GeoMet, Inc.
Form S-1
February 10, 2006

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As filed with the Securities and Exchange Commission on February 10, 2006

Registration No. 333-

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

GeoMet, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**1311**	**76-0662382**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

909 Fannin, Suite 3208

Houston, TX 77010

(713) 659-3855

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

J. Darby Seré

President and Chief Executive Officer

GeoMet Inc.

909 Fannin, Suite 3208

Houston, TX 77010

(713) 659-3855

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Dallas Parker

William T. Heller IV

Thompson & Knight LLP

333 Clay Street, Suite 3300

Houston, TX 77002

(713) 654-8111

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement is declared effective.

If any securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act), check the following box. x

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

CALCULATION OF REGISTRATION FEE

Title of each class of Securities to be registered	Amount to be registered	Proposed maximum offering price per share(1)	Proposed maximum aggregate offering price(1)	Amount of registration fee
Common stock, par value $0.001 per share	10,250,000	$13.00	$133,250,000	$14,258

(1) Estimated solely for the purpose of calculating the registration fee under Rule 457(c) under the Securities Act. No exchange or over-the-counter-market exists for registrant s common stock; however, shares of the registrant s common stock issued to qualified institutional buyers in connection with its January and February 2006 private equity placements are eligible for the PORTAL Market®. There is currently no market price for the shares of the Registrant s common stock; however, the price of the shares issued in both private placements was $13.00 per share.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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SUBJECT TO COMPLETION, DATED FEBRUARY 10, 2006

PROSPECTUS

10,250,000 Shares

Common Stock

This prospectus relates to up to 10,250,000 shares of the common stock of GeoMet, Inc., which may be offered and sold, from time to time, by the selling stockholders named in this prospectus. The selling stockholders acquired the shares of common stock offered by this prospectus in private equity placements. We are registering the offer and sale of the shares of common stock to satisfy registration rights we have granted to the selling stockholders.

We are not selling any shares of common stock under this prospectus and will not receive any proceeds from the sale of common stock by the selling stockholders. The shares of common stock to which this prospectus relates may be offered and sold from time to time directly from the selling stockholders or alternatively through the underwriters or broker-dealers or agents. Prior to this offering, there has been no public market for the common stock. The shares of common stock may be sold in one or more transactions, at fixed prices, at prevailing market prices at the time of sale, or at negotiated prices. Please read Plan of Distribution.

We are an independent energy company engaged in the exploration, development and production of natural gas from coal seams (coalbed methane). Our principal operations and producing properties are located in the Cahaba Basin in Alabama and the Appalachian Basin in West Virginia and Virginia. We control a total of approximately 255,000 net acres of coalbed methane development rights, primarily in Alabama, West Virginia, Virginia, Louisiana, Colorado, and British Columbia. We intend to list our common stock on The Nasdaq National Market once we meet the eligibility requirements of The Nasdaq National Market.

Investing in our common stock involves risks. You should read the section entitled "Risk Factors" beginning on page 10 for a discussion of certain risk factors that you should consider before buying shares of the common stock.

You should rely only on the information contained in this prospectus or any prospectus supplement or amendment. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted.

Neither the Securities and Exchange Commission (hereinafter "SEC") nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2006

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WHERE YOU CAN FIND INFORMATION

We have filed with the SEC, under the Securities Act, a registration statement on Form S-1 with respect to the common stock offered by this prospectus. This prospectus, which constitutes part of the registration statement, does not contain all of the information set forth in the registration statement or the exhibits and schedules which are part of the registration statement, portions of which are omitted as permitted by the rules and regulations of the SEC. Statements made in this prospectus regarding the contents of any contract or other documents are summaries of the material terms of the contract or document. With respect to each contract or document filed as an exhibit to the registration statement, reference is made to the corresponding exhibit. For further information pertaining to us and to the common stock offered by this prospectus, reference is made to the registration statement, including the exhibits and schedules thereto, copies of which may be inspected without charge at the public reference facilities of the SEC at 100 F Street, NE, Room 1580, Washington, D.C. 20549. Copies of all or any portion of the registration statement may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a web site that contains reports, proxy and information statements, and other information that is filed electronically with the SEC. The web site can be accessed at www.sec.gov.

After effectiveness of the registration statement, which includes this prospectus, we will be required to comply with the informational requirements of the Securities Exchange Act of 1934, as amended (the Exchange Act), and, accordingly, will file current reports on Form 8-K, quarterly reports on Form 10-Q, annual reports on Form 10-K, proxy statements, and other information with the SEC. Those reports, proxy statements and other information will be available for inspection and copying at the public reference facilities and internet site of the SEC referred to above.

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SUMMARY

This summary highlights selected information from this prospectus but does not contain all information that you should consider before investing in the shares. You should read this entire prospectus carefully, including Risk Factors beginning on page 10, and the financial statements included elsewhere in this prospectus. In this prospectus, we refer to GeoMet, Inc., its subsidiaries and predecessors as GeoMet, we, our, or our company. We own, operate, and conduct exploration, development, and production activities for natural gas from coal seams (coalbed methane) (in this prospectus we sometimes refer to coalbed methane as CBM). References to the number of shares of our common stock outstanding have been revised to reflect a four-for-one stock split that was effected in January 2006. The estimates of our proved reserves as of September 30, 2005 and December 31, 2004, 2003 and 2002 included in this prospectus are based on reserve reports prepared by DeGolyer and MacNaughton, independent petroleum engineers. A summary of their report with respect to estimated proved reserves as of September 30, 2005 is attached to this prospectus as Appendix A. We discuss sales volumes, per unit revenue and per unit cost data net of the royalty owner s interest in this prospectus. We only use net numbers in this prospectus, which do not include the royalty owner s interest. We have provided definitions for some of the industry terms used in this prospectus in the Glossary of Natural Gas and Coal Terms beginning on page 82 of this prospectus.

About GeoMet

We are engaged in the exploration, development, and production of natural gas from coal seams (coalbed methane). Our principal operations and producing properties are located in the Cahaba Basin in Alabama and the Appalachian Basin in West Virginia and Virginia. We were originally founded as a consulting company to the coalbed methane industry in 1985 and have been active as an operator and developer of coalbed methane properties since 1993. We control a total of approximately 255,000 net acres of coalbed methane development rights, primarily in Alabama, West Virginia, Virginia, Louisiana, Colorado, and British Columbia. We are currently developing a total of approximately 77,000 net acres of coalbed methane rights in the Gurnee field in the Cahaba Basin and in the Pond Creek field in the Appalachian Basin. We also control the balance of approximately 178,000 net acres of coalbed methane exploration and development rights primarily in north central Louisiana, British Columbia, West Virginia, and Colorado. We have conducted substantial gas desorption testing and drilling of core holes throughout our property base. We believe our extensive undeveloped acreage position in the Gurnee field in the Cahaba Basin and in the Pond Creek field in the Appalachian Basin contains a total of 610 additional drilling locations.

At September 30, 2005, we had 258.5 Bcf of estimated proved reserves with a PV-10 of approximately $1.4 billion using gas prices in effect at such date. Our estimated proved reserves at September 30, 2005 are 100% coalbed methane and 72% proved developed. For the month of December 2005, our net gas sales totaled approximately 14,700 Mcf per day. For 2005, we estimate that our total capital expenditures will be approximately $60 million, of which we had spent $49.7 million as of September 30, 2005. We estimated our development expenditures for the development of the Gurnee and Pond Creek fields to be $45 million in 2005, of which we had spent $40.3 million through September 30, 2005. We intend to increase our development expenditures by approximately 44% in 2006 to approximately $65 million to accelerate the drilling of the Gurnee and Pond Creek fields. Total capital expenditures in 2006 are estimated to be in the range of $80 million to $90 million.

Areas of Operation

Cahaba Basin

We have the development rights to approximately 41,800 net CBM acres throughout the Cahaba Basin of central Alabama, which is adjacent to the Black Warrior Basin. At September 30, 2005, approximately 54% of our estimated proved reserves, or 139.0 Bcf, were located in the Gurnee field within the Cahaba Basin, of which approximately 78% were classified as proved developed. At September 30, 2005, we had developed 23% of our

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Cahaba Basin CBM acreage. We own a 100% working interest in the area and are the operator. As of December 1, 2005, we had drilled 137 wells in the Gurnee field, of which 115 were producing (the remainder of which were pending completion or hook-up or were venting gas), with net daily sales of gas averaging approximately 4,000 Mcf for the month of December 2005. From project inception through September 30, 2005, our finding and development costs in the Cahaba Basin have averaged $0.82 per Mcf. Our undeveloped CBM acreage in the Cahaba Basin contains 381 additional drilling locations, based on 80-acre spacing. In 2006, we intend to spend approximately $45 million of our capital expenditure budget to develop and drill approximately 75 wells in the Cahaba Basin.

We extract gas from six coal groups within the Pottsville coal formation at depths ranging from 700 feet to 3,400 feet. At these depths, overall seam thickness in this area averages approximately 50 feet of high volatile bituminous coal. A total of 30 core holes have been drilled and over 540 gas desorption tests have been conducted on our acreage to determine the gas content of the coal and to define the coalbed methane resource under a substantial portion of the acreage in our leasehold position.

We have constructed and operate an approximate 38.5-mile pipeline from the Cahaba Basin to the Black Warrior River for the disposal of produced water under a permit issued by the Alabama Department of Environmental Management. This pipeline has a design capacity of approximately 45,000 barrels of water per day. We also operate a water treatment facility in the Gurnee field to condition the produced water prior to injection into the pipeline and a discharge pond at the river to aerate the water prior to disposal. We believe that these facilities will meet all of our future water disposal requirements for the Gurnee field.

We own and operate a 9.2-mile, 12-inch high-pressure steel pipeline and a gas treatment and compression facility through which we gather, dehydrate, and compress our gas for delivery into the Southern Natural Gas pipeline system.

Appalachian Basin

In the Appalachian Basin of southern West Virginia and southwestern Virginia, we have the rights to develop approximately 56,000 net CBM acres, approximately 35,100 of which are in our Pond Creek field. At September 30, 2005, approximately 45% of our estimated proved reserves, or 116.3 Bcf, were located within the Pond Creek field, of which approximately 65% were classified as proved developed. We own a 100% working interest in the area and are the operator. As of December 1, 2005, we had drilled 157 wells in the Pond Creek field, of which 154 were producing (the remainder of which are pending completion or hook-up), with net daily sales of gas averaging approximately 9,500 Mcf for the month of December 2005. From project inception through September 30, 2005, our finding and development costs in the Pond Creek field have averaged $0.89 per Mcf. Our undeveloped CBM acreage in the Pond Creek field contains 229 additional drilling locations based on 80-acre spacing. In 2006, we intend to spend approximately $20 million of our capital expenditure budget to develop and drill approximately 40 wells in the Pond Creek field.

We extract gas from up to an average of 12 coal seams within the Pocahontas and New River coal formations at depths ranging from 430 feet to 2,400 feet. At these depths overall coal thickness in this area ranges from 10 to 30 feet of high quality, low-medium volatile bituminous coal of Pennsylvanian age. Due to mining activity, it has been long known that these coal groups are gas rich. A total of 39 core holes have been drilled in the area and a geographically extensive gas desorption testing program has been conducted to determine the gas content of the coal and to define the coalbed methane resource under a substantial portion of our leasehold position.

CBM wells in the Pond Creek field produce comparatively lower levels of water. Produced water is either used in our operations or injected into a disposal well that we own and operate. We believe this disposal well will meet our future water disposal requirements in the Pond Creek field.

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Our gas is gathered into our central dehydration and compression facility and delivered into the Cardinal States Gathering System for redelivery into the Columbia Gas Transmission Corporation gas pipeline system.

British Columbia

Our Peace River Project is comprised of approximately 33,000 gross acres (16,500 net acres) along the Peace River near Hudson s Hope, British Columbia. We are conducting operations on this project through an exploration and development agreement with a third party. We will earn a 50% working interest in this leasehold by spending $7.2 million on an evaluation program. We have spent approximately $5.5 million of this amount from project inception through December 31, 2005. We expect to complete our earning obligations in 2006 and to operate this project going forward. We have drilled three core holes targeting the Lower Cretaceous Gething coal formation. Total net coal thickness ranges from 30 to 70 feet at depths from 1,000 to 3,000 feet. At these depths, coals are medium volatile bituminous rank having seams up to nine feet in thickness. We believe that the gas content and coal thickness under our acreage position are favorable for CBM development. We have recently completed two wells and a water disposal well, and testing operations are in process.

North Central Louisiana

In Winn, LaSalle, and Caldwell Parishes of Louisiana, we are conducting an evaluation of the coals within the Wilcox formation. We operate the project with a 100% working interest. As of September 30, 2005, we had a total of approximately 110,000 net acres under lease, and we have subsequently exercised an option to acquire an additional 9,259 acres. The Wilcox is a thick deltaic deposit of Eocene age, composed primarily of sandstone, siltstone, shale, and coal. The coals are low rank, being classified as sub-bituminous and lignitic. Coal thickness averages 75 feet at depths from 2,000 to 3,500 feet. We have drilled 17 exploration or production test wells and two water disposal wells. We have also conducted 60 gas desorption tests from a sample of nine of these wells to determine the gas content of the coal and to define the potential gas resources. We believe that the gas content and coal thickness under our acreage position are favorable for CBM development. We are currently evaluating producibility issues related to zonal isolation of adjacent water sands and related water encroachment in this area.

Piceance Basin of Colorado

We also hold a total of approximately 14,600 net CBM acres of leasehold in our Cameo prospect in the southwestern portion of the Piceance Basin in Mesa County, Colorado. We are targeting the Cameo coals within a 200-foot interval of the Williams Fork formation at a depth of about 2,000 feet. We have drilled one core hole and have conducted desorption tests on the core. We believe that the gas content and coal thickness under our acreage position are favorable for CBM development. We are actively pursuing opportunities to increase our acreage position in this area.

Characteristics of Coalbed Methane

The source rock in conventional natural gas is usually different from the reservoir rock, while in coalbed methane the coal seam serves as both the source rock and the reservoir rock. The storage mechanism is also different. Gas is stored in the pore or void space of the rock in conventional natural gas, but in coalbed methane, most, and frequently all, of the gas is stored by adsorption. This adsorption allows large quantities of gas to be stored at relatively low pressures. A unique characteristic of coalbed methane is that the gas flow can be increased by reducing the reservoir pressure. Frequently the coalbed pore space, which is in the form of cleats or fractures, is filled with water. The reservoir pressure is reduced by pumping out the water, releasing the methane from the molecular structure, which allows the methane to flow through the cleat structure to the well bore. While a conventional natural gas well typically decreases in flow as the reservoir pressure is drawn down, a coalbed methane well will typically increase in production for up to five years depending on well spacing.

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Coalbed methane and conventional natural gas both have methane as their major component. While conventional natural gas often has more complex hydrocarbon gases, coalbed methane rarely has more than 2% of the more complex hydrocarbons. In the eastern coal fields of the United States, coalbed methane is generally 98 to 99% pure methane and requires only dehydration of the gas to remove moisture to achieve pipeline quality. In the western coal fields of the United States, it is also sometimes necessary to strip out either carbon dioxide or nitrogen. Once coalbed methane has been produced, it is gathered, transported, marketed, and priced in the same manner as conventional natural gas.

The content of gas within a coal seam is measured through gas desorption testing. The ability to flow gas and water to the well bore in a coalbed methane well is determined by the fracture or cleat network in the coal. While at shallow depths of less than 500 feet these fractures are sometimes open enough to produce the fluids naturally, at greater depths the networks are progressively squeezed shut, reducing the ability to flow. It is necessary to provide other avenues of flow such as hydraulically fracturing the coal seam. By pumping fluids at high pressure, fractures are opened in the coal and a slurry of fluid and sand proppant is pumped into the fractures so that the fractures remain open after the release of pressure, thereby enhancing the flow of both water and gas to allow the economic production of gas.

Summary of Our Properties as of September 30, 2005

	Estimated Proved Reserves(1)		
Field	**Proved**	**Proved Developed**	**PV-10(2)**
	(MMcf)	**(MMcf)**	**(in millions)**
Appalachia:			
Pond Creek field	116,328	75,713	$ 593.5
Alabama:			
Gurnee field	139,033	108,322	748.5
White Oak Creek field	3,155	2,922	27.6
Total	258,516	186,957	$ 1,369.6

Area	**Net Wells(3)**	**Additional Drilling Locations**	**Net CBM Acres Owned or Controlled**		
			Total	**Developed**	**Undeveloped**
Appalachian Basin	147	229	55,758	11,172	44,586
Cahaba Basin	123	381	41,766	9,480	32,286
North Central Louisiana(4)			119,244		119,244
British Columbia			16,500		16,500
Piceance Basin			16,949		16,949
Other (United States)			5,030		5,030
Total	270	610	255,247	20,652	234,595

(1) Based on the reserve report prepared by DeGolyer and MacNaughton, independent petroleum engineers, a summary of which is attached to this prospectus as Appendix A.
(2) PV-10 was calculated using a natural gas price at September 30, 2005 of $14.70 per Mcf. See Reconciliation of Non-GAAP Financial Measures for additional information.
(3) Excludes 22 net wells pending completion at September 30, 2005.
(4) Includes an option to acquire a total of approximately 9,259 acres, which we exercised in December 2005.

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Recent Drilling Activity (net wells)

	Nine Months Ended September 30, 2005(1)	Year Ended December 31, 2004	2003	2002
Development	77.0	81.8	47.7	9.6
Exploratory	2.0	10.0	15.0	2.5
Total	79.0	91.8	62.7	12.1
Total Capital Expenditures (in thousands)	$ 49,733	$ 86,189(2)	$ 36,069	$ 12,770

(1) Excludes 22 net wells pending completion.
(2) Includes $27 million for the acquisition of producing properties.

Strategy

Our objective is to increase stockholder value by investing capital to increase our reserves, production, cash flow, and earnings. We intend to focus on the following strategies:

Focus exclusively on coalbed methane operations where we have substantial experience and expertise.

Exploit our existing resource base by accelerating drilling in our projects and expanding into adjacent areas, thereby leveraging our knowledge of the area and our existing infrastructure and operating base.

Explore for large-scale CBM development opportunities both in our existing core areas and in other areas that we enter, where we intend to have operating control and the ability to reduce costs through economies of scale. We seek to be among the first companies in an area so that our costs of entry are less, large acreage positions can be established, and smaller incremental investments can be made to reduce our risk before larger expenditures are required.

Seek out opportunistic CBM producing property acquisitions.

Optimize financial flexibility by maintaining unused capacity under our bank revolving credit facility. We have entered into a new five-year, $150 million revolving credit facility with an initial $120 million borrowing base.

Competitive Strengths

CBM Is Our Only Business. We explore for, develop, and produce CBM exclusively. We believe that substantial expertise and experience is required to develop, produce, and operate coalbed methane fields in an efficient manner. We believe that the inherent geologic and production characteristics of coalbed methane offer significant operational advantages compared to conventional gas production, including:

Production Rates. Unlike conventional natural gas production, which typically declines after initial production is established, production from CBM wells typically increases for the first few years of their productive lives and then begins to decline at a shallow rate.

Low Geologic Risks. Most CBM areas are located in known coal basins where the coal resource has been evaluated for coal mining. These areas have extensive existing geologic information databases. The drilling of new coreholes and a limited number of production test wells reduces the geologic risk prior to committing large development expenditures.

Low Finding and Development Costs. Our finding and development costs have averaged $0.92 per Mcf since January 1, 2001.

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Low Production Costs. In the early stage of CBM project development per unit operating costs are high because production is initially low and many of our costs are fixed. As production from a project increases and economies of scale are realized, the per unit operating costs typically decrease. Over the life of a project, we believe our average per unit operating costs will be lower than those of many conventional gas industry projects.

Long-lived Reserves. Because CBM wells have initial inclining production rates and low decline rates thereafter, CBM projects typically result in a reserve life that is significantly longer than many types of conventional gas production.

Highly Experienced Team of CBM Professionals. Our 24-person CBM management, professional, and project management team has an average of more than 16 years of CBM experience and has participated in the drilling and operation of more than 2,600 CBM wells worldwide since 1977.

Large Inventory of Organic Growth Opportunities. We have a total of over 255,000 net acres of CBM exploration and development rights, including almost 77,000 net undeveloped acres in our two development areas. We believe our extensive undeveloped acreage position in the Gurnee field in the Cahaba Basin and in the Pond Creek field in the Appalachian Basin provides us with a total of 610 additional drilling locations.

Track Record of Success in Identifying and Exploiting Large Underdeveloped Resource Plays. We pursue those projects that leverage our CBM expertise to exploit underdeveloped resource potential where we believe we can improve on the prior performance of other operators. We have a history of developing large scale projects with low finding and development costs and low project life operating costs.

Minimal Water Disposal Issues. Unlike many CBM projects, water disposal is not a significant issue for us in the Gurnee field, where we have a pipeline in place to transport produced water for disposal into the Black Warrior River, or in the Pond Creek field, which produces comparatively low amounts of water and where we have an existing water disposal well that we believe is adequate for our needs.

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CORPORATE INFORMATION

On January 30, 2006, we completed a private equity offering of 10,000,000 shares of our common stock, consisting of 2,067,023 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 $25.0 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 the offering, together with the proceeds from the repayment of the selling stockholders loans, to repay a portion of the borrowings under our credit facility and for general corporate purposes. In connection with this offering, on February 7, 2006, we sold an additional 250,000 shares of our common stock to qualified institutional buyers from which we received aggregate consideration of approximately $3.0 million, or $12.09 per share, pursuant to the initial purchaser s option to purchase additional shares. The net proceeds generated from this sale were used to repay a portion of the borrowings under our credit facility and for general corporate purposes.

On April 14, 2005, GeoMet, Inc., an Alabama corporation (Old GeoMet), was merged with and into GeoMet Resources, Inc., a Delaware corporation (GeoMet), and we subsequently changed our name to GeoMet, Inc. We initially acquired 80% of the common stock of Old GeoMet on December 9, 2000 and subsequently acquired an additional 0.95% of Old GeoMet s common stock on November 17, 2004. Accordingly, the equity of the minority interests in Old GeoMet was shown in the consolidated financial statements as a minority interest prior to April 14, 2005.

Our corporate headquarters are located at 909 Fannin, Suite 3208, Houston, Texas 77010 and our telephone number is (713) 659-3855. Our corporate website address is *www.geometinc.com*. Our technical and operational headquarters are located at 5336 Stadium Trace Parkway, Suite 206, Birmingham, Alabama 35244.

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THE OFFERING

Common stock offered by the selling stockholders	10,250,000 shares.
Common stock to be outstanding after this offering(1)	32,483,707 shares.
Use of proceeds	We will not receive any proceeds from sale of the shares of common stock offered in this prospectus.
Dividend policy	We do not anticipate that we will pay cash dividends in the foreseeable future. Our new credit facility prohibits the payment of cash dividends.
Risk factors	For a discussion of factors you should consider in making an investment, see Risk Factors.
Proposed Nasdaq symbol	.

(1) Includes 192,020 shares issued from the exercise of stock options in January 2006 in connection with the private offering and 250,000 sold pursuant to the initial purchaser s option to purchase additional shares. Common stock outstanding excludes options to purchase 1,901,304 shares of our common stock outstanding as of January 31, 2006, of which 1,813,304 were exercisable.

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SUMMARY OF FINANCIAL, RESERVE AND OPERATING DATA

The following table shows our historical financial, reserve and operating data for, and as of the end of, each of the periods indicated. Our historical results are not necessarily indicative of the results that may be expected for any future period. The following data should be read in conjunction with Management s Discussion and Analysis of Results of Operations and Financial Condition and the financial statements and related notes included in this prospectus.

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004	Year Ended December 31 2004	2003	2002
	(In thousands unless otherwise indicated)				
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME DATA:					
Total revenues	$ 24,615	$ 13,705	$ 20,924	$ 12,049	$ 7,008
Lease operating costs, compression and transportation costs and production taxes	9,062	5,290	7,517	3,047	1,530
Depreciation, depletion and amortization	3,378	1,666	2,691	2,120	2,151
Research and development costs	531	279	278	432	167
General and administrative	2,277	1,758	2,513	1,370	1,598
Impairment of non-operating assets				8	108
Realized losses on derivative contracts	2,289	429	815	44	
Unrealized losses (gains) from the change in market value of open derivative contracts	21,833	1,103	(542)	102	
Operating income (loss)	(14,755)	3,180	7,652	4,926	1,454
Other expenses and interest, net	2,507	499	920	144	74
Income tax provision	(5,843)	912	2,312	1,651	639
Minority interest	(442)	152	584	571	138
Cumulative effect of change in accounting method				19	
Net income (loss)	$ (10,977)	$ 1,617	$ 3,836	$ 2,541	$ 603
BALANCE SHEET DATA (at period end):					
Working capital (deficit)	$ (14,947)	$ (3,701)	$ (1,251)	$ 5,133	$ 3,940
Total assets	$ 242,261	$ 122,291	$ 142,090	$ 81,505	$ 42,261
Long-term debt	$ 93,940	$ 35,526	$ 51,513	$ 10,102	$ 6,665
Stockholders equity	$ 86,032	$ 63,471	$ 65,692	$ 52,754	$ 22,912
OTHER DATA:					
Net cash provided by operating activities	$ 8,418	$ 8,895	$ 10,580	$ 10,801	$ 4,603
Net cash used in investing activities	$ (49,272)	$ (47,777)	$ (66,193)	$ (36,341)	$ (12,773)
Net cash provided by financing activities	$ 39,635	$ 34,336	$ 50,192	$ 30,534	$ 5,372
Capital expenditures	$ 49,733	$ 47,755	$ 86,189	$ 36,069	$ 12,770
Net sales volume (Bcf)	3.3	2.3	3.2	2.5	2.1
Average sales price ($ per Mcf)	$ 7.39	$ 5.79	$ 6.12	$ 4.71	$ 3.16
Total production costs ($ per Mcf)	$ 2.76	$ 2.31	$ 2.36	$ 1.23	$ 0.72
Expenses: ($ per Mcf)					
Lease operating costs	$ 1.89	$ 1.55	$ 1.60	$ 0.66	$ 0.28
Compression and transportation costs	$ 0.71	$ 0.61	$ 0.61	$ 0.40	$ 0.31
Production taxes	$ 0.16	$ 0.15	$ 0.15	$ 0.17	$ 0.13
Research and development costs	$ 0.16	$ 0.12	$ 0.09	$ 0.17	$ 0.08
General and administrative	$ 0.69	$ 0.77	$ 0.79	$ 0.55	$ 0.75

Depreciation, depletion & amortization	$ 1.03	$ 0.73	$ 0.84	$ 0.85	$ 1.01
Estimated proved reserves (Bcf)(2)	258.5		209.9	103.9	35.5
PV-10 ($ millions)(1)(2)	$ 1,369.6		$ 481.8	$ 236.9	$ 64.4
Standardized measure of discounted future net cash flows ($ millions)			$ 349.8	$ 172.5	$ 45.4
Price used for PV-10 ($ per Mcf)(2)	$ 14.70		$ 6.21	$ 5.77	$ 4.62
EBITDA (in millions)(1)	$ (10.9)	$ 4.70	$ 9.8	$ 6.5	$ 3.5

(1) See reconciliation of non-GAAP financial measures on page 24 for additional information.

(2) Based on the reserve reports prepared by DeGolyer and MacNaughton, independent petroleum engineers, at each period end. The natural gas price used to compute PV-10 is volatile and may fluctuate widely. Refer to Risk Factors for a more complete discussion.

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RISK FACTORS

You should consider carefully each of the risks described below, together with all of the other information contained in this prospectus, before deciding to invest in our common stock.

Risks Related To Our Business

Natural gas prices are volatile, and a decline primarily in natural gas prices would significantly affect our financial results and impede our growth.

Our revenue, profitability, and cash flow depend upon the prices and demand for natural gas. The market for natural gas is very volatile and even relatively modest drops in prices can significantly affect our financial results and impede our growth. Changes in natural gas prices have a significant impact on the value of our reserves and on our cash flow. Prices for natural gas may fluctuate widely in response to relatively minor changes in the supply of and demand for natural gas, market uncertainty and a variety of additional factors that are beyond our control, such as:

- the domestic and foreign supply of natural gas;
- the price of foreign imports;
- overall domestic and global economic conditions;
- the consumption pattern of industrial consumers, electricity generators, and residential users;
- weather conditions;
- technological advances affecting energy consumption;
- domestic and foreign governmental regulations;
- proximity and capacity of gas pipelines and other transportation facilities; and
- the price and availability of alternative fuels.

Many of these factors may be beyond our control. Because all of our estimated proved reserves as of September 30, 2005 were natural gas reserves, our financial results are sensitive to movements in natural gas prices. Earlier in this decade, natural gas prices were much lower than they are today. Lower natural gas prices may not only decrease our revenues on a per unit basis, but also may reduce the amount of natural gas that we can produce economically. This may result in our having to make substantial downward adjustments to our estimated proved reserves. If this occurs or if our estimates of development costs increase, production data factors change or our exploration results deteriorate, accounting rules may require us to write down, as a non-cash charge to earnings, the carrying value of our properties for impairments. We are required to perform impairment tests on our assets whenever events or changes in circumstances lead to a reduction of the estimated useful life or estimated future cash flows that would indicate that the carry amount may not be recoverable or whenever management s plans change with respect to those assets. We may incur impairment charges in the future, which could have a material adverse effect on our results of operations in the period taken.

We face uncertainties in estimating proved gas reserves, and inaccuracies in our estimates could result in lower than expected reserve quantities and a lower present value of our reserves.

Natural gas reserve engineering requires subjective estimates of underground accumulations of natural gas and assumptions concerning future natural gas prices, production levels, and operating and development costs. In addition, in the early stages of a coalbed methane project, it is difficult to predict the production curve of a coalbed methane field. The estimated production profile of a field in the early stage of operations may vary significantly from the actual production profile as the field matures. As a result, estimated quantities of estimated proved reserves, projections of future production rates, and the timing of development expenditures may be incorrect. Over time, material changes to reserve estimates may be made, taking into account the results of actual

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drilling, testing, and production. Also, we make certain assumptions regarding future natural gas prices, production levels, and operating and development costs that may prove incorrect. Any significant variance from these assumptions to actual figures could greatly affect our estimates of our reserves, the economically recoverable quantities of natural gas attributable to any particular group of properties, the classifications of reserves based on risk of recovery, and estimates of the future net cash flows. Numerous changes over time to the assumptions on which our reserve estimates are based, as described above, often result in the actual quantities of gas we ultimately recover being different from reserve estimates.

The present value of future net cash flows from our estimated proved reserves is not necessarily the same as the current market value of our estimated natural gas reserves. We base the estimated discounted future net cash flows from our estimated proved reserves on prices and costs. However, actual future net cash flows from our gas properties also will be affected by factors such as:

- geological conditions;
- changes in governmental regulations and taxation;
- assumptions governing future prices;
- the amount and timing of actual production;
- future operating costs; and
- capital costs of drilling new wells.

The timing of both our production and our incurrence of expenses in connection with the development and production of natural gas properties will affect the timing of actual future net cash flows from estimated proved reserves, and thus their actual present value. In addition, the 10% discount factor we use when calculating discounted future net cash flows may not be the most appropriate discount factor based on interest rates in effect from time to time and risks associated with us or the natural gas and oil industry in general.

Unless we replace our natural gas reserves, our reserves and production will decline, which would adversely affect our business, financial condition, results of operations, and cash flows.

Producing natural gas reservoirs are typically characterized by declining production rates that vary depending upon reservoir characteristics and other factors. Because total estimated proved reserves include our proved undeveloped reserves at September 30, 2005, production is expected to decline even if those proved undeveloped reserves are developed and the wells produce as expected. The rate of decline will change if production from our existing wells declines in a different manner than we have estimated and can change under other circumstances. Thus, our future natural gas reserves and production and, therefore, our cash flow and income are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves. We may not be able to develop, find, or acquire additional reserves to replace our current and future production at acceptable costs.

We may be unable to obtain adequate acreage to develop additional large-scale projects.

To achieve economies of scale and produce gas economically, we need to acquire large acreage positions to reduce our per unit costs. There are a limited number of coalbead formations in North America that we believe are favorable for CBM development. We face competition when acquiring additional acreage, and we may be unable to find or acquire additional acreage at prices that are acceptable to us.

Our exploration and development activities may not be commercially successful.

The exploration for and production of natural gas involves numerous risks. The cost of drilling, completing, and operating wells for coalbed methane or other gas is often uncertain, and a number of factors can delay or prevent drilling operations or production, including:

- unexpected drilling conditions;

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- title problems;
- pressure or irregularities in geologic formations;
- equipment failures or repairs;
- fires or other accidents;
- adverse weather conditions;
- reductions in natural gas and oil prices;
- pipeline ruptures; and
- unavailability or high cost of drilling rigs, other field services, and equipment.

Our future drilling activities may not be successful, and our drilling success rates could decline. Unsuccessful drilling activities could result in higher costs without any corresponding revenues.

We will require additional capital to fund our future activities. If we fail to obtain additional capital, we may not be able to implement fully our business plan, which could lead to a decline in reserves.

We depend on our ability to obtain financing beyond our cash flow from operations. Historically, we have financed our business plan and operations primarily with internally generated cash flow, bank borrowings, and issuances of common stock. In the future, we will require substantial capital to fund our business plan and operations. We expect to be required to meet our needs from our excess cash flow, debt financings, and additional equity offerings. Sufficient capital may not be available on acceptable terms or at all. If we cannot obtain additional capital resources, we may curtail our drilling, development, and other activities.

If our revenues decrease as a result of lower natural gas prices, operating difficulties, declines in reserves or for any other reason, we may have limited ability to obtain the capital necessary to sustain our operations at current levels. We may, from time to time, need to seek additional financing. Our revolving credit facility contains covenants restricting our ability to incur additional indebtedness without the consent of the lender. There can be no assurance that our lender will provide this consent or as to the availability or terms of any additional financing.

Even if additional capital is needed, we may not be able to obtain debt or equity financing on terms favorable to us, or at all. If cash generated by operations or available under our revolving credit facility is not sufficient to meet our capital requirements, the failure to obtain additional financing could result in a curtailment of our operations relating to exploration and development of our projects, which in turn could lead to a possible loss of properties and a decline in our natural gas reserves.

Currently the vast majority of our producing properties are located in two counties in Alabama, one county in West Virginia, and one county in Virginia, making us vulnerable to risks associated with having our production concentrated in a few areas.

The vast majority of our producing properties are geographically concentrated in two counties in Alabama, one county in West Virginia, and one county in Virginia. As a result of this concentration, we may be disproportionately exposed to the impact of delays or interruptions of production from these wells caused by significant governmental regulation, transportation capacity constraints, curtailment of production, natural disasters, or interruption of transportation of natural gas produced from the wells in these basins or other events which impact these areas.

Our business depends on transportation facilities owned by others. Disruption of, capacity constraints in, or proximity to pipeline systems could limit our sales and increase our per unit costs of producing our gas.

We transport our gas to market by utilizing pipelines owned by others. If pipelines do not exist near our producing wells, if pipeline capacity is limited, or if pipeline capacity is unexpectedly disrupted, our gas sales

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could be limited and our transportation costs could increase, reducing our profitability. If we cannot access pipeline transportation, we may have to reduce our production of gas or vent our produced gas to the atmosphere because we do not have facilities to store excess inventory. If our sales are reduced because of transportation constraints, our revenues will be reduced, which will also increase our per unit costs.

Our gas from the Pond Creek field in the Appalachian Basin is gathered to a central facility that we own and operate to be dehydrated and compressed and delivered into the Cardinal States Gathering System (Cardinal States) for redelivery into Columbia s pipeline system. Our gathering agreement with Cardinal States terminates on April 30, 2007. In the event that by April 30, 2007 we are either unable to execute a long-term gathering agreement or enter into an extension with Cardinal States, or have not completed a connection to an alternate pipeline, we may temporarily be unable to transport gas from the Pond Creek field to the market, and our revenues would be adversely affected.

We operate in a highly competitive environment and many of our competitors have greater resources than we do.

The gas industry is intensely competitive and we compete with companies from various regions of the United States and Canada and may compete with foreign suppliers for domestic sales, many of whom are larger and have greater financial, technological, human and other resources. If we are unable to compete, our operating results and financial position may be adversely affected. For example, one of our competitive strengths is as a low-cost producer of gas. If our competitors can produce gas at a lower cost than us, it would effectively eliminate our competitive advantage in that area.

In addition, larger companies may be able to pay more to acquire new properties for future exploration, limiting our ability to replace gas we produce or to grow our production. Our ability to acquire additional properties and to discover new reserves also depends on our ability to evaluate and select suitable properties and to consummate these transactions in a highly competitive environment.

The coalbeds from which we produce gas frequently contain water that may hamper our ability to produce gas in commercial quantities or affect our profitability.

Unlike conventional natural gas production, coalbeds frequently contain water that must be removed in order for the gas to desorb from the coal and flow to the well bore. Our ability to remove and dispose of sufficient quantities of water from the coal seam will determine whether or not we can produce gas in commercial quantities. The cost of water disposal may affect our profitability.

Our operations in British Columbia present unique risks and uncertainties, different from or in addition to those we face in our domestic operations.

We conduct our operations in British Columbia through our wholly owned subsidiary, Hudson s Hope Gas Ltd. Our operations in British Columbia may be adversely affected by currency fluctuations. The expenses of such operations are payable in Canadian dollars. As a result, our Canadian operations are subject to risk of fluctuations in the relative value of the Canadian and United States dollars. Other risks of operations in Canada include, among other things, increases in taxes and governmental royalties and changes in laws and policies governing operations of foreign-based companies. Laws and policies of the United States affecting foreign trade and taxation may also adversely affect our operations in British Columbia.

We may face unanticipated water disposal costs.

Where water produced from our projects fails to meet the quality requirements of applicable regulatory agencies or our wells produce water in excess of the applicable volumetric permit limit, we may have to shut-in wells, reduce drilling activities or upgrade facilities. The costs to dispose of this produced water may increase if any of the following occur:

- we cannot obtain future permits from applicable regulatory agencies;

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- water of lesser quality is produced;
- our wells produce excess water; or
- new laws and regulations require water to be disposed of in a different manner.

We may be unable to retain our existing senior management team and/or our key personnel that has expertise in coalbed methane extraction and our failure to continue to attract qualified new personnel could adversely affect our business.

Our business requires disciplined execution at all levels of our organization to ensure that we continually develop our reserves and produce gas at profitable levels. This execution requires an experienced and talented management and production team. If we were to lose the benefit of the experience, efforts and abilities of any of our key executives or the members of our team that have developed substantial expertise in coalbed methane extraction, our business could be adversely affected. We have not entered into, and do not expect to enter into employment agreements or non-competition agreements with any of our key employees, other than J. Darby Seré, our Chief Executive Officer and President, and William C. Rankin, our Executive Vice President and Chief Financial Officer. We do not maintain key person life insurance on any of our personnel. Our ability to manage our growth, if any, will require us to continue to train, motivate, and manage our employees and to attract, motivate, and retain additional qualified managerial and production personnel. Competition for these types of personnel is intense, and we may not be successful in attracting, assimilating, and retaining the personnel required to grow and operate our business profitably.

Government laws, regulations, and other legal requirements relating to protection of the environment, health and safety matters and others that govern our business increase our costs and may restrict our operations.

We are subject to laws, regulations and other legal requirements enacted or adopted by federal, state, local, and foreign authorities, relating to protection of the environment and health and safety matters, including those legal requirements that govern discharges of substances into the air and water, the management and disposal of hazardous substances and wastes, the clean-up of contaminated sites, groundwater quality and availability, plant and wildlife protection, reclamation and restoration of mining or drilling properties after mining or drilling is completed, control of surface subsidence from underground mining, and work practices related to employee health and safety. Complying with these requirements, including the terms of our permits, has had, and will continue to have, a significant effect on our respective costs of operations and competitive position. In addition, we could incur substantial costs, including clean-up costs, fines and civil or criminal sanctions, and third party damage claims for personal injury, property damage, wrongful death, or exposure to hazardous substances, as a result of violations of or liabilities under environmental and health and safety laws.

Additionally, the gas industry is subject to extensive legislation and regulation, which is under constant review for amendment or expansion. Any changes may affect, among other things, the pricing or marketing of gas production. State and local authorities regulate various aspects of gas drilling and production activities, including the drilling of wells (through permit and bonding requirements), the spacing of wells, the unitization or pooling of gas properties, environmental matters, safety standards, market sharing, and well site restoration. If we fail to comply with statutes and regulations, we may be subject to substantial penalties, which would decrease our profitability.

We must obtain governmental permits and approvals for drilling operations, which can be a costly and time consuming process and result in restrictions on our operations.

Regulatory authorities exercise considerable discretion in the timing and scope of permit issuance. Requirements imposed by these authorities may be costly and time consuming and may result in delays in the commencement or continuation of our exploration or production operations. For example, we are often required

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to prepare and present to federal, state or local authorities data pertaining to the effect or impact that proposed exploration for or production of gas may have on the environment. Further, the public may comment on and otherwise engage in the permitting process, including through intervention in the courts. Accordingly, the permits we need may not be issued, or if issued, may not be issued in a timely fashion, or may involve requirements that restrict our ability to conduct our operations or to do so profitably.

We have limited protection for our technology and depend on technology owned by others.

We use operating practices that management believes are of significant value in developing CBM resources. In most cases, patent or other intellectual property protection is unavailable for this technology. Our use of independent contractors in most aspects of our drilling and some completion operations makes the protection of such technology more difficult. Moreover, we rely on the technological expertise of the independent contractors that we retain for our operations. We have no long-term agreements with these contractors, and thus we cannot be sure that we will continue to have access to this expertise.

We may incur additional costs to produce gas because our confirmation of title for gas rights for some of our properties may be inadequate or incomplete.

We generally obtain title opinions on significant properties that we drill or acquire. However, we cannot be sure that we will not suffer a monetary loss from title defects or failure. In addition, the steps needed to perfect our ownership varies from state to state and some states permit us to produce the gas without perfected ownership under forced pooling arrangements while other states do not permit this. As a result, we may have to incur title costs and pay royalties to produce gas on acreage that we control and these costs may be material and vary depending upon the state in which we operate.

We may need to use unproven technologies to produce coalbed methane economically on some of our properties.

Our ability to produce gas economically from coal seams with lower permeability requires the use of advanced technologies that are still being developed and tested. Horizontal drilling or jet drilling are advanced technologies we may use to produce gas from coal seams that have lower permeability. Horizontal drilling, applied in coal, requires a well design that promotes simultaneous production of water and methane without significant back-pressure, and a well that will ensure wellbore integrity throughout its projected life. Jet drilling, a completion technique, is accomplished by forcing water at high pressures through a nozzle connected to a flexible hose horizontally in a coal seam. In the event that horizontal drilling, jet drilling, or any other advanced technology we may use are not effective for producing coalbed methane economically from coal seams with lower permeability, we may not be able to commercially develop areas having lower permeability coal seams even though the coal thickness and gas content data obtained from our core drilling and gas desorption testing indicate that such areas would be favorable for CBM development.

The unavailability or high cost of drilling rigs, equipment, supplies, personnel, and oilfield services could adversely affect our ability to execute our exploration and development plans on a timely basis and within our budget.

Our industry is cyclical, and from time to time there is a shortage of drilling rigs, equipment, supplies or qualified personnel. During these periods, the costs and delivery times of rigs, equipment, and supplies are substantially greater. As a result of historically strong prices of gas, the demand for oilfield services has risen, and the costs of these services are increasing. If the unavailability or high cost of drilling rigs, equipment, supplies, or qualified personnel were particularly severe in the areas where we operate, we could be materially and adversely affected.

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Hedging transactions may limit our potential gains.

In order to manage our exposure to price risks in the marketing of our natural gas production, we have entered into natural gas price hedging arrangements with respect to a portion of our expected production. We will most likely enter into additional hedging transactions in the future. While intended to reduce the effects of volatile natural gas prices, such transactions may limit our potential gains and increase our potential losses if natural gas prices were to rise substantially over the price established by the hedge. In addition, such transactions may expose us to the risk of loss in certain circumstances, including instances in which:

- our production is less than expected; or

- the counterparties to our hedging agreements fail to perform under the contracts.

We do not insure against all potential operating risks. We may incur substantial losses and be subject to substantial liability claims as a result of our natural gas operations.

We maintain insurance for some, but not all, of the potential risks and liabilities associated with our business. For some risks, we may not obtain insurance if we believe the cost of available insurance is excessive relative to the risks presented. As a result of market conditions, premiums and deductibles for certain insurance policies can increase substantially, and in some instances, certain insurance may become unavailable or available only for reduced amounts of coverage. As a result, we may not be able to renew our existing insurance policies or procure other desirable insurance on commercially reasonable terms, if at all. Although we maintain insurance at levels we believe are appropriate and consistent with industry practice, we are not fully insured against all risks, including drilling and completion risks that are generally not recoverable from third parties or insurance. In addition, pollution and environmental risks generally are not fully insurable. Losses and liabilities from uninsured and underinsured events and delay in the payment of insurance proceeds could have a material adverse effect on our financial condition and results of operations.

Risks Relating to Our Common Stock

One existing stockholder holds a substantial interest in our company, and insiders own a significant amount of our common stock, which could limit your ability to influence the outcome of stockholder votes, and the interests of this stockholder and these insiders could differ from those of our other stockholders.

A representative of Yorktown Energy Partners IV, L.P. (Yorktown) serves on our board of directors, and Yorktown owns approximately 49.9% of our outstanding common stock. In addition, our officers and their affiliates beneficially own or control approximately 13.6% of our outstanding common stock. Yorktown and our executive officers and directors have, and can be expected to continue to have, a significant voice in our affairs and in the outcome of stockholder voting. Under Delaware law and our certificate of incorporation, matters requiring a stockholder to vote, including the election of directors, the adoption of an amendment to our certificate of incorporation, and the approval of mergers and other significant corporate transactions require the affirmative vote of the holders of a majority of the outstanding shares or, in the case of the election of directors, a plurality of the votes cast. As a consequence, the effect of this level of share ownership by Yorktown and our officers and directors may permit them to approve certain matters by written consent and may delay or prevent a change of control of us or otherwise protect your investment.

There has been no public market for our common stock, and our stock price may fluctuate significantly.

There is currently no public market for our common stock, and an active trading market may not develop or be sustained after the sale of all of the shares covered by this prospectus. The market price of our common stock could fluctuate significantly as a result of:

- our operating and financial performance and prospects;
- quarterly variations in the rate of growth of our financial indicators, such as net income per share, net income and revenues;

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- changes in revenue or earnings estimates or publication of research reports by analysts about us or the exploration and production industry;
- liquidity and registering our common stock for public resale;
- actual or unanticipated variations in our reserve estimates and quarterly operating results;
- changes in oil and gas prices;
- speculation in the press or investment community;
- sales of our common stock by our stockholders;
- increases in our cost of capital;
- changes in applicable laws or regulations, court rulings and enforcement and legal actions;
- changes in market valuations of similar companies;
- adverse market reaction to any increased indebtedness we incur in the future;
- additions or departures of key management personnel;
- actions by our stockholders;
- general market and economic conditions, including the occurrence of events or trends affecting the price of natural gas; and
- domestic and international economic, legal, and regulatory factors unrelated to our performance.

If a trading market develops for our common stock, stock markets in general experience volatility that often is unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our common stock.

We may not be accepted for listing or inclusion on The Nasdaq National Market or a national securities exchange.

In connection with our filing of this registration statement, we have agreed to use commercially reasonable efforts to satisfy the criteria for listing and list or include (if we meet the criteria for listing on such exchange or market) our common stock on the New York Stock Exchange (NYSE), The American Stock Exchange, or The Nasdaq National Market as soon as practicable (including seeking to cure in our listing and inclusion application any deficiencies cited by such exchange or market), and thereafter maintain the listing on such exchange or market. We do not believe that we will meet the NYSE s requirements for listing. The American Stock Exchange and The Nasdaq National Market have initial listing criteria, including criteria related to minimum bid price, public float, market makers, minimum number of round lot holders, and board independence requirements, that we can give no assurance that we will meet. Our inability to list or include our common stock on The American Stock Exchange or The Nasdaq National Market could affect the ability of purchasers in this offering to sell their shares of common stock subsequent to the declaration of the effectiveness of this registration statement and consequently adversely affect the value of such shares. In such case, our stockholders would find it more difficult to dispose of, or to obtain accurate quotations as to the market value of, our common stock. In addition, we would have more difficulty attracting the attention of market analysts to cover us in their research.

If our common stock is approved for listing or inclusion on The American Stock Exchange or The Nasdaq National Market, we will have no prior trading history, and thus there is no way to determine the prices or volumes at which our common stock will trade. We can give no assurances as to the development of liquidity or any trading market for our common stock. Holders of shares of our common stock may not be able to resell their shares at or near their original acquisition price, or at any price.

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We do not intend to pay, and are prohibited in our ability to pay, any dividends on our common stock.

We anticipate that we will retain all future earnings and other cash resources for the future operation and development of our business. Accordingly, we do not intend to declare or pay any cash dividends on our common stock in the foreseeable future. Payment of any future dividends will be at the discretion of our board of directors after taking into account many factors, including our operating results, financial condition, current and anticipated cash needs and plans for expansion. In addition, the declaration and payment of any dividends on our common stock is currently prohibited by the terms of our new credit facility.

You may experience dilution of your ownership interests due to the future issuance of shares of our common stock, which could have an adverse effect on our stock price.

We may in the future issue our previously authorized and unissued securities, resulting in the dilution of the ownership interests of our present stockholders and purchasers of common stock offered hereby. Our authorized capital stock consists of 125 million shares of common stock and 10 million shares of preferred stock with such designations, preferences, and rights as may determined by our board of directors. As of the date of this prospectus, 32,483,707 shares of common stock and no shares of preferred stock were outstanding. We have reserved 2,400,000 shares for future issuance to employees as restricted stock or stock option awards pursuant to our stock option plans, of which options to purchase 2,093,324 shares have already been granted. The potential issuance of such additional shares of common stock may create downward pressure on the trading price of our common stock. We may also issue additional shares of our common stock or other securities that are convertible into or exercisable for common stock in connection with the hiring of personnel, future acquisitions, future private placements of our securities for capital raising purposes, or for other business purposes. Future sales of substantial amounts of our common stock, or the perception that sales could occur, could have a material adverse effect on the price of our common stock.

We will incur increased costs as a result of being a public company.

As a public company, we will incur significant legal, accounting and other expenses that we did not incur as a private company. The U.S. Sarbanes-Oxley Act of 2002 and related rules of the U.S. Securities and Exchange Commission, or SEC, and the New York Stock Exchange, The Nasdaq National Market, and The American Stock Exchange regulate corporate governance practices of public companies. We expect that compliance with these public company requirements will increase our costs and make some activities more time consuming. For example, we will create new board committees and adopt new internal controls and disclosure controls and procedures. In addition, we will incur additional expenses associated with our SEC reporting requirements. A number of those requirements will require us to carry out activities we have not done previously. For example, under Section 404 of the Sarbanes-Oxley Act, for our annual report on Form 10-K for 2007 we will need to document and test our internal control procedures, our management will need to assess and report on our internal control over financial reporting and our independent accountants will need to issue an opinion on that assessment and the effectiveness of those controls. Furthermore, if we identify any issues in complying with those requirements (for example, if we or our independent auditors identified a material weakness or significant deficiency in our internal control over financial reporting), we could incur additional costs rectifying those issues, and the existence of those issues could adversely affect us, our reputation or investor perceptions of us. We also expect that it could be difficult and will be significantly more expensive to obtain directors and officers liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers. Advocacy efforts by shareholders and third parties may also prompt even more changes in governance and reporting requirements. We cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

Various statements in this prospectus, including those that express a belief, expectation, or intention, as well as those that are not statements of historical fact, are forward-looking statements. The forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future reserves, production, revenues, income, and capital spending. When we use the words believe, intend, expect, may, should, anticipate, could, estimate, plan, predict, project, or their negatives, other similar expressions, or the statem those words are usually forward-looking statements.

The forward-looking statements contained in this prospectus are largely based on our expectations, which reflect estimates and assumptions made by our management. These estimates and assumptions reflect our best judgment based on currently known market conditions and other factors. Although we believe such estimates and assumptions to be reasonable, they are inherently uncertain and involve a number of risks and uncertainties that are beyond our control. In addition, management s assumptions about future events may prove to be inaccurate. Management cautions all readers that the forward-looking statements contained in this prospectus are not guarantees of future performance, and we cannot assure any reader that such statements will be realized or the forward-looking events and circumstances will occur. Actual results may differ materially from those anticipated or implied in the forward-looking statements due to the factors listed in the Risk Factors section and elsewhere in this prospectus. All forward-looking statements speak only as of the date of this prospectus. We do not intend to publicly update or revise any forward-looking statements as a result of new information, future events or otherwise. These cautionary statements qualify all forward-looking statements attributable to us, or persons acting on our behalf. The risks, contingencies and uncertainties relate to, among other matters, the following:

- our business strategy;
- our financial position;
- our cash flow and liquidity;
- declines in the prices we receive for our gas affecting our operating results and cash flows;
- uncertainties in estimating our gas reserves;
- replacing our gas reserves;
- uncertainties in exploring for and producing gas;
- our inability to obtain additional financing necessary in order to fund our operations, capital expenditures, and to meet our other obligations;
- availability of drilling and production equipment and field service providers;

disruptions, capacity constraints in, or other limitations on the pipeline systems which deliver our gas;

competition in the gas industry;

our inability to retain and attract key personnel;

our joint venture arrangements;

the effects of government regulation and permitting and other legal requirements;

costs associated with perfecting title for gas rights in some of our properties;

our need to use unproven technologies to extract coalbed methane in some properties; and

other factors discussed under Risk Factors.

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USE OF PROCEEDS

We will not receive any of the proceeds from the sale of the shares of common stock offered by this prospectus. Any proceeds from the sale of the shares pursuant to this prospectus will be received by the selling stockholders.

DIVIDEND POLICY

We do not expect to declare or pay any cash or other dividends in the foreseeable future on our common stock, as we intend to reinvest cash flow generated by operations in our business. Our credit facility currently prohibits us from paying cash dividends on our common stock, and we may also enter into credit agreements or other borrowing arrangements in the future that restrict our ability to declare or pay cash dividends on our common stock. Our Board of Directors has the authority to issue preferred stock and to fix dividend rights that may have preference to our common shares.

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CAPITALIZATION

The following table presents our capitalization as of September 30, 2005, on a pro forma as adjusted basis giving effect to our private equity offering, the exercise of 192,020 shares of stock options, and a four-for-one common stock split in January 2006. You should read this table in conjunction with our consolidated financial statements included in this prospectus.

	As of September 30, 2005 Pro Forma As Adjusted (In thousands)
Long-term debt(1)	$ 49,188
Stockholders equity:	
Common stock, $0.001 par value, 125,000,000 shares authorized; and 32,483,707 shares issued and outstanding(2)	$ 32
Preferred stock, $0.001 par value, 10,000,000 shares authorized, no shares issued or outstanding(2)	
Additional paid-in capital	133,793
Accumulated other comprehensive income	70
Retained deficit	(2,960)
Notes receivable(1)	(401)
Total stockholders equity	130,534
Total capitalization	$ 179,722

(1) Long-term debt decreased by $27,162,000 from the sale of 2,317,023 shares in our private equity offerings in January and February 2006 after offering expenses, by $17,124,000 from the proceeds received from the payment of loans with interest by selling stockholders (including $250,000 in notes receivable that was included in other assets), and by $466,279 in proceeds from the exercise of stock options in January 2006 in connection with our private equity offering.

(2) Authorized share amount reflects an increase in January 2006 our authorized capital stock from 10,000,000 shares of common stock as of September 30, 2005, 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.

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA

The following table shows our summary historical consolidated financial and operating data as of and for each of the nine month periods ended September 30, 2005 and 2004, for the four years ended December 31, 2004 and for the partial period December 8, 2000 through December 31, 2000. The summary historical consolidated financial and operating data for the nine months ended September 30, 2005 and the three years ended December 31, 2004 are derived from our audited financial statements included herein and the summary historical consolidated financial and operating data for the nine month period ended September 30, 2004 are derived from our unaudited financial statement and include all adjustments consisting only of normal recurring adjustments necessary for a fair presentation of the results of this interim period**.** The summary historical consolidated financial and operating data for the year ended December 31, 2001 and the partial period December 8, 2000 through December 31, 2000 was derived from our audited financial statements which are not included herein You should read the following data in conjunction with Managements Discussion and Analysis of Results of Operations and Financial Condition: and the financial statements and related notes included elsewhere in this prospectus where there is additional additional disclosure regarding the information in the following table. Our historical results are not necessarily indicative of the results that may be expected in future periods.

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004	Year Ended December 31, 2004	2003	2002	2001	From inception on December 8, 2000 to December 31, 2000
			(In thousands unless otherwise indicated)				
STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME DATA:							
REVENUES							
Gas sales	$ 24,240	$ 13,258	$ 19,522	$ 11,700	$ 6,731	$ 11,850	$ 718
Operating fees and other	375	447	1,402	349	277	205	48
Total revenues	24,615	13,705	20,924	12,049	7,008	12,055	766
COSTS AND OPERATING EXPENSES							
Lease operating costs	6,212	3,555	5,092	1,640	590	542	34
Compression and transportation costs	2,332	1,385	1,951	993	654	681	27
Production taxes	518	350	473	414	285	560	34
Depreciation, depletion and amortization	3,378	1,666	2,691	2,120	2,151	3,167	150
Research and development costs	531	279	279	432	168		
General and administrative	2,277	1,758	2,513	1,370	1,598	1,206	350
Impairment of other equipment and other non-current assets				8	108		
Realized losses on derivative contracts	2,289	429	815	44			
Unrealized losses (gains) from the change in market value of open derivative contracts	21,833	1,103	(542)	102			
Total costs and operating expenses	39,370	10,525	13,272	7,123	5,554	6,156	595
Operating income (loss)	(14,755)	3,180	7,652	4,926	1,454	5,899	171
Interest income	33	52	70	95	119	291	20
Interest expense (net of amounts capitalized)	(2,534)	(550)	(986)	(232)	(186)	(151)	(24)
Other expenses	(6)	(1)	(4)	(7)	(7)	(3)	
Total other income (expense)	(2,507)	(499)	(920)	(144)	(74)	137	(4)

Income (loss) before income taxes, minority interest, and cumulative effect of change in accounting principle, net of income tax	(17,262)	2,681	6,732	4,782	1,380	6,036	167
Income tax provision	(5,843)	912	2,312	1,651	639	1,152	32
Net income (loss) before minority interest and cumulative effect of change in accounting principle, net of income tax	(11,419)	1,769	4,420	3,131	741	4,884	135
Minority interest	(442)	152	584	571	138	958	24
Net income (loss) before cumulative effect of change in accounting principle, net of income tax	(10,977)	1,617	3,836	2,560	603	3,926	111
Cumulative effect of change in accounting principle, net of income tax				19			
Net income (loss)	(10,977)	1,617	3,836	2,541	603	3,926	111
Other comprehensive income, net of income taxes							
Foreign currency translation adjustment	68		2				
Comprehensive income (loss)	$ (10,909)	$ 1,617	$ 3,838	$ 2,541	$ 603	$ 3,926	$ 111

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SELECTED HISTORICAL CONSOLIDATED FINANCIAL AND OPERATING DATA (continued):

	Nine Months Ended September 30, 2005	Nine Months Ended September 30, 2004	Year Ended December 31, 2004	2003	2002	2001	From inception on December 8, 2000 to December 31, 2000
	(In thousands unless otherwise indicated)						
Net income (loss) per common share:							
Basic	$ (0.40)	$ 0.07	$ 0.17	$ 0.20	$ 0.08	$ 0.49	$ 0.02
Diluted	$ (0.40)	$ 0.07	$ 0.17	$ 0.20	$ 0.08	$ 0.49	$ 0.02
BALANCE SHEET DATA (at period end):							
Working capital (deficit)	$ (14,947)	$ (3,701)	$ (1,251)	$ 5,133	$ 3,940	$ 6,268	$ 3,732
Total assets	$ 242,261	$ 122,291	$ 142,090	$ 81,505	$ 42,261	$ 33,240	$ 29,462