

GASTAR EXPLORATION LTD

Form 10-Q

November 04, 2010

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010 OR**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_.**

Commission File Number: 001-32714

**GASTAR EXPLORATION LTD.**

(Exact name of registrant as specified in its charter)

Edgar Filing: GASTAR EXPLORATION LTD - Form 10-Q

**Alberta, Canada**  
(State or other jurisdiction of  
incorporation or organization)

**98-0570897**  
(I.R.S. Employer Identification No.)

**1331 Lamar Street, Suite 1080**  
**Houston, Texas 77010**  
(Address of principal executive offices)

**77010**  
(ZIP Code)

**(713) 739-1800**

**(Registrant's telephone number, including area code)**

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Total number of outstanding common shares, no par value per share, as of November 2, 2010 was 50,378,094.

**Table of Contents**

**GASTAR EXPLORATION LTD.  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010**

**TABLE OF CONTENTS**

	<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>	
Item 1. <b><u>Financial Statements</u></b>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2010 and December 31, 2009</u>	1
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2010 and 2009</u>	2
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009</u>	3
<u>Notes to the Condensed Consolidated Financial Statements</u>	4
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37
<b><u>PART II OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	38
Item 1A. <u>Risk Factors</u>	38
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	38
Item 3. <u>Defaults Upon Senior Securities</u>	38
Item 4. <u>(Removed and Reserved)</u>	38
Item 5. <u>Other Information</u>	39
Item 6. <u>Exhibits</u>	39
<b><u>SIGNATURES</u></b>	40

*Unless otherwise indicated or required by the context, (i) Gastar, the Company, we, us, and our refer to Gastar Exploration Ltd. and its subsidiaries and predecessors, (ii) all dollar amounts appearing in this report on Form 10-Q are stated in United States dollars ( U.S. dollars ) or Australian dollars ( AU\$ ) and (iii) all financial data included in this report have been prepared in accordance with generally accepted accounting principles in the United States of America ( U.S. GAAP ).*

*General information about us can be found on our website at [www.gastar.com](http://www.gastar.com). The information on our website is neither incorporated into, nor part of, this report. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, as well as any amendments and exhibits to those reports, will be available free of charge through our website as soon as reasonably practicable after we file or furnish them to the United States Securities and Exchange Commission ( SEC ). Information is also available on the SEC website at [www.sec.gov](http://www.sec.gov) for our United States filings.*

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****GASTAR EXPLORATION LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	September 30, 2010 (Unaudited)	December 31, 2009
	(in thousands)	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 6,937	\$ 21,866
Term deposit		69,662
Accounts receivable, net of allowance for doubtful accounts of \$577 and \$609, respectively	2,954	5,336
Receivable from unproved property sale		19,412
Commodity derivative contracts	12,233	4,870
Prepaid expenses	269	669
<b>Total current assets</b>	<b>22,393</b>	<b>121,815</b>
<b>PROPERTY, PLANT AND EQUIPMENT:</b>		
Natural gas and oil properties, full cost method of accounting:		
Unproved properties, excluded from amortization	151,793	132,720
Proved properties	338,954	313,100
<b>Total natural gas and oil properties</b>	<b>490,747</b>	<b>445,820</b>
Furniture and equipment	1,032	867
<b>Total property, plant and equipment</b>	<b>491,779</b>	<b>446,687</b>
Accumulated depreciation, depletion and amortization	(290,094)	(284,026)
<b>Total property, plant and equipment, net</b>	<b>201,685</b>	<b>162,661</b>
<b>OTHER ASSETS:</b>		
Restricted cash	50	50
Commodity derivative contracts	11,567	10,698
Deferred charges, net	567	764
Drilling advances and other assets	100	250
<b>Total other assets</b>	<b>12,284</b>	<b>11,762</b>
<b>TOTAL ASSETS</b>	<b>\$ 236,362</b>	<b>\$ 296,238</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 3,127	\$ 8,291
Revenue payable	4,556	4,621
Accrued interest	167	130
Accrued drilling and operating costs	3,540	736

Edgar Filing: GASTAR EXPLORATION LTD - Form 10-Q

Commodity derivative contracts	3,263	3,678
Commodity derivative premium payable	3,024	1,190
Accrued litigation settlement liability	19,750	
Short-term loan		17,000
Accrued taxes payable		75,887
Other accrued liabilities	1,706	1,438
<b>Total current liabilities</b>	<b>39,133</b>	<b>112,971</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt	24,000	
Commodity derivative contracts	2,141	4,047
Commodity derivative premium payable	5,838	8,176
Accrued litigation settlement liability	1,400	
Asset retirement obligation	6,463	5,943
Warrant derivative		205
<b>Total long-term liabilities</b>	<b>39,842</b>	<b>18,371</b>
<b>Commitments and contingencies (Note 13)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, no par value; unlimited shares authorized; no shares issued		
Common stock, no par value; unlimited shares authorized; 50,378,094 and 50,028,592 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively		
	263,809	263,809
Additional paid-in capital	22,789	20,782
Accumulated deficit	(129,211)	(119,695)
<b>Total shareholders' equity</b>	<b>157,387</b>	<b>164,896</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 236,362</b>	<b>\$ 296,238</b>

The accompanying notes are an integral part of these condensed consolidated financial statements.

**Table of Contents**

**GASTAR EXPLORATION LTD. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
(in thousands, except share and per share data)				
<b>REVENUES:</b>				
Natural gas and oil revenues	\$ 8,657	\$ 7,553	\$ 22,152	\$ 32,976
Unrealized natural gas hedge gain (loss)	5,487	(3,290)	13,893	(7,912)
Total revenues	14,144	4,263	36,045	25,064
<b>EXPENSES:</b>				
Production taxes	84	76	300	325
Lease operating expenses	1,549	1,759	5,206	5,085
Transportation, treating and gathering	1,165	172	3,508	990
Depreciation, depletion and amortization	2,673	2,954	6,068	14,314
Impairment of natural gas and oil properties				68,729
Accretion of asset retirement obligation	101	90	292	265
General and administrative expense	3,842	5,156	11,618	11,601
Litigation settlement expense	21,150		21,150	
Total expenses	30,564	10,207	48,142	101,309
<b>LOSS FROM OPERATIONS</b>	(16,420)	(5,944)	(12,097)	(76,245)
<b>OTHER INCOME (EXPENSE):</b>				
Interest expense	(22)	(1,031)	(120)	(3,330)
Early extinguishment of debt		(15,902)		(15,902)
Investment income and other	3	499	1,343	522
Gain on sale of assets		193,376		193,376
Unrealized warrant derivative gain (loss)	2	(495)	205	(495)
Foreign transaction gain	14	3,765	349	3,762
<b>INCOME (LOSS) BEFORE PROVISION FOR INCOME TAXES</b>	(16,423)	174,268	(10,320)	101,688
Provision for income tax expense (benefit)	(12)	65,776	(804)	65,776
<b>NET INCOME (LOSS)</b>	\$ (16,411)	\$ 108,492	\$ (9,516)	\$ 35,912
<b>NET INCOME (LOSS) PER SHARE:</b>				
Basic	\$ (0.33)	\$ 2.21	\$ (0.19)	\$ 0.80
Diluted	\$ (0.33)	\$ 2.21	\$ (0.19)	