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, 2006

OR

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

For the transition period from ______ to ______

Commission File Number 000-52155

GeoMet, Inc.

(Exact name of registrant as specified in its charter)

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

909 Fannin, Suite 1850

Houston, Texas 77010

(713) 659-3855

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

N/A

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

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

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

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

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

As of November 7, 2006, there were 38,626,665 shares issued and outstanding of GeoMet, Inc. s common stock, par value $0.001 per share.

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Item 1. Financial Statements

GEOMET, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(Unaudited)

	September 30, 2006	December 31, 2005
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,924,272	$ 615,806
Accounts receivable	6,881,058	5,577,140
Current portion of notes receivable	79,701	310,210
Deferred tax asset		2,911,808
Derivative asset	1,743,220	
Other current assets	832,894	414,232
Total current assets	12,461,145	9,829,196
Gas properties utilizing the full cost method of accounting:		
Proved gas properties	289,875,036	229,519,222
Unevaluated gas properties, not subject to amortization	27,433,229	20,680,712
Other property and equipment	2,268,083	1,841,056
Total property and equipment	319,576,348	252,040,990
Less accumulated depreciation, depletion, and amortization	(20,836,288)	(15,392,300)
Property and equipment net	298,740,060	236,648,690
Other noncurrent assets:		
Note receivable	305,376	323,879
Derivative asset	1,292,046	
Other	697,600	1,107,234
Total other noncurrent assets	2,295,022	1,431,113
TOTAL ASSETS	$ 313,496,227	$ 247,908,999
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 16,877,646	$ 6,861,075
Derivative liability		8,931,926
Deferred tax liability	699,031	
Asset retirement liability	52,726	51,510
Accrued liabilities	1,993,170	1,265,989
Current portion of long-term debt	92,887	86,472
Total current liabilities	19,715,460	17,196,972
Long-term debt	41,847,302	99,926,378
Long-term derivative liability		2,611,592

Asset retirement liability	2,230,886	1,838,663
Other long-term accrued liabilities		258,573
Deferred income taxes	42,924,305	30,654,545
TOTAL LIABILITIES	106,717,953	152,486,723
Minority interest	12,164	
Commitments and contingencies (Note 11)		
Stockholders Equity:		
Preferred stock, $0.001 par value authorized 10,000,000, none issued		
Common stock, $0.001 par value authorized 125,000,000, and 40,000,000 shares; issued and outstanding 38,626,665 and 29,974,664 at September 30, 2006 and December 31, 2005, respectively	38,627	29,975
Paid-in capital	186,684,645	106,408,915
Accumulated other comprehensive income	341,444	56,310
Retained earnings	20,125,775	6,443,928
Less notes receivable	(424,381)	(17,516,852)
TOTAL STOCKHOLDERS EQUITY	206,766,110	95,422,276
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 313,496,227	$ 247,908,999

See accompanying Notes to Consolidated Financial Statements.

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GEOMET, INC. AND SUBSIDIARIES

Consolidated Statements of Operations and Comprehensive Income

(Unaudited)

	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenues:				
Gas sales	$ 10,968,436	$ 10,542,159	$ 33,419,380	$ 24,240,126
Gas marketing	5,028,774		5,028,774	
Operating fees and other		3,848		375,509
Total revenues	15,997,210	10,546,007	38,448,154	24,615,635
Expenses:				
Purchased gas	4,975,840		4,975,840	
Lease operating expense	2,509,875	2,317,593	8,183,527	6,211,819
Compression and transportation expense	1,040,660	850,620	3,172,298	2,331,618
Production taxes	259,915	230,802	764,852	518,556
Depreciation, depletion and amortization	2,168,456	1,028,630	5,748,942	3,377,617
Research and development	16,162	211,056	114,554	531,314
General and administrative	1,952,510	721,535	4,408,090	2,277,153
Realized (gains) losses on derivative contracts	(551,475)	2,152,429	(395,271)	2,288,724
Unrealized (gains) losses on derivative contracts	(4,134,128)	19,163,601	(14,578,784)	21,833,559
Total operating expenses	8,237,815	26,676,266	12,394,048	39,370,360
Income (loss) from operations	7,759,395	(16,130,259)	26,054,106	(14,754,725)
Other income (expense):				
Interest income	6,938	7,487	25,151	33,317
Interest expense (net of amounts capitalized)	(738,501)	(1,053,783)	(2,367,640)	(2,533,769)
Other	(22,867)	(6,952)	(4,598)	(6,952)
Total other expense	(754,430)	(1,053,248)	(2,347,087)	(2,507,404)
Income (loss) before income taxes and minority interest, net of income tax	7,004,965	(17,183,507)	23,707,019	(17,262,129)
Income tax expense (benefit)	2,765,272	(5,840,868)	10,013,008	(5,842,601)
Net income (loss) before minority interest , net of income tax	4,239,693	(11,342,639)	13,694,011	(11,419,528)
Minority interest loss (earnings), net of income tax	12,164		12,164	(442,336)
Net income (loss)	$ 4,227,529	$ (11,342,639)	$ 13,681,847	$ (10,977,192)
Other comprehensive income, net of income taxes				
Foreign currency translation adjustment, net of income tax of $0	45,481	85,490	285,134	67,951
Comprehensive income (loss)	$ 4,273,010	$ (11,257,149)	$ 13,966,981	$ (10,909,241)
Net income (loss) per common share:				
Basic	$ 0.11	$ (0.41)	$ 0.40	$ (0.40)

Diluted	$ 0.11	$ (0.41)	$ 0.39	$ (0.40)
Weighted average number of common shares:				
Basic	36,921,141	27,664,973	33,799,293	27,555,076
Diluted	37,770,453	27,664,973	34,801,578	27,555,076

See accompanying Notes to Consolidated Financial Statements.

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GEOMET, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity and Accumulated Other Comprehensive Income

(Unaudited)

		September 30, 2006
Preferred stock, $0.001 par value shares outstanding, none		
Common stock, $0.001 par value shares outstanding:		
Balance at beginning of year		29,974,664
144A offering, sale of common stock		2,317,023
Initial public offering		5,750,000
Exercise of stock options		584,978
Balance at end of period		38,626,665
Common stock, $0.001 par value:		
Balance at beginning of year	$	29,975
144A offering, sale of common stock		2,317
Initial public offering		5,750
Exercise of stock options		585
Balance at end of period	$	38,627
Paid-in capital:		
Balance at beginning of year	$	106,408,915
144A offering, sale of common stock		28,010,491
Initial public offering		53,469,250
Exercise of stock options		1,010,377
Offering costs		(2,996,890)
Stock-base compensation, including $815,735 of income tax benefit		1,278,355
Accrued interest on all notes receivable issued to purchase common stock, net of income tax		(495,853)
Balance at end of period	$	186,684,645
Accumulated other comprehensive income:		
Balance at beginning of year	$	56,310
Foreign currency translation adjustment, net of income tax of $0		285,134
Balance at end of period	$	341,444
Retained earnings:		
Balance at beginning of year	$	6,443,928
Net income		13,681,847
Balance at end of period	$	20,125,775
Notes receivable:		
Balance at beginning of year	$	(17,516,852)
Payments		17,184,357
Accrued interest on notes receivable issued to purchase common stock		(91,886)

Balance at end of period	$	(424,381)
Total Stockholders Equity	$	206,766,110

See accompanying Notes to Consolidated Financial Statements.

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GEOMET, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(Unaudited)

	Nine Months Ended September 30, 2006	2005
Cash flows provided by operating activities:		
Net income (loss)	$ 13,681,847	$ (10,977,192)
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation, depletion and amortization	5,863,879	3,513,364
Amortization of debt issuance costs	99,920	135,236
Minority interest	12,164	(442,336)
Deferred income taxes	10,010,646	(5,851,370)
Unrealized (gains) losses from the change in market value of open derivative contracts	(14,578,784)	21,833,559
Stock-based compensation	287,376	
Gain on sale of assets	(13,869)	
Accretion expense	117,683	71,501
Changes in operating assets and liabilities:		
Accounts receivable	(1,282,731)	(1,227,957)
Income tax refund receivable		(30,783)
Accrued income tax payable		(40,000)
Other current assets	(418,662)	(89,809)
Accounts payable	7,059,955	1,898,020
Other accrued liabilities	474,458	(373,375)
Net cash provided by operating activities	21,313,882	8,418,858
Cash flows used in investing activities:		
Capital expenditures	(58,286,091)	(49,425,468)
Proceeds from sale of other property and equipment	140,410	
Collection of notes receivable	249,012	
Restricted cash		130,243
Other assets	(67,422)	23,387
Net cash used in investing activities	(57,964,091)	(49,271,838)
Cash flows provided by financing activities:		
Debt issuance costs	(339,308)	(114,882)
Dividends		(3,000,000)
Proceeds from exercise of stock options	1,010,962	326,298
Equity offering costs	(2,280,447)	
Proceeds from sales of common stock	81,487,807	
Credit facility borrowings	84,250,000	55,000,000
Proceeds from notes receivable and accrued interest	17,184,357	
Payments on credit facility and other debt	(142,322,661)	(12,576,685)
Net cash provided by financing activities	38,990,710	39,634,731
Effect of exchange rate changes on cash	(32,035)	(4,667)
Increase (decrease) in cash and cash equivalents	2,308,466	(1,222,916)
Cash and cash equivalents at beginning of period	615,806	3,013,723

Cash and cash equivalents at end of period	$ 2,924,272	$ 1,790,807

See accompanying Notes to Consolidated Financial Statements.

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GEOMET, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 Organization and Our Business

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

The accompanying unaudited consolidated financial statements include our accounts and those of our wholly owned subsidiaries we control and a variable interest entity in which we are the primary beneficiary (See Note 2). All significant intercompany transactions and balances have been eliminated in consolidation. The unaudited consolidated financial statements reflect, in the opinion of our management, all adjustments, consisting only of normal and recurring adjustments, necessary to present fairly the financial position as of, and results of operations for, the interim periods presented. These financial statements have been prepared in accordance with the guidelines of interim reporting; therefore, they do not include all disclosures required for year-end financial statements prepared in conformity with accounting principles generally accepted in the United States of America. Interim period results are not necessarily indicative of results of operations or cash flows for the full year. These unaudited consolidated financial statements included herein should be read in conjunction with the audited financial statements for the fiscal year ended December 31, 2005 and the accompanying notes included in our registration statement on Form S-1, as amended, which we filed with the Securities and Exchange Commission (the SEC) on July 28, 2006.

On April 13, 2005, GeoMet acquired, through a stock exchange, the minority interest in its 81% owned subsidiary and merged the subsidiary into GeoMet. Following the merger, GeoMet changed its name from GeoMet Resources, Inc. to GeoMet, Inc.

Note 2 Variable Interest Entity

In December 2003, the Financial Accounting Standards Board (the FASB) issued Interpretation No. 46 (revised), *Consolidation of Variable Interest Entities* (FIN 46(R)), which requires variable interest entities to be consolidated by their primary beneficiaries. A primary beneficiary is the party that absorbs a majority of the entity s expected losses or receives a majority of the entity s expected residual returns, or both, as a result of ownership, contractual or other financial interests in the entity.

We market all of our gas through Shamrock Energy, LLC (Shamrock), a natural gas marketing entity, under a natural gas purchase contract that, effective March 2006 may be terminated by either party upon 90 days notice. The purchase contract calls for Shamrock to purchase gas from us from our properties covered by the purchase contract, including all of our major properties. Shamrock provides us with several related services, including nominations, gas control, gas balancing, transportation and exchange, market and transportation intelligence, and other advisory and agency services.

On June 14, 2006, we entered into an option agreement with Jon M. Gipson, the president of Shamrock, pursuant to which we have the right, from August 1, 2006 to January 31, 2007, to acquire all of the outstanding equity interests of Shamrock. In exchange for this option, we agreed (i) to extend our gas marketing agreement with Shamrock for a term ending no earlier than January 31, 2007, (ii) to advance, on or before August 1, 2006, $90,000 to Shamrock for working capital purposes during the option period, (iii) to provide any guarantees on behalf of Shamrock, up to an aggregate of $1,500,000, for transactions that Shamrock enters into during the option period that require such guarantees, and (iv) to advance up to an additional $50,000 to Shamrock as may be required to cover certain expenses of Shamrock prior to January 31, 2007, the date on which our option to purchase Shamrock expires. In July 2006, Mr. Gipson acquired all of the outstanding equity interest of Shamrock from Optigas, the parent of Shamrock, for $1.00. In August 2006, we advanced Shamrock $90,000 for working capital purposes, and we issued two guarantees, totaling $1,160,000, to Shamrock s customers in accordance with the option agreement. As of the date of this filing, the guarantees have not been called, and the advance is still outstanding. Although we are the primary beneficiary of this variable interest entity, the creditors of Shamrock do not have recourse against our

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general credit, and our losses are limited to our exposure under the guarantee and the $90,000 advance.

In the event that we exercise the Shamrock option, we will be obligated to provide Mr. Gipson an at-will employment position with us at an annual salary of not less than $130,000, and we will also pay Mr. Gipson an amount equal to 50% of the net profits generated by Shamrock from August 1, 2006 through the date that we elect to exercise the option, up to January 31, 2007. No additional consideration is due upon our exercise of the Shamrock option. In the event we do not exercise the option by January 31, 2007 and Mr. Gipson continues to operate Shamrock after the end of the option period, Shamrock will retain 100% of the net profits generated during the option period, all guarantees that we have entered into on behalf of Shamrock will terminate on January 31, 2007, and Shamrock will repay us all funds that we advanced to Shamrock in equal monthly payments, without interest, over an 18-month period. If we do not exercise the option by January 31, 2007 and Mr. Gipson elects not to continue to operate Shamrock, Mr. Gipson will wind up the affairs of Shamrock within 90 days after the end of the option period, and we will receive 100% of the net profits from Shamrock s operations during the wind-up period and the proceeds from the liquidation of Shamrock s assets, until we have been repaid all funds that we advanced to Shamrock and all guarantees that we entered into on behalf of Shamrock have been terminated and released.

In accordance with FIN 46(R), we consolidated Shamrock into our financial statements, effective August 1, 2006. We do not have any voting interest in Shamrock and as a result the consolidation of Shamrock did not have a material impact on our results of operations for the three and nine months ended September 30, 2006. Other than the Shamrock customers that we have provided guarantees to on behalf of Shamrock, the remainder of Shamrock s customers have no recourse against us. Our losses are limited to the current advance of $90,000 and the amounts outstanding under the existing guarantee ($1,160,000) which have not been recorded as of September 30, 2006. As of September 30, 2006, $3,209,419 of assets and $3,209,419 of liabilities have been included in our unaudited consolidated balance sheet as a result of applying FIN 46(R) to Shamrock, a variable interest entity. Over 99 per cent of the assets and liabilities are current.

Note 3 Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes. The interpretation prescribes a two-step process in the recognition and measurement of a tax position taken or expected to be taken in a tax return. The first step is to determine if it is more likely than not that a tax position will be sustained upon examination by taxing authorities. If this threshold is met, the second step is to measure the tax position on the balance sheet by using the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. FIN 48 also requires additional disclosures. FIN 48 is effective prospectively for fiscal years beginning after December 15, 2006. We are currently evaluating the impact that FIN 48 will have on our operations and financial condition.

In September 2006, the FASB issued FASB No. 157, *Fair Value Measurements* (FASB 157). FASB 157 establishes a single authoritative definition of fair value sets out a framework for measuring fair value and requires additional disclosures about fair value measurements. FASB 157 applies only to fair value measurements that are already required or permitted by other accounting standards. FASB 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact that adopting FASB 157 will have on our operations and financial condition.

In September 2006, the SEC released Staff Accounting Bulletin 108 (SAB 108). SAB 108 provides interpretative guidance on how the effects of a carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement. SAB 108 is effective for fiscal years ending after November 15, 2006. We are currently evaluating the impact that adopting SAB 108 will have on our operations and financial condition.

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Note 4 Net Income Per Share

Net Income (loss) Per Share of Common Stock Basic earnings per share is calculated by dividing net income by the weighted average number of shares of common stock outstanding during the period. No dilution for any potentially dilutive securities is included. Fully diluted earnings per share assumes the conversion of all potentially dilutive securities and is calculated by dividing net income by the sum of the weighted average number of shares of common stock outstanding plus potentially dilutive securities. Dilutive earnings per share consider the impact of potentially dilutive securities except in periods in which there is a loss because the inclusion of the potential common shares would have an anti-dilutive effect. A reconciliation of the numerator and denominator is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
Net income (loss) per share:				
Basic-net income per share	$ 0.11	$ (0.41)	$ 0.40	$ (0.40)
Diluted-net income per share	$ 0.11	$ (0.41)	$ 0.39	$ (0.40)
Numerator				
Net income available to common stockholders basic	$ 4,227,529	$ (11,342,639)	$ 13,681,847	$ (10,977,192)
Denominator:				
Weighted average shares outstanding-basic	36,921,141	27,664,973	33,799,293	27,555,076
Add potentially dilutive securities:				
Stock options	849,312		1,002,286	
Dilutive securities	37,770,453	27,664,973	34,801,578	27,555,076

Note 5 Gas Properties

The Company uses the full cost method of accounting for its investment in gas properties. Under this method of accounting, all costs of acquisition, exploration and development of gas reserves (including such costs as leasehold acquisition costs, geological expenditures, dry hole costs related to unsuccessful projects, tangible and intangible development costs) are included in the full cost pool. In addition, the Company capitalizes interest expense, direct general and administrative expenses, direct stock-based compensation expense, and additions resulting from asset retirement liabilities. Also under full cost accounting rules, total net capitalized costs are limited to a ceiling equal to the present value of future net revenues, discounted at 10% per annum, plus the lower of cost or fair value of unevaluated properties less income tax effects (the ceiling limitation). We perform a quarterly ceiling test to evaluate whether the net book value of our full cost pool exceeds the ceiling limitation using natural gas prices in effect as of the balance sheet date and adjusted for basis or location differential, held constant over the life of the reserves. To the extent that capitalized costs of gas properties, net of accumulated depreciation, depletion and amortization and income taxes, exceed the ceiling limitation, such excess capitalized costs would be charged to results of operations. At September 30, 2006, the net capitalized costs exceeded the ceiling limitation by approximately $1,579,000. However, as allowed by the Securities and Exchange Commission guidelines, since gas prices have significantly increased subsequent to quarter end no charge to operations were required as of September 30, 2006.

Note 6 Asset Retirement Liability

We record an asset retirement obligation (ARO) on the consolidated balance sheet and capitalize the asset retirement costs in gas properties in the period in which the retirement obligation is incurred if a reasonable estimate of the fair value of an obligation can be made. The amount of the ARO and the costs capitalized are equal to the estimated future costs to satisfy the obligation using current prices that are escalated by an assumed inflation factor up to the estimated settlement date, which is then discounted back to the date the abandonment obligation was incurred using an assumed cost of funds for GeoMet. Once the ARO is recorded, it is then accreted to its estimated future value using the same assumed cost of funds.

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The following table details the changes to our asset retirement liability for the nine months ended September 30, 2006:

Asset retirement obligation at beginning of year	$ 1,890,173
Liabilities incurred	327,503
Liabilities settled	(33,680)
Accretion	132,310
Revisions in estimates	(39,021)
Foreign currency translation	6,327
Asset retirement obligation at end of period	2,283,612
Less: current portion of obligation	52,726
Long-term asset retirement obligation	$ 2,230,886

Note 7 Price Risk Management Activities

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

We account for our derivative contracts as accounting hedges using mark-to-market accounting under FASB 133, *Accounting for Derivative Instruments and Hedging Activities.* During the three and nine months ended September 30, 2006, we recognized gains on derivative contracts of $4,685,603 and $14,974,055 including realized gains of $551,475 and $395,271, respectively. During the three and nine months ended September 30, 2005, we recognized losses on derivative contracts of $21,316,030 and $24,122,283 including realized losses of $2,152,429 and $2,288,724, respectively.

At September 30, 2006 and at December 31, 2005, the fair values of open derivative contracts were assets and liabilities of approximately $3.0 million and $11.5 million, respectively.

As of September 30, 2006, the following natural gas derivative contracts were outstanding with prices expressed in dollars per million British thermal units ($/MMBtu) and notional volumes in million British thermal units. For our natural gas derivative contracts, summer months apply to April through October and winter months apply to November through March.

Instrument Type	Production Period	Volumes (MMBtu)	Weighted Average Floor Prices ($/MMBtu)			Weighted Average Cap Prices ($/MMBtu)	
Collars (3 way)	Summer 2006	372,000	$	5.88	$7.00	$	8.49
Collars (3 way)	Winter 2006/2007	1,510,000	$	6.70	$8.20	$	11.02
Collars (3 way)	Summer 2007	1,712,000	$	5.75	$7.38	$	10.50
Collars (3 way)	Winter 2007/2008	1,216,000	$	6.00	$9.00	$	14.80
Collars (3 way)	Summer 2008	1,712,000	$	5.00	$7.00	$	10.50

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Note 8 Long-Term Debt

The following is a summary of our long-term debt at September 30, 2006 and December 31, 2005:

	September 30, 2006	December 31, 2005
Borrowings under bank credit facility	$ 41,000,000	$ 99,000,000
Note payable to a third party, annual installments of $53,000 through January 2011, interest-bearing at 8.25% annually, unsecured	210,227	243,166
Note payable to an individual, semi-monthly installments of $644, through September 2015, interest-bearing at 12.6% annually, unsecured	140,517	146,571
Salary continuation payable to an individual, semi-monthly installments of $3,958, through December 2015, non-interest-bearing (less amortization discount of $572,074, with an effective rate of 8.25%), unsecured	589,445	623,113
Total debt	41,940,189	100,012,850
Less current maturities included in current liabilities	(92,887)	(86,472)
Total long-term debt	$ 41,847,302	$ 99,926,378

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

As of September 30, 2006, the borrowing base under the bank credit facility was $150 million of which $41 million of borrowings were outstanding, resulting in a borrowing availability of $109 million. For the nine months ended September 30, 2006 we borrowed $84.3 million and made payments of $142.3 million under the credit facility. As of September 30, 2006, the outstanding balances on the revolving credit facility bear interest at either the bank s adjusted base rate, which is the bank s base rate, which is never less than the Federal Funds Rate plus 0.5%, or the adjusted LIBOR rate, plus a margin of 1.00% to 2.00%, based on borrowing base usage.

We are subject to certain restrictive financial and non-financial covenants under the credit agreement, including a minimum current ratio of 1.0 to 1.0, and a maximum rate of EBITDA to interest expense of 2.75 to 1.0, both as defined in the credit agreement. As of September 30, 2006, we were in compliance with all of the covenants in the credit agreement. The bank credit facility matures on January 6, 2011.

Note 9 Common Stock

Effective January 24, 2006, our board of directors approved a four-for-one common stock split and increased our authorized capital stock from 40,000,000 shares of common stock at December 31, 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. Prior periods have been adjusted for the stock split.

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 this private equity offering, together with the proceeds from the repayment of certain of the selling stockholders loans, to repay a portion of the borrowings under our bank credit facility and for general corporate purposes. In connection with the private equity offering, we sold an additional 250,000 shares of our common stock to qualified institutional buyers on February 7, 2006, from which we received aggregate consideration

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of approximately $3.0 million, or $12.09 per share, pursuant to the initial purchaser s option to purchase additional shares. We used the net proceeds generated from this sale to repay a portion of the borrowings under our bank credit facility and for general corporate purposes.

On July 27, 2006, the SEC declared effective our registration statement on Form S-1 (Registration No. 333-131716), which registered for sale with the SEC the 10,250,000 shares of common stock issued in the private equity offering discussed above. Also on July 27, 2006, the SEC declared effective our registration statement on Form S-1 (Registration No. 333-134070), which registered 5,750,000 shares of our common stock for sale in an underwritten initial public offering. The initial public offering closed on August 2, 2006, and the price per share was $10.00. We received net proceeds of approximately $52.6 million from the initial public offering, after deducting estimated offering expenses and underwriting discounts and commissions. We used the net proceeds from the initial public offering to reduce outstanding borrowings under our bank credit facility.

For the nine months ended September 30, 2006, a total of 584,978 shares of common stock were issued upon the exercise of stock options.

Note 10 Stock Options

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

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

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

In 2001, GeoMet established a stock option plan that authorized the granting of options to key employees. The exercise price of each option granted pursuant to the 2001 Plan was not less than 100% of the fair market value of a share of common stock on the date the option was granted. The options granted under the 2001 Plan have a term of seven years. Prior to the effective date of our merger with our majority-owned subsidiary, options granted pursuant to the 2001 Plan entitled the holder to acquire shares of GeoMet s majority-owned subsidiary. Effective with the merger of the majority-owned subsidiary into GeoMet, all of the outstanding options under the 2001 Plan became fully vested and were exchanged for options to acquire common stock of GeoMet under the 2005 Stock Option Plan. There will be no future grants of awards under the 2005 Stock Option Plan.

The 2006 Long-Term Incentive Plan authorized the granting of incentive stock options, non-qualified stock options, stock appreciation rights, stock awards, restricted stock, restricted stock units and performance awards. The maximum number of shares available for grant under this plan is 2,000,000. The 2006 Long-Term Incentive Plan is available to our employees and independent directors and is designed to (1) attract and retain employees and independent directors, (2) further align their interest with shareholder interest and (3) closely link compensation with GeoMet s performance. Generally, the exercise price of a stock option granted under this plan may not be less than the fair market value of the common stock on the date of grant. The options have a term of seven years, vest evenly over three years, except for awards that are performance based. Performance based awards vest when the performance criteria has been met.

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Incentive Stock Options

The table below summarizes incentive stock option activity for the nine months ended September 30, 2006:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding at December 31, 2005	893,324	$ 2.55	3.60	
Granted	150,945	13.00	6.90	
Forfeited	15,000			
Exercised	424,978	$ 1.44		
Outstanding at September 30, 2006	604,291	$ 5.82	4.24	$ 2,707,837
Options exercisable at September 30, 2006	402,346	$ 2.89	3.17	$ 2,707,837

The total intrinsic value (current market price less option strike price) of the incentive stock options exercised during the nine months ended September 30, 2006 was $4.7 million, and we received $0.6 million in cash from the exercise of the qualified stock options.

Non-Qualified Stock Options

In conjunction with the sale of common stock to certain of our executive officers during 2000, we granted these officers options to acquire 400,000 shares of common stock of GeoMet at $2.50 per share. The holders of the options also had a right to be issued additional options to acquire five percent of any additional common stock issued at a price of $2.50 per share. The executive officers were issued options to acquire 600,000 shares in conjunction with the issuance of 12,000,000 common shares in 2003 and were issued options to acquire 200,000 shares in conjunction with the issuance of 4,000,000 common shares in 2004. The options have a term of 10 years and are fully vested and exercisable.

The table below summarizes non-qualified stock option activity for the nine months ended September 30, 2006: