama produced approximately 9,700 Mcf of natural gas per day during the month of March 2013, or approximately 29% of GeoMet's total production for March 2013. As of March 31, 2013 and based on Securities and Exchange Commission guidelines, GeoMet's net proved reserves attributable to the coalbed methane properties in Alabama sold were estimated to be approximately 43 Bcf, all classified as proved developed reserves.

**Areas of Operation**

Subsequent to the asset sale, our core area of operations is the Central Appalachian Basin of Virginia and West Virginia. The Central Appalachian Basin is a mountainous region where coal mining is prevalent. We also own additional coalbed methane and oil and gas

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development rights, principally in Virginia and West Virginia. As of September 30, 2013, we own a total of approximately 91,000 net acres of coalbed methane and oil and gas development rights.

### *Central Appalachia*

*Pond Creek and Lasher Fields* We are the operator of 298 producing vertical CBM wells in which we own a 99.0% average working interest in the Pond Creek and Lasher fields located in southern West Virginia and southwestern Virginia. Net daily sales of gas averaged 15.6 MMcf per day and 15.8 MMcf per day for the three and nine months ended September 30, 2013, respectively. Our natural gas production from the Pond Creek field is delivered into the Jewell Ridge pipeline system owned by East Tennessee Natural Gas, LLC ( ETNG ). We have two long-term transportation agreements with ETNG which went into effect in April 2007 with total maximum daily quantities of 15,000 MMBtu s and 10,000 MMBtu s and primary terms of 15 years and 10 years, respectively. Our gas from the Lasher field is delivered into the Columbia Gas Transmission pipeline with firm transportation for 500 MMBtus per day. We also own and operate a 12 mile, 8 inch high-pressure steel pipeline and gas treatment and compression facilities through which the Pond Creek field natural gas production is gathered, dehydrated, and compressed for delivery into the Jewell Ridge Lateral of the East Tennessee pipeline system.

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*Pinnate Horizontal Wells* We are the operator of 44 producing pinnate horizontal CBM wells in which we own a 71.6% average working interest in central and northern West Virginia. We also have a 33.7% average working interest in 67 non-operated pinnate horizontal wells in central West Virginia. Net daily sales of natural gas averaged 7.2 MMcf per day and 7.7 MMcf per day for the three and nine months ended September 30, 2013, respectively. We are party to two firm transportation agreements with total maximum daily capacity of 18,500 MMBtu per day and primary terms expiring from April 2013 through November 2024 which can be automatically extended at GeoMet's option at the maximum tariff rate. We are also party to a 10,000 MMBtu per day gathering contract that is currently in a month-to-month evergreen term. In some cases, our natural gas sales volumes are delivered to market under transportation agreements controlled by our working interest partners. Generally, our natural gas sales volumes are sold at a delivery point into the respective interstate pipeline system utilized.

**Critical Accounting Policies**

The preparation of financial statements in conformity with GAAP requires us to use our judgment to make estimates and assumptions that affect certain amounts reported in our financial statements. As additional information becomes available, these estimates and assumptions are subject to change and thus impact amounts reported in the future. Critical accounting policies are those accounting policies that involve judgment and uncertainties affecting the application of those policies and the likelihood that materially different amounts would be reported under different conditions or using differing assumptions. We periodically update our estimates used in the preparation of the financial statements based on our latest assessment of the current and projected business and general economic environment. There have been no significant changes to our critical accounting policies during the three months ended September 30, 2013.

Table of Contents**Natural Gas Production Operations Summary**

The table below presents information on gas sales, net sales volumes, production expenses and per Mcf data for the three and nine months ended September 30, 2013 and 2012. This table should be read in conjunction with the discussion of the results of operations for the periods presented below (in thousands, except per Mcf amounts).

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Gas sales	\$ 7,392	\$ 9,610	\$ 30,324	\$ 27,465
Lease operating expenses	\$ 2,023	\$ 4,417	\$ 10,615	\$ 13,350
Compression and transportation expenses	1,779	2,218	5,486	6,758
Production taxes	419	442	1,617	1,276
Total production expenses	\$ 4,221	\$ 7,077	\$ 17,718	\$ 21,384
Net sales volumes (Consolidated) (MMcf)	2,072	3,391	8,088	10,468
Pond Creek field (Central Appalachian Basin) (MMcf)	1,386	1,462	4,209	4,402
Other Central Appalachian Basin fields (MMcf)	686	912	2,224	2,941
Gurnee field (Cahaba Basin) (MMcf)		430	723	1,325
Black Warrior Basin fields (MMcf)		587	932	1,800
Per Mcf data (\$/Mcf):				
Average natural gas sales price realized (Consolidated)(1)	\$ 3.74	\$ 3.87	\$ 3.85	\$ 3.92
Average natural gas sales price (Consolidated)	\$ 3.57	\$ 2.83	\$ 3.75	\$ 2.62
Pond Creek field (Central Appalachian Basin)	\$ 3.60	\$ 2.88	\$ 3.78	\$ 2.70
Other Central Appalachian Basin fields	\$ 3.50	\$ 2.69	\$ 3.69	\$ 2.48
Gurnee field (Cahaba Basin) (2)	\$	\$ 2.87	\$ 3.77	\$ 2.63
Black Warrior Basin fields (2)	\$	\$ 2.92	\$ 3.73	\$ 2.68
Lease operating expenses (Consolidated)	\$ 0.98	\$ 1.30	\$ 1.31	\$ 1.28
Pond Creek field (Central Appalachian Basin)	\$ 1.07	\$ 1.13	\$ 1.12	\$ 1.07
Other Central Appalachian Basin fields	\$ 0.78	\$ 1.34	\$ 1.41	\$ 1.40
Gurnee field (Cahaba Basin) (2)	\$	\$ 2.79	\$ 2.84	\$ 2.67
Black Warrior Basin fields (2)	\$	\$ 0.56	\$ 0.74	\$ 0.53
Compression and transportation expenses (Consolidated)	\$ 0.86	\$ 0.66	\$ 0.68	\$ 0.64
Pond Creek field (Central Appalachian Basin)	\$ 0.75	\$ 0.61	\$ 0.66	\$ 0.59
Other Central Appalachian Basin fields	\$ 1.07	\$ 1.18	\$ 1.03	\$ 1.17
Gurnee field (Cahaba Basin) (2)	\$	\$ 0.29	\$ 0.29	\$ 0.27
Black Warrior Basin fields (2)	\$	\$ 0.22	\$ 0.18	\$ 0.20
Production taxes (Consolidated)	\$ 0.20	\$ 0.13	\$ 0.20	\$ 0.12
Pond Creek field (Central Appalachian Basin)	\$ 0.20	\$ 0.15	\$ 0.21	\$ 0.15
Other Central Appalachian Basin fields	\$ 0.21	\$ 0.07	\$ 0.19	\$ 0.07
Gurnee field (Cahaba Basin) (2)	\$	\$ 0.13	\$ 0.18	\$ 0.11
Black Warrior Basin fields (2)	\$	\$ 0.17	\$ 0.23	\$ 0.16
Total production expenses (Consolidated)	\$ 2.04	\$ 2.09	\$ 2.19	\$ 2.04

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Pond Creek field (Central Appalachian Basin)	\$	2.02	\$	1.89	\$	1.99	\$	1.81
Other Central Appalachian Basin fields	\$	2.06	\$	2.59	\$	2.63	\$	2.64
Gurnee field (Cahaba Basin) (2)	\$		\$	3.21	\$	3.31	\$	3.05
Black Warrior Basin fields (2)	\$		\$	0.95	\$	1.13	\$	0.89
Depletion (Consolidated)	\$	0.40	\$	0.72	\$	0.45	\$	0.87

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- (2) Average natural gas sales price realized includes the effects of realized gains and losses on derivative contracts.
- (3) On June 14, 2013, the Company closed the sale of all of its coal bed methane properties located in the state of Alabama.

Table of Contents**Results of Operations***Three months ended September 30, 2013 compared with three months ended September 30, 2012*

The following are selected items derived from our Consolidated Statement of Operations (Unaudited) and their percentage changes from the comparable period are presented below.

	Three months ended September 30,		
	2013	2012	Change
	(In thousands)		
Gas sales	\$ 7,392	\$ 9,610	-23%
Lease operating expenses	\$ 2,023	\$ 4,417	-54%
Compression expense	\$ 1,098	\$ 1,167	-6%
Transportation expense	\$ 681	\$ 1,050	-35%
Production taxes	\$ 419	\$ 442	-5%
Depreciation, depletion and amortization	\$ 870	\$ 2,540	-66%
Impairment of gas properties	\$	\$ 25,432	NM
General and administrative	\$ 1,049	\$ 1,097	-4%
Restructuring costs	\$ 6	\$ 188	NM
Realized gains on derivative contracts	\$ (361)	\$ (3,496)	NM
Unrealized (gains) losses from the change in market value of open derivative contracts	\$ (264)	\$ 8,280	NM
Interest expense	\$ 858	\$ 1,514	-43%
Income tax expense	\$ 6	\$ 6	0%
Discontinued operations, net of tax	\$	\$ 26	NM

NM-Not Meaningful

*Gas sales.* Gas sales decreased by \$2.2 million, or 23%, to \$7.4 million compared to the prior year period. Gas sales decreased \$2.9 million due to the sale of our Alabama properties on June 14, 2013 (the Asset Sale), which was offset by a \$0.7 million increase in gas sales resulting from higher natural gas prices in the current year period.

*Lease operating expenses.* Lease operating expenses decreased by \$2.4 million, or 54%, to \$2.0 million compared to the prior year period. Lease operating expenses decreased \$1.5 million due to the Asset Sale, \$0.8 million resulting from the reversal of over-accrued ad valorem taxes paid in August 2013, and \$0.1 million due to natural production declines in the remaining properties.

*Compression expense.* Compression expense decreased by \$0.1 million, or 6%, to \$1.1 million compared to the prior year period due to the Asset Sale.

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*Transportation expense.* Transportation expense decreased by \$0.4 million, or 35%, to \$0.7 million compared to the prior year period. Transportation expense decreased \$0.1 million due to the Asset Sale and \$0.3 million due to contract expirations or renegotiations.

*Production taxes.* Production taxes decreased by \$0.02 million, or 5%, to \$0.42 million compared to the prior year period. Production taxes decreased \$0.16 million due to the Asset Sale, offset by a \$0.14 million increase in production taxes due to the increase over time as our West Virginia exemptions diminish.

*Depreciation, depletion and amortization.* Depreciation, depletion and amortization decreased by \$1.7 million, or 66%, to \$0.9 million compared to the prior year period. This decrease was primarily due to the \$95.7 million in impairments recorded to our gas properties in 2012 and the sale of our Alabama properties on June 14, 2013.

*General and administrative.* General and administrative expense remained flat compared to the prior year period.

*Realized gains on derivative contracts.* Realized gains on derivative contracts were \$0.4 million in the current year period. Realized losses represent net cash flow settlements paid to the contract counterparty, while realized gains represent net cash flow settlements paid to us from the contract counterparty. Realized losses occur when natural gas prices exceed the derivative ceiling prices. Conversely, realized gains occur when natural gas prices go below the derivative floor prices.

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*Unrealized gains from the change in market value of open derivative contracts.* Unrealized gains on open derivative contracts were \$0.3 million in the current year period. Unrealized gains and losses are non-cash transactions that occur when the corresponding asset or liability derivative contracts are marked-to-market at the end of each reporting period.

*Interest expense.* Interest expense decreased by \$0.7 million, or 43%, to \$0.9 million compared to the prior year period. The increase was primarily due to the reduction of outstanding borrowings resulting from the sale of our Alabama properties on June 14, 2013.

*Income tax expense.* The income tax expense in the current year period was different than the amount computed using the statutory rate primarily due to a \$0.7 million reduction of the valuation allowance on our deferred tax asset. A reconciliation of the effective tax rate to the statutory rate for the three months ended September 30, 2013 is as follows:

	<b>Total</b>	
Amount computed using statutory rates	\$ 284,892	34.00%
State income taxes net of federal benefit	7,809	0.93%
Reduction of valuation allowance	(722,406)	-86.21%
Nondeductible items and other	435,955	52.03%
Income tax provision	\$ 6,250	0.75%

### *Nine months ended September 30, 2013 compared with nine months ended September 30, 2012*

The following are selected items derived from our Consolidated Statement of Operations (Unaudited) and their percentage changes from the comparable period are presented below.

	<b>Nine months ended September 30,</b>		<b>Change</b>
	<b>2013</b>	<b>2012</b>	
	<b>(In thousands)</b>		
Gas sales	\$ 30,324	\$ 27,465	10%
Lease operating expenses	\$ 10,615	\$ 13,350	-20%
Compression expense	\$ 3,403	\$ 3,620	-6%
Transportation expense	\$ 2,082	\$ 3,138	-34%
Production taxes	\$ 1,617	\$ 1,276	27%
Depreciation, depletion and amortization	\$ 3,747	\$ 9,460	-60%
Impairment of gas properties	\$	\$ 83,467	NM
General and administrative	\$ 3,456	\$ 3,765	-8%
Realized gains on derivative contracts	\$ (814)	\$ (13,600)	NM
Unrealized losses from the change in market value of open derivative contracts	\$ 1,574	\$ 13,259	NM
Gain on the sale of Properties in Alabama	\$ 36,948	\$	NM
Interest expense	\$ 4,093	\$ 4,058	1%
Income tax expense	\$ 19	\$ 44,037	NM
Discontinued operations, net of tax	\$	\$ 722	NM



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NM-Not Meaningful

*Gas sales.* Gas sales increased by \$2.9 million, or 10%, to \$30.3 million compared to the prior year period. Gas sales increased \$5.0 million resulting from higher natural gas prices in the current year period, offset by a \$2.1 million decrease due to the sale of our Alabama properties on June 14, 2013 (the Asset Sale).

*Lease operating expenses.* Lease operating expenses decreased by \$2.7 million, or 20%, to \$10.6 million compared to the prior year period. Lease operating expenses decreased \$1.8 million due to the Asset Sale, \$0.8 million resulting from the reversal of over-accrued ad valorem taxes paid in August 2013, and \$0.1 million due to natural production declines in the remaining properties.

*Compression expense.* Compression expense decreased by \$0.2 million, or 6%, to \$3.4 million compared to the prior year period due to the Asset Sale.

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*Transportation expense.* Transportation expense decreased by \$1.1 million, or 34%, to \$2.1 million compared to the prior year period. Transportation expense decreased \$0.2 million due to the Asset Sale and \$0.9 million due to contract expirations or renegotiations.

*Production taxes.* Production taxes increased by \$0.3 million, or 27%, to \$1.6 million compared to the prior year period. Production taxes increased by \$0.4 million due to the increase over time as our West Virginia exemptions diminish, offset by a decrease of \$0.1 million due to the Asset Sale.

*Depreciation, depletion and amortization.* Depreciation, depletion and amortization decreased by \$5.7 million, or 60%, to \$3.7 million compared to the prior year period. This decrease was primarily due to the \$95.7 million in impairments recorded to our gas properties in 2012 and the sale of our Alabama properties on June 14, 2013.

*General and administrative.* General and administrative expense decreased by \$0.3 million, or 8%, to \$3.5 million compared to the prior year period. Included in general and administrative expense was a decrease in professional fees, offset by non-recurring executive compensation. In November 2012, the Compensation Committee approved the payment of a contingent bonus in the amount of \$0.4 million to be paid to the named executive officers in connection with the elimination of the borrowing base deficiency that existed under the Company's Credit Agreement.

*Realized gains on derivative contracts.* Realized gains on derivative contracts were \$0.8 million in the current year period which included a \$1.2 million realized loss related to natural gas swap positions terminated in order to prevent the Company from being over-hedged after the closing of the sale of its coalbed methane properties in Alabama. Realized losses represent net cash flow settlements paid to the contract counterparty, while realized gains represent net cash flow settlements paid to us from the contract counterparty. Realized losses occur when natural gas prices exceed the derivative ceiling prices. Conversely, realized gains occur when natural gas prices go below the derivative floor prices.

*Unrealized losses from the change in market value of open derivative contracts.* Unrealized losses on open derivative contracts were \$1.6 million in the current year period. Unrealized gains and losses are non-cash transactions that occur when the corresponding asset or liability derivative contracts are marked-to-market at the end of each reporting period.

*Gain on the sale of Properties in Alabama.* On June 14, 2013, the Company closed the sale of all of its coal bed methane properties located in the state of Alabama, recording a gain on the sale of \$36.9 million, as described in Note 2 Sale of Coalbed Methane Properties in Alabama in the Notes to Consolidated Financial Statements (Unaudited).

*Interest expense.* Interest expense remained flat compared to the prior year period.

*Income tax expense.* The income tax expense in the current year period was different than the amount computed using the statutory rate primarily due to a \$14.2 million reduction of the valuation allowance on our deferred tax asset. A reconciliation of the effective tax rate to the statutory rate for the nine months ended September 30, 2013 is as follows:

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	<b>Total</b>	
Amount computed using statutory rates	\$ 12,738,152	34.00%
State income taxes net of federal benefit	883,815	2.36%
Reduction of valuation allowance	(14,194,949)	-37.89%
Nondeductible items and other	591,732	1.58%
Income tax provision	\$ 18,750	0.05%

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**Liquidity and Capital Resources**

*Cash Flows and Liquidity*

As of September 30, 2013, we had a working capital deficit of \$68.3 million, a retained deficit of \$264.6 million and stockholders' deficit of \$75.0 million. Natural gas prices in 2012 were depressed compared with prices generally prevailing during prior years. Such natural gas prices resulted in significant property impairments, a full valuation of our net deferred tax asset, and a borrowing base deficiency under our Credit Agreement during 2012. Natural gas prices continue to be depressed in 2013 as compared to periods prior to 2012.

Our Credit Agreement matures on April 1, 2014, and there can be no assurances that we will be able to refinance or repay the borrowings under our Credit Agreement before it matures. As a result, on April 2, 2013, all amounts outstanding under our Credit Agreement were re-classified as current. These and other factors raise substantial doubt about our ability to continue as a going concern for the next twelve months. Our ability to continue as a going concern is dependent upon our ability to generate sufficient cash flows and sales proceeds or other sources of capital sufficient to repay or refinance our indebtedness, continue our operations and fund our long-term capital needs.

Cash flows provided by operations for the nine months ended September 30, 2013 were \$7.6 million, down \$6.0 million from the prior year period. The decrease was primarily due to a \$4.1 million decrease in revenues resulting from a decrease in production volumes and \$1.2 million in realized hedging losses related to natural gas swap positions terminated in order to prevent the Company from being over-hedged after the closing of the sale of its coalbed methane properties in Alabama. Cash flows provided by operations of \$7.6 million for the nine months ended September 30, 2013 and the net proceeds from the sale of our Properties in Alabama of \$60.7 million were sufficient to fund net cash used in financing activities of \$65.3 million, consisting almost entirely of repayments of borrowings under our Credit Agreement.

*Credit Agreement*

Under our Credit Agreement, outstanding borrowings may not exceed a borrowing base determined by the lenders. During 2012, the amounts borrowed under our Credit Agreement exceeded the borrowing base. Borrowings under the Credit Agreement at August 8, 2012 totaled \$148.6 million. On August 8, 2012, in connection with the excess of borrowings over the borrowing base, we amended the Credit Agreement to provide for a tranche A loan in the amount of our borrowing base and a tranche B loan in the amount of the excess.

On June 14, 2013, we closed the sale of all of our coal bed methane properties located in the state of Alabama. Simultaneously with the close of the property sale, approximately \$57.0 million was used to repay outstanding borrowings under the Credit Agreement, which eliminated the borrowing base deficiency. After this repayment, borrowings outstanding under the Credit Agreement totaled \$77.0 million. The next scheduled borrowing base determination is expected to occur on or around December 15, 2013 and will be based on the Company's reserves at June 30, 2013.

The Credit Agreement no longer provides for loans to be available on a revolving basis up to the amount of the borrowing base. As a result, the current outstanding loans, once repaid, may not be re-borrowed. All outstanding borrowings under the Credit Agreement are due and payable on

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April 1, 2014. The Credit Agreement provides for interest to accrue at a rate calculated, at our option, at the Adjusted Base Rate plus a margin of 2.00% or the London Interbank Offered Rate (the LIBOR Rate ) plus a margin of 3.00%. Adjusted Base Rate is defined to be the greater of (i) the agent's base rate or (ii) the federal funds rate plus one half of one percent or (iii) the LIBOR Rate plus a margin of 1.00%. All financial covenants were deleted by the Amendment and were replaced with a capital expenditure covenant (a maximum of \$1.5 million in 2012 and \$1.5 million in 2013). As of September 30, 2013, we had \$74.0 million of borrowings outstanding under our Credit Agreement. As of September 30, 2013, the interest rates applied to borrowings were 3.24%.

### *Natural Gas Price Risk and Related Hedging Activities*

The energy markets have historically been volatile, and there can be no assurance that future natural gas prices will not be subject to wide fluctuations. At September 30, 2013, we do not have the ability to enter into natural gas hedges because we do not have the credit capacity with our existing natural gas hedge counterparties.

In an effort to reduce the effects of the volatility of the price of natural gas on our operations, management has 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 limits the downside risk of adverse price movements, it also limits future gains from favorable movements. We entered into hedging transactions, generally for forward periods up to two years or more, which increased the

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probability of achieving our targeted level of cash flows. Our price risk management policy strictly prohibits 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 incur accounting losses on derivatives during periods where prices are rising and gains during periods where prices are falling which may cause significant fluctuations in our Consolidated Balance Sheets (Unaudited) and Consolidated Statements of Operations (Unaudited).

**Commodity Price Risk and Related Hedging Activities**

At September 30, 2013, we had the following natural gas collar positions:

Period	Volume (MMBtu)	Sold Ceiling	Bought Floor	Fair Value
January 2014 through December 2015	3,650,000	\$ 4.30	\$ 3.60	\$(133,860)
January 2014 through December 2015	3,650,000	\$ 4.20	\$ 3.50	\$(368,537)
	7,300,000			\$(502,397)

At September 30, 2013, we had the following natural gas swap positions:

Period	Volume (MMBtu)	Fixed Price	Fair Value
October 2013 through December 2013	552,000	\$ 3.60	2,406
October 2013	248,000	\$ 3.81	77,362
November 2013 through March 2014 (1)	1,208,000	\$ 3.81	60,100
October 2013 through March 2014	1,096,000	\$ 3.82	162,168
	3,104,000		\$ 302,036

(1) On October 2, 2013, the Company terminated the \$3.81 swap position for a total of 1,208,000 MMBtus for the period November 2013 through March 2014 for which the Company received \$60,100.

Giving effect for the swaps terminated on October 2, 2013, we have hedged approximately 73% of our remaining forecasted production for 2013 at a fixed price of \$3.74 per Mcf.

**Capital Expenditures and Capital Resources**

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The following table is a summary of our capital expenditures on an accrual basis by category:

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>Capital expenditures:</b>				
Leasehold acquisition (1)	\$ (8,127)	\$ 83,209	\$ 102,766	\$ 593,368
Development (2)(3)	(223,139)	364,001	154,658	26,022
Asset retirement obligations	103,287		51,779	247,440
Other items (primarily capitalized overhead)		18,723	10,006	226,919
<b>Total capital expenditures</b>	<b>\$ (127,979)</b>	<b>\$ 465,933</b>	<b>\$ 319,209</b>	<b>\$ 1,093,749</b>

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- (1) 2013 includes \$22,794 in leasing expense reimbursements received in August 2013
- (2) 2013 includes a reversal of \$334,177 in accrued capital costs.
- (3) 2012 includes losses on inventory sold less insurance refunds related to our gas properties.

### Contractual Commitments

We have numerous contractual commitments in the ordinary course of business, debt service requirements and operating lease commitments. There has been no material changes in those commitments disclosed in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Contractual Commitments of our 2012 Annual Report on Form 10-K that we filed with the SEC on March 28, 2013.

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**Recent Pronouncements**

In July 2013, the FASB issued ASU No. 2013-10, Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes. The amendments in ASU 2013-10 permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. We are presently assessing the potential impact of ASU 2013-11.

In March 2013, the FASB issued ASU 2013-07, Presentation of Financial Statements (Topic 205): Liquidation Basis of Accounting. The amendments require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. Liquidation is imminent when the likelihood is remote that the entity will return from liquidation and either (a) a plan for liquidation is approved by the person or persons with the authority to make such a plan effective and the likelihood is remote that the execution of the plan will be blocked by other parties or (b) a plan for liquidation is being imposed by other forces (for example, involuntary bankruptcy). If a plan for liquidation was specified in the entity's governing documents from the entity's inception (for example, limited-life entities), the entity should apply the liquidation basis of accounting only if the approved plan for liquidation differs from the plan for liquidation that was specified at the entity's inception. The amendments require financial statements prepared using the liquidation basis of accounting to present relevant information about an entity's expected resources in liquidation by measuring and presenting assets at the amount of the expected cash proceeds from liquidation. The entity should include in its presentation of assets any items it had not previously recognized under U.S. GAAP but that it expects to either sell in liquidation or use in settling liabilities (for example, trademarks). The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after December 15, 2013, and interim reporting periods therein. Entities should apply the requirements prospectively from the day that liquidation becomes imminent. Early adoption is permitted.

In February 2013, the FASB issued ASU No. 2013-04, Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date. ASU 2013-04 provides guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date, except for obligations addressed within existing guidance. The update is effective for interim and annual periods beginning after December 15, 2013 and is required to be applied retrospectively to all prior periods presented for those obligations that existed upon adoption of ASU 2013-04. We are presently assessing the potential impact of ASU 2013-04.

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. The update requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under accounting principles generally accepted in the United States (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments are effective prospectively for reporting periods beginning after December 15, 2012. The Company has adopted and applied the provisions of ASU 2012-02 which did not impact its operating results, financial position or cash flows.

In January 2013, the FASB issued ASU No. 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities. The amendments in this update clarify that the scope of ASU 2011-11 applies to derivatives accounted for in accordance with ASC 815, Derivatives and Hedging, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with ASC 210-20-45 or ASC 815-10-45 or subject to an enforceable



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master netting arrangement or similar agreement. The amendments are effective during interim and annual periods beginning on or after January 1, 2013. The Company has adopted and applied the provisions of ASU 2013-01. See disclosure provided in Note 9 Derivative Instruments and Hedging Activities in the Notes to Consolidated Financial Statements (Unaudited).

### **Environmental Regulations**

Our exploration and production operations are subject to significant federal, state, and local environmental laws and regulations governing environmental protection as well as the discharge of substances into the environment. These laws and regulations may restrict the types, quantities, and concentrations of various substances that can be released into the environment as a result of natural gas drilling, production, and processing activities; suspend, limit or prohibit construction, drilling and other activities in certain lands lying within wilderness, wetlands and other protected areas or that impact protected species; require permits or other governmental authorization before commencing certain activities and require the installation of pollution control measures as a condition of such

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permits or authorizations; require remedial measures to mitigate pollution from historical and on-going operations such as the use of pits and plugging of abandoned wells; and restrict injection of liquids into subsurface strata that may contaminate groundwater. Governmental authorities have the power to enforce compliance with their laws, regulations and permits, and violations are subject to injunctive relief, as well as administrative, civil and even criminal penalties. The effects of these laws and regulations, as well as other laws or regulations that are adopted in the future could have a material adverse impact on our operations.

We believe that we are in substantial compliance with existing applicable environmental laws and regulations. However, it is possible that new environmental laws or regulations or the modification of existing laws or regulations could have a material adverse effect on our operations. As a general matter, the recent trend in environmental legislation and regulation is toward stricter standards, and this trend will likely continue. To date, we have not been required to expend extraordinary resources in order to satisfy existing applicable environmental laws and regulations. However, costs to comply with existing and any new environmental laws and regulations could become material. Moreover, a serious incident of pollution may result in the suspension or cessation of operations in the affected area or in substantial liabilities to third parties. Although we maintain insurance coverage against costs of clean-up operations, no assurance can be given that we are fully insured against all such potential risks. The imposition of any of these liabilities or compliance obligations on us may have a material adverse effect on our financial condition and results of operations.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

*Commodity Price Risk.* Our major commodity price risk exposure is to the prices received for our natural gas production. Realized commodity prices received for our production are the spot prices applicable to natural gas. Prices received for natural gas are volatile and unpredictable and are beyond our control. For the three months ended September 30, 2013, a 10% decrease in the prices received for natural gas production would have decreased our gas revenues by approximately \$0.7 million, which would have been offset by approximately \$0.7 million by increased realized gas hedging gains. For the nine months ended September 30, 2013, a 10% decrease in the prices received for natural gas production would have decreased our gas revenues by approximately \$3.0 million, which would have been offset by approximately \$2.9 million by increased realized gas hedging gains.

*Interest Rate Risk.* We have long-term debt subject to the risk of loss associated with movements in interest rates. As of September 30, 2013, we had \$74.0 million of borrowings outstanding under our Credit Agreement. As of September 30, 2013, the interest rates applied to borrowings were 3.24%. For the three months ended September 30, 2013 and 2012, interest on the borrowings averaged 3.28% and 3.50% per annum, respectively. For the nine months ended September 30, 2013 and 2012, interest on the borrowings averaged 4.03% and 3.12% per annum, respectively. All of the debt outstanding under our Credit Agreement accrues interest at floating or market rates. Fluctuations in market interest rates will cause our interest costs to fluctuate. Based upon the weighted average balance outstanding under our Credit Agreement, a 1% increase in market interest rates would have increased interest expense and negatively impacted our cash flows for the three and nine months ended September 30, 2013 by approximately \$0.2 million and \$0.8 million, respectively.

**Item 4. Controls and Procedures**

*Evaluation of Disclosure Controls and Procedures*

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In accordance with Exchange Act Rules 13a-15(e) and 15d-15(e), we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2013 to provide reasonable assurance that information required to be disclosed in our reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Our disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

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

There were no changes in our internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II. OTHER INFORMATION**

**Item 1. Legal Proceedings**

From time to time we are a party to litigation in the normal course of business. While the outcome of lawsuits or other proceedings against us cannot be predicted with certainty, management does not believe that the adverse effect on our financial condition, results of operations or cash flows, if any, will be material.

**Item 1A. Risk Factors**

There has been the following addition to the risk factors disclosed in the Risk Factors section of our Annual Report on Form 10-K for the year ended December 31, 2012:

***We are highly leveraged, our Credit Agreement matures on April 1, 2014, and no assurances can be made that we will be able to refinance, repay or further extend the maturity date of the Credit Agreement.***

In addition, the Credit Agreement no longer provides for loans to be available on a revolving basis up to the amount of the borrowing base. As a result, the current outstanding loans, once repaid, may not be re-borrowed. Our financial condition, and the current and future conditions in the credit markets, may impact the availability of capital resources required to meet our future financial obligations, or to provide funds for our working capital, capital expenditures and other needs for the foreseeable future. We may not be able to obtain financing on terms satisfactory to us, or at all

***Our financial condition raises substantial doubt as to our ability to continue as a going concern.***

The accompanying consolidated financial statements (unaudited) have been prepared in conformity with accounting principles generally accepted in the United States which contemplate continuation of the Company as a going concern. In the event the assumption of the continuation of the Company as a going concern was no longer appropriate, the Company would implement the liquidation basis of accounting. Under the liquidation basis of accounting, the carrying amounts of assets as of the date of the authorization of a plan for liquidation, would be adjusted to their estimated net realizable values, and liabilities, including the estimated costs associated with implementing a plan for liquidation, would be stated at their estimated settlement amounts. If we become unable to continue as a going concern, we may have to liquidate our assets and the values we receive for our assets in liquidation or dissolution could be significantly lower than the values reflected in our financial statements. Our financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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*On an as-converted basis, our Preferred Stock currently represents approximately 52% of the outstanding shares and therefore would have the ability to control any vote requiring the approval of our shareholders and may take actions that conflict with the interests of the other stockholders.*

The interests of the holders of Preferred Stock could conflict with your interests as a holder of Company Common Stock. For example, the holders of Preferred Stock may have an interest in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to you, as minority holders of the Company, including a vote to approve a sale transaction and any subsequent merger or liquidation as discussed in Management's Discussion and Analysis of Financial Condition and Results of Operations Overview .

### **Item 6. Exhibits**

The information required by this Item 6 is set forth in the Index to Exhibits accompanying this quarterly report on Form 10-Q.

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**GeoMet, Inc.**

Date: November 14, 2013

By

/S/ TONY OVIEDO  
**Tony Oviedo, Senior Vice President, Chief Financial  
Officer,  
Chief Accounting Officer and Controller  
(Principal Financial Officer)**

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**INDEX TO EXHIBITS**

<b>Exhibit Number</b>	<b>Exhibits</b>
3.1	Amended and Restated Certificate of Incorporation of GeoMet, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed on July 25, 2006 (Registration No. 333-131716)).
3.2	Certificate of Designations of Series A Convertible Redeemable Preferred Stock, par value \$0.001 per share, of GeoMet, Inc. (incorporated herein by reference to Appendix B to the Company's Definitive Proxy Statement on Schedule 14A filed on June 24, 2010).
3.3	Certificate of Amendment to the Certificate of Designations of Series A Convertible Redeemable Preferred Stock, par value \$0.001 per share, of GeoMet, Inc. (incorporated herein by reference to Exhibit 3.1 to the Company's Form 8-K filed on December 28, 2010).
3.4	Amended and Restated Bylaws of GeoMet, Inc. (Adopted as of September 14, 2010) (incorporated herein by reference to Exhibit 3.1 of the Company's Form 8-K filed on September 20, 2010).
31.1*	Certification of the Company's Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 7241).
31.2*	Certification of the Company's Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 7241).
32*	Certification of the Company's Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350).
101**	Interactive Data Files.

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\* Attached hereto.

\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability.