

GASTAR EXPLORATION LTD
Form 10-Q
August 06, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

**x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
 ACT OF 1934
 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009**

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)

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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 August 4, 2009 was 49,588,093.

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GASTAR EXPLORATION LTD.

QUARTERLY REPORT ON FORM 10-Q

FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2009

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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 Quarterly Report on Form 10-Q as of and for the three and six months ended June 30, 2009 (Form 10-Q) are stated in United States dollars unless otherwise noted and (iii) all financial data included in this Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America (US GAAP).

General information about us can be found on our website at www.gastar.com. The information on our website is neither incorporated into, nor part of, this Form 10-Q. 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 for our United States filings and on SEDAR at www.sedar.com for our Canadian filings.

As of the opening of trading on August 3, 2009, a previously announced common share consolidation on the basis of one (1) common share for five (5) common shares (the 1-for-5 Reverse Split) became effective. All common share and per share amounts reported in the Form 10-Q have been reported on a post reverse split basis. See Note 17, Subsequent Events for additional information.

Table of Contents**GASTAR EXPLORATION LTD. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	June 30, 2009 (Unaudited)	December 31, 2008
	(in thousands)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,499	\$ 6,153
Accounts receivable, net of allowance for doubtful accounts of \$607 and \$560, respectively	2,943	5,296
Commodity derivative contracts	2,986	9,829
Due from related parties	1,197	2,382
Prepaid expenses	452	879
Total current assets	20,077	24,539
PROPERTY, PLANT AND EQUIPMENT:		
Natural gas and oil properties, full cost method of accounting:		
Unproved properties, not being amortized	159,182	141,860
Proved properties	327,162	309,103
Total natural gas and oil properties	486,344	450,963
Furniture and equipment	1,010	997
Total property, plant and equipment	487,354	451,960
Accumulated depreciation, depletion and amortization	(279,522)	(199,433)
Total property, plant and equipment, net	207,832	252,527
OTHER ASSETS:		
Restricted cash	533	70
Commodity derivative contracts	213	
Deferred charges, net	6,937	6,849
Drilling advances	1,999	4,352
Other	100	100
Total other assets	9,782	11,371
TOTAL ASSETS	\$ 237,691	\$ 288,437

LIABILITIES AND SHAREHOLDERS EQUITY

CURRENT LIABILITIES:		
Accounts payable	\$ 6,281	\$ 14,256
Revenue payable	5,660	5,005
Accrued interest	2,034	1,505
Accrued drilling and operating costs	2,002	2,915
Commodity derivative contracts	1,299	1,121
Other accrued liabilities	1,732	3,131
Due to related parties	1,060	2,143
Current portion of long-term debt	168,825	151,684

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Total current liabilities	188,893	181,760
LONG-TERM LIABILITIES:		
Long-term debt		
Commodity derivative contracts	273	
Asset retirement obligation	5,481	5,095
Total long-term liabilities	5,754	5,095
COMMITMENTS AND CONTINGENCIES (Note 14)		
SHAREHOLDERS' EQUITY:		
Common stock, no par value, unlimited shares authorized, 49,539,093 and 41,926,494 shares issued and outstanding at June 30, 2009 and December 31, 2008, respectively	263,799	249,980
Additional paid-in capital	24,806	22,883
Accumulated other comprehensive gain - fair value of commodity hedging	944	2,629
Accumulated other comprehensive gain - foreign exchange	4	19
Accumulated deficit	(246,509)	(173,929)
Total shareholders' equity	43,044	101,582
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 237,691	\$ 288,437

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 June 30,		For the Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands, except share and per share data)			
REVENUES:				
Natural gas and oil revenues	\$ 11,962	\$ 15,884	\$ 25,423	\$ 32,730
Unrealized natural gas hedge loss	(4,426)	(513)	(4,622)	(1,926)
Total revenues	7,536	15,371	20,801	30,804
EXPENSES:				
Production taxes	92	474	249	743
Lease operating expenses	1,449	2,408	3,326	3,950
Transportation and treating	325	498	818	957
Depreciation, depletion and amortization	3,361	5,890	11,360	12,299
Impairment of natural gas and oil properties			68,729	
Accretion of asset retirement obligation	88	82	175	164
General and administrative expense	3,487	4,064	6,445	8,339
Total expenses	8,802	13,416	91,102	26,452
INCOME (LOSS) FROM OPERATIONS	(1,266)	1,955	(70,301)	4,352
OTHER (EXPENSES) INCOME:				
Interest expense	(1,137)	(1,889)	(2,299)	(3,985)
Investment income and other	10	481	23	1,304
Foreign transaction loss		(1)	(3)	(38)
INCOME (LOSS) BEFORE INCOME TAXES	(2,393)	546	(72,580)	1,633
Provision for income taxes				
NET INCOME (LOSS)	\$ (2,393)	\$ 546	\$ (72,580)	\$ 1,633
NET INCOME (LOSS) PER SHARE:				
Basic	\$ (0.05)	\$ 0.01	\$ (1.68)	\$ 0.04
Diluted	\$ (0.05)	\$ 0.01	\$ (1.68)	\$ 0.04
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic	44,854,954	41,419,714	43,163,088	41,419,714
Diluted	44,854,954	41,495,033	43,163,088	41,495,033

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 CASH FLOWS****(Unaudited)**

	For the Six Months Ended June 30, 2009 2008 (in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ (72,580)	\$ 1,633
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation, depletion and amortization	11,360	12,299
Impairment of natural gas and oil properties	68,729	
Stock-based compensation	2,134	1,711
Net cash settlement of derivative contracts	4,622	1,926
Monetization of derivative contracts	2,465	
Amortization of other comprehensive income commodity hedging	(1,685)	
Amortization of deferred financing costs and debt discount	1,408	948
Accretion of asset retirement obligation	175	164
Changes in operating assets and liabilities:		
Restricted cash for hedging program		1,000
Accounts receivable	3,474	(4,719)
Prepaid expenses	368	225
Accounts payable and accrued liabilities	(5,068)	9,071