GeoMet, Inc.
Form 424B3
August 15, 2007
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Filed pursuant to Rule 424(b)(3)
Registration Statement No. 333-131716

PROSPECTUS SUPPLEMENT NO. 9

to prospectus dated July 27, 2006, as amended on April 9, 2007

10,250,000 Shares

Common Stock

The following information supplements the prospectus dated July 27, 2006, as amended on April 9, 2007, relating to the offer and sale by the selling stockholders identified in the prospectus of up to 10,250,000 shares of our common stock. This prospectus supplement includes our Quarterly Report on Form 10-Q and Current Report on Form 8-K, which were filed with the U.S. Securities and Exchange Commission on August 13, 2007 and August 15, 2007, respectively.

The information contained in such report is dated as of the date of such report. This prospectus supplement should be read in conjunction with the prospectus dated July 27, 2006, as amended on April 9, 2007, and prior prospectus supplements, which are to be delivered with this prospectus supplement. This prospectus supplement is qualified by reference to the prospectus except to the extent that the information in this prospectus supplement updates and supersedes the information contained in the prospectus dated July 27, 2006, as amended on April 9, 2007, including any supplements or amendments thereto.

Investing in the shares involves risks and uncertainties. See Risk Factors beginning on page 10 of the prospectus dated July 27, 2006, as amended on April 9, 2007, and the risk factors included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus supplement is August 15, 2007.

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2007

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 000-52155

GeoMet, Inc.

(Exact name of registrant as specified in its charter)

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

909 Fannin, Suite 1850

Houston, Texas 77010

(713) 659-3855

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

N/A

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

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

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

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

As of August 1, 2007 there were 38,873,454 shares issued and outstanding of GeoMet, Inc. s common stock, par value $0.001 per share.

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Item 1. Financial Statements

GEOMET, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

	June 30, 2007	December 31, 2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,837,721	$ 1,414,476
Accounts receivable	8,546,391	10,881,479
Current portion of notes receivable	85,151	81,181
Derivative asset	2,681,578	4,290,599
Other current assets	191,581	648,053
Total current assets	14,342,422	17,315,788
Gas properties utilizing the full cost method of accounting:		
Proved gas properties	342,976,546	310,011,154
Unevaluated gas properties, not subject to amortization	25,183,826	26,397,982
Other property and equipment	2,499,633	2,314,190
Total property and equipment	370,660,005	338,723,326
Less accumulated depreciation, depletion, and amortization	(27,242,634)	(22,849,903)
Property and equipment net	343,417,371	315,873,423
Other noncurrent assets:		
Note receivable	285,530	298,936
Derivative asset		1,043,108
Other	669,976	663,511
Total other noncurrent assets	955,506	2,005,555
TOTAL ASSETS	$ 358,715,299	$ 335,194,766
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 11,278,439	$ 14,284,921
Accrued liabilities	3,478,814	2,917,575
Deferred income taxes	944,838	1,570,684
Asset retirement liability	77,837	73,047
Current portion of long-term debt	61,512	94,177
Total current liabilities	15,841,440	18,940,404
Long-term debt	81,300,510	60,832,110
Asset retirement liability	2,735,564	2,480,754

Other long-term accrued liabilities	154,762	154,455
Derivative liability	61,100	
Deferred income taxes	44,896,412	42,779,537
TOTAL LIABILITIES	144,989,788	125,187,260
Commitments and contingencies (Note 10)		
Stockholders Equity:		
Preferred stock, $0.001 par value authorized 10,000,000, none issued		
Common stock, $0.001 par value authorized 125,000,000 shares; issued and outstanding 38,873,454 and 38,678,713 at June 30, 2007 and December 31, 2006, respectively	38,873	38,679
Paid-in capital	187,181,828	186,852,852
Accumulated other comprehensive income (loss)	1,172,172	(193,888)
Retained earnings	25,712,921	23,740,144
Less notes receivable	(380,283)	(430,281)
TOTAL STOCKHOLDERS EQUITY	213,725,511	210,007,506
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 358,715,299	$ 335,194,766

See accompanying Notes to Consolidated Financial Statements.

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GEOMET, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenues:				
Gas sales	$ 13,438,859	$ 10,139,536	$ 25,287,061	$ 22,450,945
Gas marketing	8,901,311		17,443,797	
Operating fees and other	324,247		616,000	
Total revenues	22,664,417	10,139,536	43,346,858	22,450,945
Expenses:				
Purchased gas	8,795,737		17,228,056	
Lease operating expense	3,424,409	2,832,789	6,793,644	5,673,653
Compression and transportation expense	1,355,148	1,055,148	2,867,566	2,131,638
Production taxes	317,368	236,193	597,681	504,937
Depreciation, depletion and amortization	2,265,451	1,746,481	4,340,774	3,580,486
Research and development		29,137		98,392
General and administrative	2,227,424	1,436,024	4,503,688	2,455,580
Realized (gains) losses on derivative contracts	(50,404)	(439,368)	(1,296,530)	156,204
Unrealized (gains) losses on derivative contracts	(1,860,987)	(1,371,124)	2,713,229	(10,444,656)
Total operating expenses	16,474,146	5,525,280	37,748,108	4,156,234
Income from operations	6,190,271	4,614,256	5,598,750	18,294,711
Other income (expense):				
Interest income	18,124	7,319	25,097	18,213
Interest expense (net of amounts capitalized)	(1,260,412)	(765,765)	(2,135,417)	(1,629,139)
Other	4,045	31,645	(24,623)	18,268
Total other income (expense)	(1,238,243)	(726,801))	(2,134,943)	(1,592,658)
Income before income taxes	4,952,028	3,887,455	3,463,807	16,702,053
Income tax expense	1,953,387	1,596,236	1,491,029	7,247,736
Net income	$ 2,998,641	$ 2,291,219	$ 1,972,778	$ 9,454,317
Other comprehensive income, net of income taxes				
Foreign currency translation adjustment, net of income tax of $0	1,460,022	264,703	1,366,060	239,653
Comprehensive Income	$ 4,458,663	$ 2,555,922	$ 3,338,838	$ 9,693,970
Net income per common share:				
Basic	$ 0.08	$ 0.07	$ 0.05	$ 0.29
Diluted	$ 0.08	$ 0.07	$ 0.05	$ 0.28

Weighted average number of common shares:				
Basic	38,710,319	32,711,133	38,704,051	32,212,497
Diluted	39,400,890	33,702,095	39,385,935	33,296,767

See accompanying Notes to Consolidated Financial Statements.

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GEOMET, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Six Months Ended June 30, 2007	2006
Cash flows provided by operating activities:		
Net income	$ 1,972,778	$ 9,454,317
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	4,427,660	3,350,182
Amortization of debt issuance costs	69,922	64,556
Deferred income taxes	1,491,029	7,492,460
Unrealized losses (gains) from the change in market value of open derivative contracts	2,713,229	(10,444,656)
Stock-based compensation	163,024	197,672
Gain on sale of assets	(15,954)	(19,689)
Accretion expense	103,036	75,665
Changes in operating assets and liabilities:		
Accounts receivable	2,379,534	1,763,501
Other current assets	456,473	120,722
Accounts payable	(3,503,299)	4,354,216
Other accrued liabilities	561,546	85,913
Net cash provided by operating activities	10,818,978	16,494,859
Cash flows used in investing activities:		
Capital expenditures	(29,951,279)	(34,569,868)
Proceeds from sale of other property and equipment	22,159	112,026
Collection of notes receivable	9,435	297,942
Other assets	(76,003)	(348,426)
Net cash used in investing activities	(29,995,688)	(34,508,326)
Cash flows provided by financing activities:		
Debt issuance costs		(262,644)
Treasury stock	(4,382)	
Proceeds from exercise of stock options	140,696	858,469
Equity offering costs		(1,309,862)
Proceeds from sales of common stock		28,012,809
Credit facility borrowings	20,500,000	41,750,000
Proceeds from notes receivable and accrued interest		17,184,357
Payments on other debt	(64,264)	(67,809,110)
Net cash provided by financing activities	20,572,050	18,424,019
Effect of exchange rate changes on cash	27,905	(43,394)
Increase in cash and cash equivalents	1,423,245	367,158
Cash and cash equivalents at beginning of period	1,414,476	615,806
Cash and cash equivalents at end of period	$ 2,837,721	$ 982,964

See accompanying Notes to Consolidated Financial Statements.

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GEOMET, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Organization and Our Business

GeoMet, Inc. (GeoMet) (formerly GeoMet Resources, Inc.) was incorporated under the laws of the state of Delaware on November 9, 2000. We are an independent natural gas producer involved in the exploration, development and production of natural gas from coal seams (coal bed methane). Our principal operations and producing properties are located in Alabama, West Virginia, and Virginia. We operate in two segments, natural gas exploration, development and production, exclusively within the continental United States and British Columbia and gas marketing in the United States.

The accompanying unaudited consolidated financial statements include our accounts and those of our wholly owned subsidiaries. All significant 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 financial statements have been prepared in accordance with the guidelines of interim reporting; therefore, they do not include all disclosures required for year-end financial statements prepared in conformity with accounting principles generally accepted in the United States of America. 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 financial statements for the fiscal year ended December 31, 2006 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 20, 2007.

On January 1, 2007, we exercised our purchase option and acquired 100% of Shamrock Energy LLC, our gas marketing subsidiary. In return, we provided Jon M. Gipson, the former owner of Shamrock, an at-will employment position with us. Also, pursuant to the terms of our purchase option, on March 9, 2007, we caused Shamrock to distribute to Mr. Gipson approximately $22,500, which equals 50% of the net profits generated by Shamrock from August 1, 2006 through January 1, 2007. This amount was accrued at December 31, 2006 as a dividend payable to Mr. Gipson. No additional consideration was paid as a result of our exercise of this purchase option. Over 99% of the net assets acquired were current, approximated their fair value and were equal to zero. Shamrock Energy LLC is a low margin business and as a result it does not have a significant impact on our results of operations. The acquisition was accounted for as a purchase in accordance with SFAS No. 141, Business Combinations, whereby the purchase price of the net assets acquired was allocated to those net assets based on their fair value. Goodwill was not recorded because the purchase price approximated the fair value of the net assets acquired.

Note 2 Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation Number (FIN) 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, Accounting for Income Taxes*. This interpretation addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under FIN 48, we may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position should be measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate settlement. FIN 48 also provides guidance on derecognition, classification, interest and penalties on income taxes, accounting in interim periods and requires increased disclosures. We adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, we identified $269,900 of unrecognized tax benefits, largely related to depletion methods used in years prior to 2006 from net deferred tax assets. There was no cumulative effect adjustment to retained earnings, our financial condition or results of operations as a result of implementing FIN 48. For additional information see Note 12.

In September 2006, the FASB issued FASB Statement No. 157, *Fair Value Measurements* (FASB 157). FASB 157 establishes a single authoritative definition of fair values sets out a framework for measuring fair values and requires additional disclosures about fair value measurements. FASB 157 applies only to fair value measurements that are already required or permitted by other accounting standards. FASB 157 is effective for fiscal years beginning after November 15, 2007. We do not expect FASB 157 to have a material impact on our consolidated financial position or results of operations upon adoption.

On February 15, 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB 115, (FASB 159). This standard permits an entity to measure financial instruments and certain other items at estimated fair value. Most of the provisions of FASB 159 are elective;

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however, the amendment to FASB 115, Accounting for Certain Investments in Debt and Equity Securities, applies to all entities that own trading and available-for-sale securities. The fair value option created by FASB 159 permits an entity to measure eligible items at fair value as of specified election dates. The fair value option (a) may generally be applied instrument by instrument, (b) is irrevocable unless a new election date occurs, and (c) must be applied to the entire instrument and not to only a portion of the instrument. FASB 159 is effective as of the beginning of the first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided that the entity (i) makes that choice in the first 120 days of that year, (ii) has not yet issued financial statements for any interim period of such year, and (iii) elects to apply the provisions of FASB 157, Fair Value Measurements. Management is currently evaluating the impact of FASB 159, if any, on our financial statements.

Note 3 Net Income Per Share

Net Income Per Share of Common Stock Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. No dilution for any potentially dilutive securities is included. Fully diluted earnings per share assumes the conversion of all potentially dilutive securities and is calculated by dividing net income by the sum of the weighted average number of shares of common stock outstanding plus potentially dilutive securities. Dilutive earnings per share consider 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 the numerator and denominator is as follows:

	Three Months Ended		Six Months Ended	
	June 30,			
	2007	2006	2007	2006
Net income per share:				
Basic-net income per share	$ 0.08	$ 0.07	$ 0.05	$ 0.29
Diluted-net income per share	$ 0.08	$ 0.07	$ 0.05	$ 0.28
Numerator				
Net income available to common stockholders basic	$ 2,998,641	$ 2,291,219	$ 1,972,778	$ 9,454,317
Denominator:				
Weighted average shares outstanding-basic	38,710,319	32,711,133	38,704,051	32,212,497
Add potentially dilutive securities:				
Stock options and restricted stock	690,571	990,962	681,884	1,084,270
Weighted average shares and potential dilutive shares outstanding	39,400,890	33,702,095	39,385,935	33,296,767

Note 4 Gas Properties

We use the full cost method of accounting for our investment in gas properties. Under this method of accounting, all costs of acquisition, exploration and development of gas reserves (including such costs as leasehold acquisition costs, geological expenditures, dry hole costs related to unsuccessful projects, tangible and intangible development costs) are included in the full cost pool. In addition, we capitalize interest expense, and direct general and administrative expenses. Also under full cost accounting rules, total net capitalized costs are limited to a ceiling equal to the present value of future net revenues, discounted at 10% per annum, 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 of our full cost pool exceeds the ceiling limitation using natural gas prices in effect as of the balance sheet date as adjusted for basis or location differential, held constant over the life of the reserves. To the extent that capitalized costs of gas properties, net of accumulated depreciation, depletion and amortization and income taxes, exceed the ceiling limitation, such excess capitalized costs would be charged to results of operations. During the six months ended June 30, 2007 there were no charges to results of operations due to the ceiling limitation. We also perform a quarterly impairment test on our unevaluated properties. During the six months ended June 30, 2007, we recorded an impairment of $4.2 million related to certain prospects located in North Central Louisiana and such impairment was added to our full cost pool.

Note 5 Asset Retirement Liability

We record an asset retirement obligation (ARO) on the consolidated balance sheet 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.

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The following table details the changes to our asset retirement liability for the six months ended June 30, 2007:

Asset retirement obligation at beginning of year	$ 2,553,801
Liabilities incurred	124,068
Liabilities settled	
Accretion	118,272
Revisions in estimates	(19)
Foreign currency translation	17,279
Asset retirement obligation at end of period	2,813 401
Less: current portion of obligation	77,837
Long-term asset retirement obligation	$ 2,735,564

Note 6 Price Risk Management Activities

We engage in price risk management activities from time to time. These activities are designed to manage our exposure to fluctuations in the price of natural gas. We utilize derivative financial instruments, primarily three-way collars, traditional collars and swaps, as the means to manage this price risk. Under the collar arrangements, if the index price rises above the ceiling price, we pay the counterparty the difference between the index price and the ceiling price. If the index price falls below the floor price, the counterparty pays us the difference between the index price and the floor price.

We account for our derivative contracts as accounting hedges using mark-to-market accounting under FASB 133, *Accounting for Derivative Instruments and Hedging Activities.* During the three and six months ended June 30, 2007, we recognized gains of $1.9 million and losses of $1.4 million including realized gains of $50,404 and $1.3 million, respectively. During the three and six months ended June 30, 2006, we recognized gains on derivative contracts of $1.8 million and $10.3 million including realized gains of $439,368 and losses of $156,204, respectively.

At June 30, 2007 and at December 31, 2006, the fair values of open net derivative contracts assets were approximately $2.6 and $5.3 million, respectively.

As of June 30, 2007, the following natural gas derivative contracts were outstanding with prices expressed in dollars per million British thermal units ($/MMBtu) and notional volumes in million British thermal units. For our natural gas derivative contracts, summer months apply to April through October and winter months apply to November through March.

			Collars	
Instrument Type	**Production Period**	**Volumes (MMBtu)**	**Weighted Average Floor Prices ($/MMBtu)**	**Weighted Average Cap Prices ($/MMBtu)**
Collars (3 way)	July-October 2007	984,000	$ 5.75-$7.38	$ 10.50
Collars (3 way)	Winter 2007/2008	1,216,000	$ 6.00-$9.00	$ 14.80
Collars (3 way)	Summer 2008	1,712,000	$ 5.00-$7.00	$ 10.50
Traditional Collars	July-October 2007	492,000	$ 7.50	$ 9.75
Traditional Collars	Winter 2007/2008	608,000	$ 8.25	$ 11.25

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Note 7 Long-Term Debt

The following is a summary of our long-term debt at June 30, 2007 and December 31, 2006:

	June 30, 2007	December 31, 2006
Borrowings under bank credit facility	$ 80,500,000	$ 60,000,000
Note payable to a third party, annual installments of $53,000 through January 2011, interest-bearing at 8.25% annually, unsecured	174,570	210,227
Note payable to an individual, semi-monthly installments of $644, through September 2015, interest-bearing at 12.6% annually, unsecured	133,820	138,308
Salary continuation payable to an individual, semi-monthly installments of $3,958, through December 2015, non-interest-bearing (less amortization discount of $572,074, with an effective rate of 8.25%), unsecured	553,632	577,752
Total debt	81,362,022	60,926,287
Less current maturities included in current liabilities	(61,512)	(94,177)
Total long-term debt	$ 81,300,510	$ 60,832,110

We initially entered into a bank credit facility in December 2001. In January 2006, we amended and restated the bank credit facility and, among other things, extended the maturity date to January 6, 2011. In June 2006, the revolving credit facility was amended and restated and increased to $180 million and the borrowing base was increased to $150 million. Pursuant to the amended credit agreement, we have a $180 million revolving credit facility that permits us to borrow amounts from time to time based on the available borrowing base as determined in the credit agreement. The bank credit facility is secured by substantially all of our gas properties and the capital stock of our subsidiaries. The borrowing base under the bank credit facility is based upon the valuation of our gas properties as of June 30 and December 31 of each year and other factors deemed relevant by the lenders, including Bank of America as agent. The lenders may also request one additional borrowing base re-determination in any fiscal year.

As of June 30, 2007, we had $80.5 million of borrowings outstanding under our credit facility, resulting in a borrowing availability of $69.5 million under our $150 million borrowing base. For the six months ended June 30, 2007 we borrowed $44.5 million and made payments of $24 million under the credit facility. As of June 30, 2007 the outstanding balances on the revolving credit facility bear interest at either the bank s adjusted base rate, which is the bank s base rate of at least the Federal Funds Rate plus 0.5%, or the adjusted LIBOR rate, plus a margin of 1.00% to 2.00%, based on borrowing base usage.

We are subject to certain restrictive financial and non-financial covenants under the credit agreement, including a minimum current ratio of 1.0 to 1.0, and a maximum rate of EBITDA to interest expense of 2.75 to 1.0, both as defined in the credit agreement. As of June 30, 2007, we were in compliance with all of the covenants in the credit agreement.

Note 8 Common Stock

Effective January 24, 2006, our board of directors approved a four-for-one common stock split and increased our authorized capital stock from 40,000,000 shares of common stock to 135,000,000 shares of capital stock, consisting of 125,000,000 shares of common stock and 10,000,000 shares of preferred stock. Prior periods have been adjusted for the stock split.

On January 30, 2006 and February 7, 2006, we completed private equity offerings of an aggregate 10,250,000 shares of our common stock, consisting of 2,317,023 shares issued by us and 7,932,977 shares sold by certain of our existing stockholders, to qualified institutional buyers exempt from registration under the Securities Act. We received aggregate consideration of approximately $28.0 million, or $12.09 per share. We did not receive any proceeds from the shares sold by certain of our existing stockholders. In addition, we received approximately $17.5 million from certain of the selling stockholders for repayment of loans from us, including accrued and unpaid interest thereon. We used the net proceeds from this private equity offering, together with the proceeds from the repayment of certain of the selling stockholders loans, to repay a portion of the borrowings under our bank credit facility and for general corporate purposes.

On July 27, 2006, we registered for re-sale with the SEC the 10,250,000 shares of common stock issued in the private equity offering discussed above. Also on July 27, 2006, we sold 5,750,000 shares of our common stock under an underwritten initial public offering. Our initial public offering closed on August 2, 2006, and the price per share was $10.00. We received net proceeds of approximately $52.6 million from our initial public offering, after deducting estimated offering expenses and underwriting discounts and commissions. We used the net proceeds from the initial public offering to reduce outstanding borrowings under our bank credit facility.

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For the six months ended June 30, 2007, we issued a total of 37,305 shares of common stock upon the exercise of stock options and 157,436 shares of restricted stock.

Note 9 Share-Based Awards

Prior to January 1, 2006, stock-based employee compensation was accounted for under the intrinsic value method of Accounting Principles Bulletin No. 25, *Accounting for Stock Issued to Employees* (APB 25). The exercise price of the options granted was equal to the estimated market value of our common stock at grant date, and therefore, no compensation costs have been recognized. We used the income method on a semi-annual basis to estimate the market value of our common stock at grant date.

Effective January 1, 2006, we adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*, using the prospective transition method. For share-based awards outstanding as of January 1, 2006, we will continue using the accounting principles originally applied to those awards before adoption. Therefore, we will not recognize any equity compensation cost on these prior awards in the future unless such awards are modified, repurchased or cancelled.

As of June 30, 2007, we have two stock-based award plans authorized, our 2005 Stock Option Plan and our 2006 Long-Term Incentive Plan. However, we will not grant any additional awards under our 2005 Stock Option Plan now that we have adopted the 2006 Long-Term Incentive Plan, but we will continue to issue shares of our common stock upon exercise of awards that were previously granted under the 2005 Stock Option Plan.

Our 2006 Long-Term Incentive Plan authorized the granting of incentive stock options, non-qualified stock options, stock appreciation rights, stock awards, restricted stock, restricted stock units and performance awards. The maximum number of shares available for grant under this plan is 2,000,000. The 2006 Long-Term Incentive Plan is available to our employees and independent directors and is designed to attract and retain employees and independent directors, to further align the interest of our employees and directors interests with the interests of our stockholders, and to closely link compensation with our performance. Generally, the exercise price of a stock option 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, vest evenly over three years, except for awards that are performance based and options issued to directors. Performance based awards granted under the 2006 Long-Term Incentive Plan vest once the performance criterion has been met. Options issued to our directors vest immediately.

In March 2007, we granted 168,975 share-based stock option awards and in June 2007 we granted 138,000 restricted stock awards to certain of our non-executive employees with time vesting criteria. During the six months ended June 30, 2007, we recorded a compensation accrual of $242,853, which was allocated among general and administrative expenses ($152,808), lease operating expenses ($10,216), and gas properties ($79,829). The future compensation cost of all the outstanding awards is $1,945,607 and will be amortized over the vesting period of such stock options and restricted stock. Our four executive officers and two other officers did not receive any of these awards.

In April and May 2006, we granted 224,810 share-based stock option awards to certain of our employees, our executives and our independent directors. Also in April 2006, we granted 12,249 performance based restricted stock awards to our executives.

During the six months ended June 30, 2006, we recorded a compensation expense accrual of $326,224, which was allocated among lease operating expenses ($105,003), general and administrative expenses ($92,669), domestic full cost pool ($119,029) and capitalized to unevaluated gas properties ($9,523).

Significant assumptions used in determining the compensation costs included a dividend yield of 0%, expected volatility of 38.05%, risk-free interest rate of 4.43%, an expected term of 4.5 years, and a forfeiture rate of 1.5%. The forfeiture rate was changed to 10% for the second quarter.

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Incentive Stock Options

The table below summarizes incentive stock option activity for the six months ended June 30, 2007:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2006	572,838	$ 6.32	4.26	
Granted	168,975	$ 8.30	6.50	
Forfeited	20,078	$ 10.03		
Exercised	37,305	$ 3.77		
Outstanding at June 30, 2007	684,430	$ 6.84	4.44	$ 1,487,244
Options exercisable at June 30, 2007	377,965	$ 4.44	2.98	$ 1,486,649

The total intrinsic value (market price less option price) of the incentive stock options exercised during the six months ended June 30, 2007 was $193,640, and we received $140,696 in cash from the exercise of the incentive qualified stock options. The total intrinsic value (market price less option price) of incentive stock options exercised during the six months ended June 30, 2006 was $3.8 million, and we received $0.4 million in cash.

Non-Qualified Stock Options

The table below summarizes non-qualified stock option activity for the six months ended June 30, 2007:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2006	1,113,865	$ 3.20	6.15	
Granted				
Forfeited				
Exercised		$		
Outstanding at June 30, 2007	1,113,865	$ 3.20	5.65	$ 5,366,400
Options exercisable at June 30, 2007	1,048,000	$ 2.60	5.66	$ 5,366,400

No non-qualified stock options were exercised or granted during the six months ended June 30, 2007. The total intrinsic value (current market price less option strike price) of non-qualified stock options exercised during the six months ended June 30, 2006 was $1.7 million, and we received $0.4 million in cash.

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Restricted Stock Awards

The table below summarizes non-vested restricted stock awards activity for the six months ended June 30, 2007:

	Non-Vested Restricted Stock Awards
Non-vested restricted stock at December 31, 2006	21,436
Granted	138,000
Forfeited	2,000
Vested	
Non-vested restricted stock at June 30, 2007	157,436

In June 2007, we granted 138,000 restricted stock awards to non-executive employees. The restricted stock awards are subject to performance-based vesting for our executive officers and two other officers and time-based vesting for non-executive employees. The restricted stock awards will vest as a result of a triggering event such as a corporate change of control or merger. The fair value of the restricted stock awards at June 30, 2007 is approximately $1,205,959. In April 2006, we granted 12,249 performance based restricted stock awards to our executive officers and two other officers.

Note 10 Commitments and Contingencies

Litigation 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, our results of operations or cash flows, if any, will be material except for the litigation discussed below. As of June 30, 2007, there were no known environmental or other regulatory matters related to our operations that are reasonably expected to result in a material liability.

CNX Surface Use Dispute

We have completed the construction of the 12-mile Pond Creek gathering line, a portion of which traverses a right-of-way granted by Pocahontas Mining Limited Liability Company (PMC). The Pond Creek gathering line connects with and transports our gas production from the Pond Creek field to the Jewell Ridge Pipeline. CNX Gas Company LLC (CNX), the lessee of certain minerals underlying the PMC property, has claimed that it has the exclusive right to transport gas across the PMC property and that our right-of-way is invalid. We, along with PMC, filed a complaint in the Circuit Court of Buchanan County, Virginia on May 26, 2006 against CNX seeking a temporary and permanent injunction, as well as a declaration of our rights under the right-of-way agreement that we entered into with PMC, the surface owner. On June 30, 2006, CNX filed a counterclaim against PMC and us seeking a declaratory judgment from the court that CNX has superior rights to our rights to the surface of the PMC property and that CNX has the exclusive right to construct pipelines, transport gas, and use roads on the PMC property. On May 23, 2007, the Circuit Court of Buchanan County, Virginia issued an interlocutory order declaring that the lease between CNX and PMC also included the exclusive right of CNX to transport gas across the PMC property and enjoined us from transporting gas through the Pond Creek gathering line over the PMC property.

On June 20, 2007, the Virginia Supreme Court vacated the injunctive portion of the order, allowing us to continue to transport gas through the Pond Creek gathering line. On July 30, 2007, we filed our petition for appeal of the portion of the order which held that CNX has the exclusive right to build a pipeline and transport gas across the PMC property. We believe that our right-of-way agreement across the PMC property is valid and enforceable and that we will ultimately prevail in this case.

On January 19, 2007 CNX obtained a temporary injunction against our construction of the same 12-mile pipeline across 1,450 feet of a 32-acre tract in Tazewell County, Virginia. The tract of land in dispute has been owned by a large number of extended family members, from whom we have obtained approximately 81% control of the tract, either through purchases of undivided surface interests in the tract or by entering into surface use and right-of-way easement agreements. During our pipeline construction process, CNX purchased a minority undivided surface interest in the property and filed a lawsuit seeking to enjoin the construction of our Pond Creek gathering line across the tract. On February 16, 2007, the Virginia Supreme Court vacated the temporary injunction, which allowed us to complete construction of our Pond Creek gathering line across the 32-acre tract. Both we and CNX have filed complaints to partition the 32-acre tract, and we believe that we will obtain full ownership of the portion of the tract that our Pond Creek gathering line traverses.

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Our Pond Creek gathering line is connected to the Jewell Ridge Pipeline and is fully operational. In the event we are unsuccessful in obtaining favorable judgments in the CNX surface disputes, we will be required to seek alternative ways to transport our gas to market. Even assuming such alternatives are available, we may be unable to deliver our gas from the Pond Creek field to market for an extended period of time.

CNX Antitrust Action

We filed a complaint against CNX and Island Creek Coal Company, an affiliate of CNX (Island Creek), in the Circuit Court of Tazewell County, Virginia on February 14, 2007, seeking damages arising from alleged violations of the Virginia Antitrust Act, tortious interference with contractual relations with third parties, and statutory and common law conspiracy. The suit seeks $561 million for compensatory and consequential damages for alleged violations of the Virginia Antitrust Act, including alleged anticompetitive efforts of CNX to dominate and maintain its control over the market for the production and transportation of coalbed methane gas from the Oakwood Field in Buchanan County, Virginia and for CNX s alleged efforts to conspire and act in concert with Island Creek and others to dominate and maintain control over the market for the production and transportation of coalbed methane gas from the Oakwood Field in violation of the Virginia Antitrust Act and Virginia statutory and common law. The suit also alleges CNX s intentional interference with our existing and prospective third-party business relationships in efforts to harm us and improve CNX s position and corporate and financial interests. We seek to have any damages awarded for alleged violations of the Virginia Antitrust Act tripled under Virginia statutes permitting a court to award treble damages, as well as injunctive relief to prevent CNX and other parties from continuing these alleged anticompetitive activities.

El Paso Overriding Royalty Interest Dispute

We filed a claim in the 116th District Court of Dallas County, Texas on June 9, 2004 against El Paso Production Company, CMV Joint Venture and CDX Minerals, LLC seeking a declaratory judgment of our rights under a joint operating agreement covering certain properties in the White Oak Creek field in Alabama. We had previously entered into an agreement to sell our interests in the field to CDX, subject to a preferential right to purchase held by El Paso, which El Paso subsequently exercised. A dispute arose as to whether the preferential right granted under the agreement applied to overriding royalty interests and other related interests. We have asserted that the preferential right to purchase does not include overriding royalty interests, and that we are entitled to retain all overriding royalty interests we own in the field. The trial court rendered judgment in our favor, and El Paso appealed the decision of the trial court. The appellate court reversed the trial court s decision in favor of El Paso and remanded the case to the trial court to determine whether El Paso is entitled to specific performance and damages (lost royalties). On August 3, 2007, our petition for a rehearing with the appellate court was denied. We are considering additional options including further appeals. To date, El Paso has not paid us the allocated purchase price for the overriding royalties of approximately $10.5 million. We have received royalty payments from the disputed overriding royalty interests of approximately $9.2 million since April 2004. We do not expect the outcome of this dispute to have a material economic effect on our operations, as the economic value of the override is not materially different from its purchase price.

Note 11 Segment Information

We are engaged in the exploration, development and production of natural gas from coal seams (coal bed methane) primarily in the United States and Canada. Our acquisition of Shamrock Energy LLC on January 1, 2007 (see Note 1) created a gas marketing activity that added a second reportable segment to our core business of natural gas exploration, development and production. Prior to January 1, 2007, we consolidated Shamrock Energy LLC as a variable interest entity under FIN 46 (R) from August 1, 2006 to December 31, 2006. From January 1, 2006 through July 31, 2006, we sold substantially all of our gas production to Shamrock Energy LLC as a third party customer.

Using guidelines set forth in FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, we have identified two reportable segments; (i) exploration, development and production of natural gas and (ii) marketing natural gas.

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Information concerning our business activities is summarized as follows:

	Natural Gas Exploration & Production	Marketing Natural Gas	Eliminations	Total
As of and for the three months ended June 30, 2007:				
Revenues from external customers	$ 13,763,106	$ 8,901,311	$	$ 22,664,417
Intersegment revenues	$ 13,147,106	$	$ (13,147,106)	$
Operating income (loss)	$ 6,203,472	$ (13,201)	$	