

# GEOMET, INC.

## FORM 8-K

(Current report filing)

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Address	909 FANNIN, SUITE 3208 HOUSTON, TX 77010
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**

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

**Date of Report (Date of earliest event reported) July 28, 2010**

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**GeoMet, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or Other Jurisdiction  
of Incorporation)

**000-52155**  
(Commission  
File Number)

**76-0662382**  
(I.R.S. Employer  
Identification No.)

**909 Fannin, Suite 1850  
Houston, Texas 77010**  
(Address of principal executive offices including Zip Code)

**(713) 659-3855**  
(Registrant's telephone number, including area code)

**N.A.**  
(Former name or former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02. Results of Operations and Financial Condition.**

On July 28, 2010, the Company issued a press release announcing the results for the quarter ended June 30, 2010, which is furnished herewith as Exhibit 99.1. The Company's press release announcing its financial results for its quarter ended June 30, 2010 contains financial measures not deemed to be in accordance with accounting principles generally accepted in the United States of America (GAAP). Generally, a non-GAAP financial measure is a numerical measure of the Company's performance, financial position, or cash flows that either excludes or includes amounts that are not normally excluded from or included in the most directly comparable measure calculated and presented in accordance with GAAP. Pursuant to the requirements of Regulation G, the Company has provided quantitative reconciliations within the press release of the non-GAAP financial measures to the most directly comparable GAAP financial measures.

The information in this Form 8-K and Exhibit 99.1 shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liabilities of that Section.

**Item 9.01. Financial Statements and Exhibits.**

(d) Exhibits.

<u>Exhibit No.</u>	<u>Document</u>
99.1	Press Release dated July 28, 2010

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**SIGNATURES**

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

**GeoMet, Inc.**  
(Registrant)

Dated: July 28, 2010

By: /s/ William C. Rankin  
Name: William C. Rankin  
Title: Executive Vice President and Chief Financial Officer



# GeoMet

Stephen M. Smith, Treasurer • 909 Fannin, Suite 1850 • Houston, Texas 77010 • Direct (713) 287-2251 • Fax (713) 659-3856 • www.geometinc.com

*"A Coalbed Methane Exploration & Development Company"*

## GeoMet Announces Financial and Operating Results for the Quarter Ended June 30, 2010

Houston, Texas—July 28, 2010-GeoMet, Inc. (NASDAQ: GMET) ("GeoMet" or the "Company") today announced its financial and operating results for the quarter ended June 30, 2010.

J. Darby Seré, GeoMet's Chairman and Chief Executive Officer, had the following comments, "In the first half of 2010, after five very difficult quarters which included the collapse of natural gas prices, uncertain credit markets, downward revisions in proved natural gas reserves and asset impairments that reduced our stockholders' equity by almost \$200 million, we have returned to profitability, on an adjusted basis, and our operating cash flows have grown. We have slashed our costs, settled costly and distracting litigation and expect to have improved our financial position and liquidity by the end of the third quarter."

### **Second Quarter 2010 Financial and Operating Results**

For the quarter ended June 30, 2010, GeoMet reported a net loss of \$1.8 million, or \$0.04 per fully diluted share. Included in the net loss was a \$3.0 million, or \$0.08 per fully diluted share, pre-tax, non-cash, mark-to-market loss on derivative contracts. Also included in the net loss was a \$1.4 million non-recurring charge related to a terminated financing transaction and a terminated effort to sell certain gas properties. The Company received net cash payments of \$2.2 million from derivative contracts during the current quarter. For the quarter ended June 30, 2009, GeoMet reported a net loss of \$19.4 million, or a loss of \$0.50 per fully diluted share. Included in the net loss for the quarter ended June 30, 2009 was a \$27.6 million, or \$0.71 per fully diluted share, pre-tax, non-cash impairment to the Company's gas properties and a \$2.1 million, or \$0.05 per fully diluted share, pre-tax, non-cash, mark-to-market loss on derivative contracts. The Company received net cash payments of \$2.7 million on derivative contracts during the prior year quarter.

Adjusted Net Income for the quarter was \$0.9 million as compared to Adjusted Net Loss of \$0.8 million in the prior year quarter. The primary drivers for improved operating results were lower production and general and administrative expenses and increased revenues. Adjusted Net Income (Loss) is a non-GAAP measure. See the accompanying table for a reconciliation of Adjusted Net Income (Loss) to Net (Loss) Income.

Adjusted EBITDA for the quarter increased to \$3.3 million from \$2.8 million in the prior year quarter. Adjusted EBITDA is a non-GAAP measure. Adjusted EBITDA for the quarter was reduced by a \$1.4 million non-recurring charge related to a terminated financing transaction and a terminated effort to sell certain gas properties. See the accompanying table for a reconciliation of Adjusted EBITDA to Net (Loss) Income.

Gas sales for the quarter were \$7.7 million as compared to gas sales of \$6.8 million in the second quarter of 2009. The average natural gas price during the quarter was \$4.20 per Mcf as compared to \$3.59 per Mcf in the prior year quarter. The average natural gas price, adjusted for realized gains and losses on derivative contracts, was \$5.41 per Mcf during the second quarter of 2010 versus \$5.03 per Mcf for the same period in 2009.

Average net gas sales volumes for the quarter ended June 30, 2010 were 20.0 MMcf per day, a 4% decrease from the same quarter in 2009 with no wells drilled in all of 2009 and only three new wells added to production during the current quarter.

Capital expenditures for the quarter ended June 30, 2010 were \$3.2 million as compared to \$2.2 million for the same quarter in the prior year.

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## **Six Months Ended June 30, 2010 Financial and Operating Results**

For the six months ended June 30, 2010, GeoMet reported net income of \$4.3 million, or \$0.11 per fully diluted share. Included in net income was a \$4.7 million, or \$0.12 per fully diluted share, pre-tax, non-cash, mark-to-market gain on derivative contracts. Net income for the period was reduced by a \$1.4 million non-recurring charge relating to a terminated financing transaction and a terminated effort to sell certain gas properties. The Company received net cash payments of \$3.7 million on derivative contracts during the current period. For the six months ended June 30, 2009, GeoMet reported a net loss of \$107.1 million, or \$2.75 per fully diluted share. Included in the net loss for the six months ended June 30, 2009 was a \$167.3 million, or \$4.29 per fully diluted share, pre-tax, non-cash impairment to the Company's gas properties and a \$2.0 million, or \$0.05 per fully diluted share, pre-tax, non-cash, mark-to-market loss on derivative contracts. The Company received net cash payments of \$5.5 million on derivative contracts during the prior year period.

Adjusted Net Income for the six months ended June 30, 2010 was \$2.2 million as compared to Adjusted Net Loss of \$1.8 million in the prior year period. The primary drivers for improved operating results were lower production and general and administrative expenses and increased revenues. Adjusted Net Income (Loss) is a non-GAAP measure. See the accompanying table for a reconciliation of Adjusted Net Income (Loss) to Net (Loss) Income.

Adjusted EBITDA for the six months ended June 30, 2010 increased to \$9.0 million from \$6.1 million in the prior year period. Adjusted EBITDA for the period was reduced by a \$1.4 million non-recurring charge related to a terminated financing transaction and a terminated effort to sell certain gas properties. Adjusted EBITDA is a non-GAAP measure. See the accompanying table for a reconciliation of Adjusted EBITDA to Net (Loss) Income.

Gas sales for the six months ended June 30, 2010 were \$17.5 million as compared to gas sales of \$16.3 million in the second quarter of 2009. The average natural gas price during the six months ended June 30, 2010 was \$4.81 per Mcf as compared to \$4.30 per Mcf in the prior year period. The average natural gas price, adjusted for realized gains and losses on derivative contracts, was \$5.82 per Mcf during the six months ended June 30, 2010 versus \$5.74 per Mcf for the same period in 2009.

Average net gas sales volumes for the six months ended June 30, 2010 were 20.1 MMcf per day, a 4% decrease from the same period in 2009 with no wells drilled in all of 2009 and only three new wells added to production during the current period.

Capital expenditures for the six months ended June 30, 2010 were \$4.8 million as compared to \$5.5 million for the same period in 2009.

## **Forward-Looking Statements Notice**

This press release may contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are subject to certain risks, trends and uncertainties that could cause actual results to differ materially from those projected. Among those risks, trends and uncertainties are our estimate of the sufficiency of our existing capital sources, our ability to raise additional capital to fund cash requirements for future operations, the uncertainties involved in estimating quantities of proved oil and natural gas reserves, in prospect development and property acquisitions and in projecting future rates of production, the timing of development expenditures and drilling of wells, and the operating hazards attendant to the oil and gas business. In particular, careful consideration should be given to cautionary statements made in the various reports the Company has filed with the SEC. GeoMet undertakes no duty to update or revise these forward-looking statements.

## **Conference Call Information**

GeoMet will hold its quarterly conference call to discuss the results for the quarter ended June 30, 2010 on July 28, 2010 at 10:30 a.m. Central Time. To participate, dial (888) 690-2874 a few minutes before the call begins. Please reference GeoMet, Inc. conference ID 6233604. The call will also be broadcast live over the Internet from the Company's website at [www.geometinc.com](http://www.geometinc.com). A replay of the conference call will be archived on the Company's website shortly after the end of the call on July 28, 2010.

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**About GeoMet, Inc.**

GeoMet, Inc. is an independent energy company primarily engaged in the exploration for and development and production of natural gas from coal seams (“coalbed methane”) and non-conventional shallow gas. Our principal operations and producing properties are located in the Cahaba Basin in Alabama and the Central Appalachian Basin in West Virginia and Virginia. We also control additional coalbed methane and oil and gas development rights, principally in Alabama, British Columbia, Virginia, and West Virginia.

For more information please contact Stephen M. Smith at (713) 287-2251 (ssmith@geometcbm.com), John Baldissera with BPC Financial at (800) 368-1217, or visit our website at [www.geometinc.com](http://www.geometinc.com).

**GEOMET, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Gas sales	\$ 7,661	\$ 6,838	\$17,545	\$ 16,290
Operating fees and other	71	77	145	175
Total revenues	<u>7,732</u>	<u>6,915</u>	<u>17,690</u>	<u>16,465</u>
<b>Expenses:</b>				
Total production expenses	4,176	4,954	8,495	11,339
Depreciation, depletion and amortization	1,450	1,982	3,096	5,018
Impairment of gas properties	—	27,582	—	167,295
General and administrative	1,315	2,181	2,793	5,154
Terminated transaction costs	1,403	—	1,403	—
Realized gains on derivative contracts	(2,211)	(2,734)	(3,671)	(5,457)
Unrealized losses (gains) on derivative contracts	2,974	2,144	(4,668)	1,958
Total operating expenses	<u>9,107</u>	<u>36,109</u>	<u>7,448</u>	<u>185,307</u>
Operating (loss) income	(1,375)	(29,194)	10,242	(168,842)
Other expenses & interest, net	<u>(1,418)</u>	<u>(1,404)</u>	<u>(2,654)</u>	<u>(2,378)</u>
(Loss) income before income taxes	(2,793)	(30,598)	7,588	(171,220)
Income tax benefit (expense)	<u>1,031</u>	<u>11,212</u>	<u>(3,323)</u>	<u>64,108</u>
Net (loss) income	<u>\$ (1,762)</u>	<u>\$ (19,386)</u>	<u>\$ 4,265</u>	<u>\$ (107,112)</u>
<b>(Loss) income per share:</b>				
Net (loss) income				
Basic	<u>\$ (0.04)</u>	<u>\$ (0.50)</u>	<u>\$ 0.11</u>	<u>\$ (2.75)</u>
Diluted	<u>\$ (0.04)</u>	<u>\$ (0.50)</u>	<u>\$ 0.11</u>	<u>\$ (2.75)</u>
<b>Weighted average number of common shares:</b>				
Basic	<u>39,241</u>	<u>39,123</u>	<u>39,200</u>	<u>39,024</u>
Diluted	<u>39,241</u>	<u>39,123</u>	<u>39,291</u>	<u>39,024</u>

**GEOMET, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

	<b>June 30, 2010</b>	<b>December 31, 2009</b>
<b>Assets:</b>		
Current assets	\$ 11,854	\$ 9,054
Properties and equipment, net of accumulated depreciation, depletion, amortization and impairment of gas properties	100,530	98,698
Deferred income taxes	49,712	51,805
Other assets	2,162	1,371
<b>Total assets</b>	<b><u>\$164,258</u></b>	<b><u>\$ 160,928</u></b>
<b>Liabilities and stockholders' equity:</b>		
Current liabilities	\$ 11,033	\$ 9,089
Long-term debt	116,406	119,996
Other long-term liabilities	5,184	4,935
<b>Total liabilities</b>	<b><u>132,623</u></b>	<b><u>134,020</u></b>
Total stockholders' equity	31,635	26,908
<b>Total liabilities and stockholders' equity</b>	<b><u>\$164,258</u></b>	<b><u>\$ 160,928</u></b>

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**GEOMET, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

	Six Months Ended June 30,	
	2010	2009
Net cash provided by operating activities	\$ 8,475	\$ 3,243
Net cash used in investing activities	(4,061)	(9,302)
Net cash (used in) provided by financing activities	(4,906)	5,173
Effect of exchange rates changes on cash	12	10
Decrease in cash and cash equivalents	(480)	(876)
Cash and cash equivalents at beginning of period	974	2,097
Cash and cash equivalents at end of period	<u>\$ 494</u>	<u>\$ 1,221</u>

**GEOMET, INC.**  
**OPERATING STATISTICS**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net sales volumes (MMcf)	1,824	1,903	3,644	3,790
Per Mcf data (\$/Mcf):				
Average natural gas sales price	\$ 4.20	\$ 3.59	\$ 4.81	\$ 4.30
Differential to NYMEX (1)	\$ 0.11	\$ (0.04)	\$ 0.12	\$ 0.04
Average natural gas sales price realized (2)	\$ 5.41	\$ 5.03	\$ 5.82	\$ 5.74
Adjusted lease operating expense (3)(4)	\$ 1.50	\$ 1.72	\$ 1.58	\$ 2.04
Compression expenses	\$ 0.42	\$ 0.50	\$ 0.40	\$ 0.47
Transportation expense	\$ 0.17	\$ 0.22	\$ 0.18	\$ 0.27
Production taxes	\$ 0.16	\$ 0.13	\$ 0.14	\$ 0.16
Total production expenses, as adjusted (3)	\$ 2.25	\$ 2.57	\$ 2.30	\$ 2.94
Depletion	\$ 0.72	\$ 0.96	\$ 0.78	\$ 1.24

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>POND CREEK FIELD</b>				
Net sales volumes (MMcf)	1,319	1,312	2,614	2,603
Per Mcf data (\$/Mcf):				
Lease operating expense	\$ 1.27	\$ 1.14	\$ 1.30	\$ 1.44
Compression expense	\$ 0.42	\$ 0.41	\$ 0.38	\$ 0.36
Transportation expense	\$ 0.23	\$ 0.31	\$ 0.24	\$ 0.38
Production taxes	\$ 0.15	\$ 0.10	\$ 0.16	\$ 0.13
Total production expenses	\$ 2.07	\$ 1.96	\$ 2.08	\$ 2.31

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
<b>GURNEE FIELD</b>				
Net sales volumes (MMcf)	466	537	941	1,109
Per Mcf data (\$/Mcf):				
Adjusted lease operating expense (3)(4)	\$ 2.12	\$ 2.60	\$ 2.05	\$ 2.75
Compression expense	\$ 0.38	\$ 0.58	\$ 0.38	\$ 0.52
Production taxes (5)	\$ 0.20	\$ 0.18	\$ 0.06	\$ 0.59
Total production expenses, as adjusted (3)	\$ 2.70	\$ 3.36	\$ 2.49	\$ 3.86

- (1) The difference between the average natural gas price for the period, before the impact of gain and losses on derivative contract, and the final average settlement price for natural gas contracts on the New York Mercantile Exchange ("NYMEX") for each month during the applicable period weighted by gas sales volumes.
- (2) Average realized price includes the effects of realized gains on derivative contracts.
- (3) Produced water disposal fees are recorded as operating fees and other on the Statement of Operations. Lease operating expense per Mcf has been adjusted for produced water disposal fees because the fees serve to offset operating expenses. See Reconciliation of Adjusted Lease Operating Expense.

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- (4) The decrease in adjusted lease operating expense since prior year is primarily due to a company-wide cost reduction strategy implemented in April 2009.
  - (5) The decrease in production taxes per Mcf for the six months ended June 30, 2010 was due to a refund received in March 2010 for production taxes related to our Gurnee field.

**GEOMET, INC.**  
**CONSOLIDATED DERIVATIVE CONTRACT POSITIONS**

At June 30, 2010, the Company had the following natural gas collar positions:

<u>Period</u>	<u>Volume (MMBtu)</u>	<u>Bought</u>		<u>Sold Floor</u>
		<u>Sold Ceiling</u>	<u>Floor</u>	
July through October 2010	492,000	\$6.80	\$5.50	\$3.50
July through October 2010	492,000	\$6.35	\$5.50	—
November 2010 through March 2011	604,000	\$7.45	\$6.50	—
	<u>1,588,000</u>			

At June 30, 2010, the Company had the following natural gas swap positions:

<u>Period</u>	<u>Volume (MMBtu)</u>	<u>Price</u>
July through October 2010	492,000	\$5.70
July through October 2010	369,000	\$6.30
November 2010 through March 2011	604,000	\$6.67
November 2010 through March 2011	906,000	\$7.27
April 2011 through October 2011	856,000	\$6.37
April 2011 through October 2011	856,000	\$5.37
April 2011 through October 2011	856,000	\$5.43
November 2011 through March 2012	608,000	\$7.12
November 2011 through March 2012	608,000	\$6.12
April 2012 through October 2012	856,000	\$5.73
November 2012 through March 2013	604,000	\$6.42
	<u>7,615,000</u>	\$6.42

At June 30, 2010, the Company had the following interest rate swap positions:

<u>Description</u>	<u>Effective date</u>	<u>Designated maturity date</u>	<u>Fixed rate (1)</u>	<u>Notional amount</u>
Floating-to-fixed swap	12/14/2007	12/14/2010	3.86%	\$15,000,000
Floating-to-fixed swap	1/6/2009	1/6/2011	1.38%	\$ 5,000,000
				<u>\$20,000,000</u>

(1) The floating rate paid by the counterparty is the British Bankers' Association LIBOR rate.

**GEOMET, INC.**  
**RECONCILIATION OF ADJUSTED EBITDA TO NET (LOSS) INCOME**

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net (loss) income	\$(1,762)	\$(19,386)	\$ 4,265	\$(107,112)
Add: Interest expense, net of interest income and amounts capitalized	1,419	1,413	2,637	2,386
Add (Deduct): Other (income) expense	(1)	(9)	17	(8)
Add (Deduct): Income tax (benefit) expense	(1,031)	(11,212)	3,323	(64,108)
Add : Depreciation, depletion and amortization	1,450	1,982	3,096	5,018
Add: Impairment of gas properties	—	27,582	—	167,295
Add: Unrealized losses (gains) on derivative contracts	2,974	2,144	(4,668)	1,958
Add: Stock based compensation	90	189	80	501
Add: Accretion expense	121	105	241	213
Adjusted EBITDA	<u>\$ 3,260</u>	<u>\$ 2,808</u>	<u>\$ 8,991</u>	<u>\$ 6,143</u>

The table above reconciles net (loss) income to Adjusted EBITDA. Adjusted EBITDA is defined as net (loss) income before net interest expense, other non-operating income, income taxes, depreciation, depletion and amortization before unrealized losses (gains) on derivative contracts, stock-based compensation and accretion expense. Although Adjusted EBITDA is not a measure of performance calculated in accordance with accounting principles generally accepted in the United States of America (GAAP), management believes that it is useful to GeoMet and to an investor in evaluating our company because it is a widely used measure to evaluate a company's operating performance.

**GEOMET, INC.**  
**RECONCILIATION OF ADJUSTED NET INCOME (LOSS) TO NET (LOSS) INCOME**

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Net (loss) income	\$(1,762)	\$(19,386)	\$ 4,265	\$(107,112)
Impairment of gas properties	—	27,582	—	167,295
Unrealized losses (gains) on derivative contracts, net of tax	2,974	2,144	(4,668)	1,958
Terminated transaction costs	1,403	—	1,403	—
Effect of income taxes	(1,672)	(11,164)	1,247	(63,952)
Adjusted Net Income (Loss)	<u>\$ 943</u>	<u>\$ (824)</u>	<u>\$ 2,247</u>	<u>\$ (1,811)</u>

The table above reconciles net (loss) income to Adjusted Net Income (Loss). Adjusted Net Income (Loss) is calculated by eliminating unrealized losses (gains) on derivative contracts from net (loss) income, impairments to our gas properties, terminated transaction costs, and their related tax effects to arrive at Adjusted Net Income (Loss). The tax effects are determined by calculating the tax provision for GAAP net (loss) income and comparing the results to the tax provision for Adjusted Net Income (Loss), which excludes the adjusting items. The difference in the tax provision calculations represents the effect of income taxes. The calculation is performed at the end of each quarter and, as a result, the tax rates for each discrete period are different. Although Adjusted Net Income (Loss) is a non-GAAP measure, we believe it is useful information for investors because the unrealized losses (gains) relate to derivative contracts that hedge our production in future months. The gains associated with derivative contracts that hedge current production are recognized in net (loss) income and are not eliminated in determining Adjusted Net Income (Loss). The adjustment better matches losses (gains) on derivative contracts with the period when the underlying hedged production occurs.

**GEOMET, INC.**  
**RECONCILIATION OF ADJUSTED LEASE OPERATING EXPENSE**

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Lease operating expense	\$ 2,813	\$ 3,348	\$ 5,920	\$ 7,918
Deduct: Produced water disposal fees	<u>71</u>	<u>77</u>	<u>145</u>	<u>175</u>
Adjusted lease operating expense	<u>\$ 2,742</u>	<u>\$ 3,271</u>	<u>\$ 5,775</u>	<u>\$ 7,743</u>

The table above reconciles lease operating expense to adjusted lease operating expense. Adjusted lease operating expense is calculated by eliminating the produced water disposal fees from lease operating expense to arrive at adjusted lease operating expense. Although adjusted lease operating expense is a non-GAAP measure, we believe it is useful information for investors because produced water disposal fees are recorded as operating fees and other on the Statement of Operations. Lease operating costs per Mcf are adjusted for produced water disposal fees because the fees serve to offset operating expenses. The adjustment better matches lease operating expense with the natural gas sales revenues it is associated with.