GeoMet, Inc.
Form PRE 14A
June 10, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

SCHEDULE 14A

(RULE 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934 (Amendment No. __)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

x Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

¨ Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

GEOMET, INC.

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11. (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

GEOMET, INC.

909 Fannin St., Suite 1850

Houston, Texas 77010

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS

To Be Held on July 20, 2010

NOTICE is hereby given that a special meeting of stockholders of GeoMet, Inc. (the Company) will be held on July 20, 2010, at 10:00 a.m., local time, at the Company s principal office, located at 909 Fannin St., Suite 1850, Houston, Texas 77010, for the purpose of acting on the following matters:

1. To approve a rights offering granting stockholders one right to purchase one share of Series A Convertible Redeemable Preferred Stock, par value $0.001 per share (Preferred Stock), for every [9.863117] shares of our common stock, par value $0.001 per share, they own, at a purchase price of $10.00 per share, or an aggregate of 4,000,000 shares of Preferred Stock for an aggregate purchase price of $40,000,000 (the Rights Offering) (including the issuance of any additional shares of Preferred Stock that may be issued as paid-in-kind dividends with respect to such shares and the issuance of any shares of our common stock upon the conversion of shares of Preferred Stock).

2. To approve the Investment Agreement, dated as of June 2, 2010 between the Company and Sherwood Energy, LLC (Sherwood), pursuant to which Sherwood has committed to purchase, for $10.00 per share, any shares of Preferred Stock not purchased in the Rights Offering (the Investment Agreement).

3. Such other business as may properly come before the special meeting or any adjournment or postponement thereof.

Approval of each of the Rights Offering and the Investment Agreement is conditioned upon the approval of the other. Unless both the Rights Offering and the Investment Agreement are approved, the Company will not proceed with either transaction.

Only stockholders of record at the close of business on June 15, 2010 are entitled to notice of, and to vote, at the special meeting or any adjournment thereof. A complete list of stockholders entitled to vote at the meeting will be available for examination by any stockholder at the Company s offices located at 909 Fannin St., Suite 1850, Houston, Texas 77010, for purposes relating to the special meeting, during normal business hours for a period of 10 days before the special meeting.

Whether or not you expect to attend the special meeting in person, please submit a proxy as soon as possible. In order to submit a proxy, please call the toll-free number listed on the enclosed proxy card, use the Internet as described on the enclosed proxy card, or complete, date and sign the enclosed proxy card and return it in the enclosed envelope, which requires no additional postage if mailed in the United States. If you attend the special meeting, and if you so choose, you may withdraw your proxy and vote in person.

The foregoing items of business are more fully described in the proxy statement accompanying this Notice.

Dated: June 25, 2010

By Order of the Board of Directors

/s/ Stephen M. Smith
Stephen M. Smith
Secretary

Important Notice Regarding the Availability of Proxy Materials for the Special Meeting of Stockholders to be Held on July 20, 2010: A full set of proxy materials, including the accompanying proxy statement and form of proxy, is available at www.proxyvote.com. The Control

Number for accessing the materials is set forth on the accompanying proxy card.

GEOMET, INC.

909 Fannin St., Suite 1850

Houston, Texas 77010

PROXY STATEMENT, DATED JUNE 25, 2010

For Special Meeting of Stockholders

To be Held on July 20, 2010

GENERAL

The accompanying proxy is solicited by the Board of Directors (the Board or the Board of Directors) of GeoMet, Inc. (the Company or GeoMet for use at a special meeting of stockholders of the Company to be held on July 20, 2010, at 10:00 a.m., local time, at the Company s principal office, located at 909 Fannin St., Suite 1850, Houston, Texas 77010 (the special meeting). This proxy statement contains information related to the special meeting. The approximate date on which this proxy statement and the accompanying proxy are first being sent to stockholders is June 15, 2010.

The cost of soliciting proxies will be borne by the Company. The Company may use certain of its officers and employees (who will receive no special compensation therefor) to solicit proxies in person or by telephone, facsimile, telegraph or similar means.

Proxies

Shares represented by valid proxies and not revoked will be voted at the special meeting in accordance with the directions given. If no direction is given, such shares will be voted in accordance with the recommendations of our Board unless otherwise indicated. Any stockholder returning a proxy may revoke it at any time before it has been exercised by giving written notice of such revocation to the Corporate Secretary of the Company, by filing with the Company a proxy bearing a subsequent date or by voting in person at the special meeting.

Voting Procedures and Tabulation

Holders of record of our common stock may vote using one of the following three methods:

By Mail: Stockholders of record may vote by signing, dating and returning the proxy card in the accompanying postage-paid envelope.

By Telephone: Stockholders of record may call the toll-free number on the accompanying proxy card to vote by telephone, in accordance with the instructions set forth on the proxy card and through voice prompts received during the call.

By Internet: www.proxyvote.com. Use the internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the cut-off date of meeting date. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

Proxies submitted by telephone or the internet are treated in the same manner as if the stockholder had signed, dated and returned the proxy card by mail. Therefore, stockholders of record electing to vote by telephone or the internet should not return their proxy cards by mail.

The Company will appoint one or more inspectors of election to conduct the voting at the special meeting. Prior to the meeting, the inspectors will sign an oath to perform their duties in an impartial manner and to the best of their abilities. The inspectors will ascertain the number of shares outstanding and the voting power of each share, determine the shares represented at the meeting and the validity of proxies and ballots, count all votes and ballots and perform certain other duties as required by law.

The inspectors will tabulate the number of votes cast for, against or withheld. A majority of the common stock outstanding and entitled to vote at the special meeting must be present in person or represented by proxy in order to constitute a quorum. The affirmative vote of a majority of the total votes cast is required to approve each of the Rights Offering and the Investment Agreement. Brokers who hold shares in street name have the discretionary authority to vote on certain routine items when they have not received instructions from beneficial owners. In instances where brokers are prohibited from exercising discretionary authority and no instructions are received from beneficial owners with respect to such item (so-called broker non-votes), the shares they hold will not be considered part of the voting power present and, therefore, will have no effect on the vote. Broker non-votes will have no effect on voting on the proposals to approve the Rights Offering and the Investment Agreement and related matters, provided a quorum is present. Abstentions will be counted as a vote against the proposals.

Voting Securities

The only voting security of the Company outstanding is its common stock, par value $0.001 per share, referred to herein as common stock . Only the holders of record of common stock at the close of business on June 15, 2010, which is referred to as the Record Date , are entitled to notice of, and to vote at, the special meeting. On the Record Date, there were 39,452,467 shares of common stock outstanding and entitled to be voted at the meeting. A majority of such shares entitled to vote and present in person or by proxy, is necessary to constitute a quorum. Each share of common stock is entitled to one vote on each matter presented at the meeting.

QUESTIONS AND ANSWERS RELATING TO THE SPECIAL MEETING

The Proposals

Why did I receive these materials?

All holders of our common stock as of the Record Date are entitled to vote at our special meeting of stockholders, which will be held on July 20, 2010. As a stockholder, you are invited to attend the special meeting and are requested to vote on the proposals described in this proxy statement. We are required by law to distribute these proxy materials to all stockholders as of the Record Date. This proxy statement provides notice of the special meeting of stockholders, describes the proposals presented for stockholder action and includes information required to be disclosed to stockholders so that you can make an informed decision. The accompanying proxy card enables stockholders to vote on the matters without having to attend the special meeting in person.

What will I be voting on?

There are two proposals: (1) To approve a rights offering granting stockholders one right to purchase one share of Preferred Stock for every [9.863117] shares of our common stock they own, at a purchase price of $10.00 per share, or an aggregate of 4,000,000 shares of Preferred Stock for an aggregate purchase price of $40,000,000 (the Rights Offering) (including the issuance of any additional shares of Preferred Stock that may be issued as paid-in-kind dividends with respect to such shares and the issuance of any shares of our common stock upon the conversion of shares of Preferred Stock); and (2) to approve the Investment Agreement, pursuant to which Sherwood has committed to purchase, for $10.00 per share, any shares of Preferred Stock not purchased in the Rights Offering. We refer to the subject matter of proposals (1) and (2) collectively herein as the Rights Offering Transaction .

What is the Rights Offering Transaction?

The Board of Directors has approved, and requests stockholder approval of, a Rights Offering whereby each holder of our common stock would receive one share purchase right for every [9.863117] shares of common stock held by the holder on the record date for the Rights Offering. Each right will entitle the holder to purchase, at a per-share price of $10.00, one share of Preferred Stock on or prior to the expiration time of the Rights Offering. The Preferred Stock will be convertible at any time into common stock for a price of $1.30 per share of common stock, subject to customary adjustments. No fractional rights or fractional shares will be issued, but a stockholder who owns, in the aggregate, less than 9.863117 shares of our common stock as of the record date of the Rights Offering (and consequently would receive less than one right based on the preceding formula) will be entitled to one right. For more information see the section entitled The Rights Offering on page 11.

The Board of Directors has also approved, and requests stockholder approval of, the Investment Agreement between the Company and Sherwood, whereby Sherwood would backstop the Rights Offering by purchasing all of the shares of Preferred Stock offered in the Rights Offering but not purchased at its close. For more information see the sections entitled Investment Agreement on page 16.

Will the Rights Offering Transaction dilute the existing stockholders percentage ownership in the Company?

The Rights Offering Transaction will dilute the ownership of any stockholder who does not fully subscribe for shares of Preferred Stock in the Rights Offering. The Rights Offering will allow stockholders the right to purchase Preferred Stock, the terms of which are described in more detailed in the section entitled Principal Terms of the Preferred Stock on page 11. The Preferred Stock may be converted into our common stock. In addition, the terms of the Preferred Stock require the Company to pay dividends on the Preferred Stock which the Company may pay in the form of additional shares of Preferred Stock (which may also be converted into our common stock). The extent to which an existing stockholder s ownership in the Company will be diluted will be

substantially dependent upon the decision of each holder of common stock whether to subscribe for shares of Preferred Stock in the Rights Offering. For more information see the sections entitled Background of Rights Offering and Investment Agreement on page 7 and Certain Effects of the Rights Offering and the Rights Offering Transaction on page 14.

If the Rights Offering is approved by the stockholders, am I required to exercise any rights I receive in the Rights Offering?

No. You may exercise any number of your rights you receive, or you may choose not to exercise any of those rights.

Will the rights I receive be transferable?

Yes. The rights stockholders receive in the Rights Offering will be transferable. Stockholders who are not affiliates of the Company may sell their rights to the extent a market for the rights develops. There can be no guarantee that the rights will be listed or quoted on a securities exchange and we cannot assure you that a market for these rights will materialize or that stockholders will be able to sell their rights for value.

Voting Information and Other Information about the Special Meeting

Who is entitled to vote at the special meeting?

Only stockholders of record at the close of business on the Record Date are entitled to receive notice of, and to participate in, the special meeting. If you were a stockholder of record on the Record Date, you will be entitled to vote all of the shares that you held on that date at the special meeting, or any postponements or adjournments of the meeting.

How many votes do I have?

You will be entitled to one vote for each outstanding share of our common stock you own as of the Record Date. As of the Record Date, there were [39,452,467] shares of our common stock outstanding.

How many shares must be present or represented to conduct business at the special meeting?

A majority of the common stock of the Company outstanding and entitled to vote at the special meeting must be present in person or represented by proxy in order to constitute a quorum. Proxies received but marked as abstentions will be included in the calculation of the number of votes considered to be present at the meeting.

How can I vote my shares in person at the special meeting?

Shares held in your name as the stockholder of record may be voted by you in person at the special meeting. Shares held by you beneficially in street name through a broker, bank or other nominee may be voted by you in person at the special meeting only if you obtain a legal proxy from the broker, bank or other nominee that holds your shares giving you the right to vote the shares.

How can I vote my shares without attending the special meeting?

Holders of record of our common stock may vote using one of the following three methods:

By Mail: Stockholders of record may vote by signing, dating and returning the proxy card in the accompanying postage-paid envelope.

By Telephone: Stockholders of record may call the toll-free number on the accompanying proxy card to vote by telephone, in accordance with the instructions set forth on the proxy card and through voice prompts received during the call.

By Internet: www.proxyvote.com. Use the internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the cut-off date of meeting date. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

Proxies submitted by telephone or the internet are treated in the same manner as if the stockholder had signed, dated and returned the proxy card by mail. Therefore, stockholders of record electing to vote by telephone or the internet should not return their proxy cards by mail.

Can I change my vote after I return my proxy card?

Yes. Any stockholder returning a proxy may revoke it at any time before it has been exercised by giving written notice of such revocation to the Secretary of the Company, by filing with the Company a proxy bearing a subsequent date or by voting in person at the special meeting. For shares you hold beneficially in street name, you may change your vote by submitting new voting instructions to your broker, bank or other nominee or, if you have obtained a legal proxy from your broker, bank or other nominee giving you the right to vote your shares, by attending the special meeting and voting in person. In either case, the powers of the proxy holders will be suspended if you attend the meeting in person and so request, although attendance at the meeting will not by itself revoke a previously granted proxy.

What vote is required to approve the Rights Offering Transaction?

Assuming a quorum is present at the special meeting, the affirmative vote of a majority of the total votes cast is required to approve each of the Rights Offering and the Investment Agreement. Brokers who hold shares in street name have the discretionary authority to vote on certain routine items when they have not received instructions from beneficial owners. In instances where brokers are prohibited from exercising discretionary authority and no instructions are received from beneficial owners with respect to such item (so-called broker non-votes), the shares they hold will not be considered part of the voting power present and, therefore, will have no effect on the vote. Neither the Rights Offering nor the Investment Agreement is a routine matter, therefore brokers will not have discretionary authority to vote proxies at the special meeting without instruction from the beneficial owners. Broker non-votes will have no effect on voting on the proposals to approve the Rights Offering and Investment Agreement, provided a quorum is present. Abstentions will be counted as a vote against the proposal.

Yorktown Energy Partners IV, L.P., which owns approximately 36% of our outstanding common stock, has notified to the Company that it intends to vote all of its 14,187,072 shares of common stock in favor of the Rights Offering and Investment Agreement proposals.

Will stockholders be asked to vote on any other matters?

To the knowledge of the Company and its management, stockholders will vote only on the matters described in this proxy statement. However, if any other matters properly come before the special meeting, the persons named as proxies for stockholders will vote on those matters in the manner they consider appropriate.

Who counts the votes?

The Company will appoint one or more inspectors of election to conduct the voting at the special meeting. Prior to the meeting, the inspectors will sign an oath to perform their duties in an impartial manner and to the best of their abilities. The inspectors will ascertain the number of shares outstanding and the voting power of each share, determine the shares represented at the meeting and the validity of proxies and ballots, count all votes and ballots and perform certain other duties as required by law. The inspectors will tabulate the number of votes cast for, against or withheld. If you are a stockholder of record, your signed proxy card is returned directly to the Transfer Agent for tabulation. If you hold your shares in street name through a broker, bank or other nominee, your broker, bank or other nominee will return one proxy card to the Transfer Agent (or vote its shares as otherwise permitted) on behalf of its clients.

What should I do if I receive more than one set of voting materials?

You may receive more than one set of voting materials, including multiple copies of this proxy statement and multiple proxy cards or voting instruction cards. For example, if you hold your shares in more than one brokerage account, you may receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a stockholder of record and your shares are registered in more than one name, you will receive more than one proxy card. Please complete, sign, date and return each proxy card and voting instruction card that you receive.

Where can I find the voting results of the special meeting?

We intend to announce the preliminary voting results at the special meeting and will publish the final results in a current report on Form 8-K following the special meeting.

What is the Board of Directors recommendation?

The Board of Directors recommends a vote FOR the Rights Offering and Investment Agreement proposals, and your proxy will be so voted, unless you specify otherwise.

What will happen if either the Rights Offering or the Investment Agreement is not approved?

If our stockholders do not approve either the Rights Offering or the Investment Agreement, we will not be able to proceed with the Rights Offering and Sherwood will be entitled to terminate the Investment Agreement. In such event, the Company would owe Sherwood a fee equal to approximately $1,950,000 (in addition to the initial $250,000 non-refundable fee previously paid to Sherwood). In addition, the Company would likely default under its credit facility and would be required to obtain an alternative source of financing. If we were unable to secure additional financing, we would likely pursue a restructuring of our indebtedness or file for protection under the U.S. Bankruptcy Code.

This proxy statement is not an offer to sell or the solicitation of an offer to buy shares of our Preferred Stock or any other securities, whether under the terms of the Rights Offering, the Investment Agreement or otherwise. Offers and sales of our Series A Convertible Redeemable Preferred Stock issuable in the Rights Offering will only be made by means of a prospectus meeting the requirements of the Securities Act of 1933, as amended, and applicable state securities laws, on the terms and subject to the conditions set forth in such prospectus.

BACKGROUND OF RIGHTS OFFERING AND INVESTMENT AGREEMENT

In the summer of 2008, natural gas prices began a decline from levels above $13 per thousand cubic feet (Mcf) to less than $3 per Mcf in the summer of 2009. These reduced natural gas prices significantly impacted our operating cash flow. Additionally, a severe credit crisis developed in late 2008. As a result of these matters and the continued underperformance of our Gurnee field, we initiated efforts in the first quarter of 2009 to lower our cost structure, protect our operating margins and reduce borrowings outstanding. These efforts included personnel reductions and other cost reduction measures, increased natural gas price hedging and initiatives to sell assets. Although we believed that our proved reserves continued to support a borrowing base of over $120 million, due to reduced operating cash flow our debt to EBITDA ratio was in excess of levels considered conforming by our banks and their regulators. Our current bank credit facility matures in May 2011; therefore, it is necessary that we reduce our debt to EBITDA ratio to conforming levels in order to secure an extension of our credit facility on a long-term basis. Our cost reduction program and our hedging program have been successful but we have not been successful in selling assets. As a result, we determined that the Company needed to secure other forms of capital to bring its debt to EBITDA ratio into a conforming range.

In August, 2009 certain members of the Company s management initiated preliminary discussions with representatives of Yorktown Partners LLC (Yorktown), which is an affiliate of the Company s largest stockholder, Yorktown Energy Partners IV, L.P. (Yorktown IV), the owner of approximately 36.0% of our outstanding common stock, regarding a potential financing transaction involving a private company also affiliated with Yorktown. In view of the potential conflicts of interest in a potential financing transaction with one or more affiliates of Yorktown, and in an effort to ensure that the Company and its stockholders were adequately represented in the review and evaluation of any potential financing transaction, the Board appointed a special committee of independent directors of the Board (the Special Committee) to represent the interests of the Company and its stockholders in: (1) reviewing and evaluating the terms and provisions of any potential financing transaction, (2) responding to and, if deemed appropriate by the Special Committee, negotiating the terms and conditions of the potential financing transaction, (3) recommending the approval or disapproval (in the Special Committee s sole discretion) of the terms and provisions of any potential financing transaction to the Board, and (4) taking such other action with respect to any potential financing transaction as might be necessary. The Board determined that Stanley L. Graves and Charles D. Haynes were independent for the purposes of evaluating a potential financing transaction involving a Yorktown affiliate and, further, did not have any personal or business relationships that could reasonably lead to a conflict of interest. The Board concluded that Messrs. Graves and Haynes could adequately represent the interests of the Company and its stockholders in a potential financing transaction. The Special Committee retained its own legal counsel to represent it during this process.

After a cessation of discussions with the Yorktown-affiliated company, the Company contacted eight energy investment firms in September and October, 2009 regarding their interest in participating with another Yorktown-affiliated company in a potential financing transaction. Among those contacted was Cadent Energy Partners, LLC (Cadent). Cadent declined due to the status of the Company s ongoing disputes and litigation with CONSOL Energy, Inc. and certain of its affiliates, including CNX Gas Company LLC (the CONSOL/CNX Litigation) and the uncertainty regarding the form of the potential financing transaction at that time.

In October, 2009 the Special Committee interviewed four potential financial advisors and, after evaluating the capabilities of those firms, directed the Company to hire Evercore Group L.L.C. (Evercore) as financial advisor to the Special Committee. Evercore s responsibilities were to: (1) provide financial advisory services, (2) identify potential investors to participate in a potential financing transaction with a Yorktown-sponsored company and the Company, and (3) provide a fairness opinion to the Company and its non-Yorktown-affiliated stockholders, if requested by the Company. The Company continued to hold discussions with Natural Gas Partners, one of the eight energy investment firms contacted prior to the engagement of Evercore, and then with NGP Capital Resources Company (NGPC), an affiliate of Natural Gas Partners. Because it was Evercore s opinion that the Company needed to settle the CONSOL/CNX Litigation, Evercore did not contact any potential investors until February, 2010. None of the six investors contacted by Evercore at that time chose to pursue the

investment opportunity. The CONSOL/CNX Litigation settlement agreement was signed by the parties on April 16, 2010 and became effective on May 3, 2010 after receipt of certain third party signatures on certain agreements which were conditions precedent to the effectiveness of the settlement agreement.

In early February, 2010, NGPC delivered a preliminary term sheet to the Company outlining the terms of a proposed financing transaction in which NGPC and North Shore Energy, LLC (North Shore), an affiliate of Yorktown, would each purchase up to $20 million of the Company s convertible preferred stock in the event that a proposed rights offering of the convertible preferred stock was not fully subscribed by our common stockholders. The Special Committee, in consultation with its financial advisors, believed that the rights offering structure of the proposed financing was important. The Special Committee considered the dilutive impact that an equity financing would have on our existing stockholders, and believed that a rights offering structure could mitigate dilution of our existing stockholders by allowing them to participate in an offering of new equity in the Company. While the ownership percentage of current stockholders who do not participate to the fullest extent in the Rights Offering will decrease, the Special Committee considered that the magnitude of this dilution would be substantially dependent upon the decision of each holder of common stock whether to subscribe for additional equity in the Rights Offering Transaction. In addition, the Special Committee considered that a fully backstopped rights offering would only occur if approved by the holders of a majority of our outstanding common stock. After weighing these factors and the fact that the proposed rights offering and backstop commitment would generate $40 million in additional capital, before expenses, and seemed to the Special Committee to be the most viable option for raising that amount of additional capital, the Special Committee concluded that a rights offering with a full backstop commitment was in the best interests of the Company and our stockholders.

Over the course of the next several weeks, our management team, in frequent consultation with the Special Committee and its legal counsel and financial advisor, negotiated the material terms and conditions of the proposed financing, primarily with NGPC. The Special Committee held four meetings with its legal and financial advisors during March, 2010, discussing and evaluating the NGPC and North Shore commitment letters. On March 25, 2010, the Special Committee met with its legal and financial advisors and Company management to consider recommending that the Board authorize Company management to execute the NGPC and North Shore commitment letters. Evercore confirmed that it was in a position to render a fairness opinion upon the execution of a definitive backstop agreement incorporating the financial terms set forth in the commitment letters. The Special Committee determined, after considering all relevant factors, costs and circumstances, that the financing transaction proposed by NGPC and North Shore represented the best available alternative for the Company and its stockholders. The members of the Special Committee unanimously approved and recommended to the Board approval of the Company s execution of commitment letters with NGPC and North Shore and the commencement of negotiations to develop a definitive backstop agreement for subsequent consideration by the Special Committee of the Board.

Our Board convened on March 25, 2010, to consider the Special Committee s recommendation. Following a presentation by Messrs. Graves and Haynes of the Special Committee s evaluation of the proposed financing, and a presentation by Evercore regarding its assessment of the fairness of the proposed transaction, from a financial standpoint, to our stockholders, the Board approved the terms of the proposed commitment letters and authorized management to enter into commitment letters with NGPC and North Shore.

On March 29, 2010, we executed commitment letters with NGPC and North Shore, whereby NGPC and North Shore each agreed to the preliminary terms of a commitment to purchase up to $20 million each ($40 million in the aggregate) of the Company s convertible preferred stock in the event that a proposed rights offering of the convertible preferred stock was not fully subscribed by our common stockholders. The Company paid $250,000 to each of NGPC and North Shore, which represented a non-refundable deposit required under the terms of the commitment letters. The Company, NGPC and North Shore commenced negotiations of the terms and provisions of a definitive backstop agreement which continued through April.

On April 30, 2010, we received a commitment letter from Sherwood Energy, LLC, an affiliate of Cadent, whereby Sherwood offered to purchase up to $40 million of the Company s convertible preferred stock in the event that a proposed rights offering of the convertible preferred stock is not fully subscribed by our common

stockholders. Although similar to the NGPC and North Shore proposed financing in several respects, the Sherwood proposal was considered by management to be more favorable to the Company, particularly with regard to the cash dividend rate for the first two years, the ability of the Company to begin forcing conversion of the preferred stock to common stock two years earlier and at twice the rate and the absence of certain operational and financial covenants. The Sherwood proposal was promptly forwarded to the Special Committee for consideration. The Company informed NGPC and North Shore that it had received a competing offer to backstop a rights offering and that the offer would be evaluated by the Special Committee. The Company was not allowed to communicate the terms and conditions of the alternative proposal without the prior consent of Sherwood. The Special Committee then held meetings during the following three days with its financial and legal advisors to review the terms of the Sherwood proposal and compare them to the terms of the proposed NGPC and North Shore financing commitments. With the assistance of counsel for the Company, the Special Committee assessed the legal consequences of suspending negotiation with NGPC and North Shore and commencing negotiations with Sherwood. On May 1, 2010, the Special Committee briefed members of the Board by telephone conference regarding its preliminary findings and its recommendations for improving the terms of the Sherwood proposal. The Board authorized management to attempt to secure such improvements from Sherwood.

On May 3, 2010, the Company received a new commitment letter from Sherwood that contained some, but not all, of the improvements to the April 30, 2010 commitment letter that were sought and the Company also received a letter from Cadent which confirmed Cadent s willingness to provide up to $40 million to Sherwood to support Sherwood s purchase commitment. The Special Committee met again on May 4, 2010 with its financial and legal advisors to further evaluate the Sherwood proposal and the potential termination of the financing commitments with NGPC and North Shore. After a lengthy discussion, the Special Committee determined that the proposed Sherwood commitment represented a superior proposal to the NGPC and North Shore commitments for the following reasons: (1) the cash dividend required under the Sherwood commitment was 8% for the first three years after closing as compared to 9.6% in the NGPC and North Shore commitments, (2) under the Sherwood commitment, the Company could begin forced conversion of the preferred stock two years earlier and at twice the quarterly rate, reducing the carrying costs and overhang of the preferred stock, and (3) the Sherwood commitment would impose considerably fewer covenants, giving management and the Board greater latitude to run the business and providing less likelihood that defaults could occur for reasons outside the Company s control. The Special Committee then recommended that the Board approve the suspension of negotiations with NGPC and North Shore pursuant to their previously executed commitment letters and approve the Sherwood commitment. Later that day at a special meeting of the Board, the Special Committee presented its findings and recommendations to the Board. Following a presentation by Evercore of its analysis of the Sherwood proposal, and following further discussion, the Board approved suspension of negotiations with NGPC and North Shore and approved the Sherwood commitment. The Board directed management to suspend negotiations with NGPC and North Shore and to execute the Sherwood commitment letter. Sherwood received an initial non-refundable payment of $250,000 from the Company in exchange for the commitment letter. The initial payment will be credited against a $1.2 million fee due to Sherwood upon the closing of the Rights Offering and the Backstop Commitment (or the termination of the Investment Agreement for any reason other than a breach by Sherwood).

On May 4, 2010, the Company notified NGPC and North Shore in writing that it had executed a commitment letter with Sherwood and, consequently, would cease further negotiations with NGPC and North Shore. Shortly thereafter, NGPC and North Shore advised the Company that they considered the termination of the commitment letters to be improper, constituting a breach of those letters. The Company retained separate counsel to assist in the resolution of this dispute.

On May 6, 2010, the Company received a proposal from another prospective investor to backstop a rights offering of preferred stock and referred the proposal to the Special Committee for its consideration. The following day, in consultation with its legal and financial advisors as well as management of the Company, the Special Committee concluded that proposed terms did not constitute a superior offer to the Sherwood commitment. In light of the Special Committee s determination and the exclusivity obligations contained in the Sherwood commitment letter, the Company did not pursue the alternative proposal.

On May 28, 2010, the Company reached agreements with each of NGPC and North Shore regarding the termination of the commitment letters. Under the terms of those agreements, the Company paid an additional $220,000 in cash to North Shore and an additional $350,000 in cash to NGPC. Total payments to North Shore and NGPC were $470,000 and $600,000, respectively, after taking into account the initial $250,000 payment made to each party. The Company has also agreed to reimburse NGPC and North Shore for reasonable costs and out-of-pocket expenses incurred by them in connection with their commitment to provide financing to the Company. Additionally, the Company, NGPC and North Shore, as well as Sherwood and its parent, Cadent, agreed to release each other from any claims or causes of action relating to the terminated commitment letters.

During that same period, the Company negotiated the terms and provisions of a definitive Investment Agreement with Sherwood. A final draft of the Investment Agreement was presented to the Special Committee for consideration. On June 1, 2010, the Special Committee met with its legal and financial advisors and Company management to consider recommending that the Board authorize Company management to execute the Investment Agreement. Evercore confirmed that it was still in a position to render a fairness opinion to the Company with respect to the financial terms of the Investment Agreement and the transactions contemplated therein. The Special Committee determined, after considering all relevant factors, including the fairness opinion from Evercore, the cost, terms, timing, closing conditions, termination fee, likelihood of success, and amount of capital that the Company needed to raise, that the transactions contemplated in the Investment Agreement represented the best available alternative for the Company and its stockholders. The members of the Special Committee unanimously approved and recommended to the Board for adoption the terms of the Investment Agreement.

Our Board convened later that day to consider the Special Committee s recommendation. Following a presentation by Messrs. Graves and Haynes of the Special Committee s evaluation of the proposed financing, and of its receipt of a presentation by Evercore regarding its assessment of the fairness of the financial terms of the Investment Agreement to the Company, the Board approved the terms of the Investment Agreement and Rights Offering Transaction, and authorized management to finalize and execute the Investment Agreement.

On June 2, 2010, Yorktown IV entered into an agreement with Sherwood whereby Yorktown IV agreed not to exercise or transfer certain of its rights to purchase Preferred Stock that Yorktown IV will receive in the Rights Offering in order to induce Sherwood to enter into the Investment Agreement and for a cash payment of $65,000. Specifically, Yorktown IV has agreed not to transfer or exercise rights relating to 9,187,072 shares of common stock held by Yorktown IV, which would permit it to exercise rights relating to the remaining 5,000,000 shares during the Rights Offering. Following receipt of an executed copy of this agreement, Sherwood and the Company executed the Investment Agreement on June 2, 2010.

PROPOSAL ONE

APPROVAL OF RIGHTS OFFERING

The Company is submitting for stockholder approval a proposal to approve a rights offering granting stockholders one right to purchase one share of Preferred Stock for every [9.863117] shares of our common stock they own, at a purchase price of $10.00 per share, or an aggregate of 4,000,000 shares of Preferred Stock for an aggregate purchase price of $40,000,000 (the Rights Offering) (including the issuance of any additional shares of Preferred Stock that may be issued as paid-in-kind dividends with respect to such shares and the issuance of any shares of our common stock upon the conversion of shares of Preferred Stock).

The Rights Offering

We intend to distribute to the record holders of our common stock as of the record date for the Rights Offering transferable subscription rights (the Rights) to subscribe for and purchase shares of Preferred Stock, subject to approval of the Rights Offering Transaction. The per-share purchase price for such shares of Preferred Stock will be $10.00, which (on an as-converted basis) is equal to an approximate 35% premium to the average closing price of our common stock during the ten trading days preceding April 1, 2010, the date we entered into the commitment letter with NGPC and North Shore, and an approximate 1.5% discount to the average closing price of our common stock during the ten trading days preceding May 4, 2010, the date on which we entered into the commitment letter with Sherwood. The Rights will entitle the holders of our common stock to purchase an aggregate of 4,000,000 shares of Preferred Stock for an aggregate purchase price of up to $40,000,000.

Each holder of record of our common stock on the record date for the Rights Offering will receive one Right for every [9.863117] shares of common stock held by the holder on the record date, which we currently anticipate will be on or about July 12, 2010. No fractional rights or fractional shares will be issued, but a holder who would receive less than one Right based on the preceding formula will be entitled to one right. Each full Right will entitle the holder thereof to purchase, on or prior to the expiration time of the Rights Offering, one share of our Preferred Stock for a purchase price of $10.00.

This proxy statement is not an offer to sell or the solicitation of an offer to buy shares of Preferred Stock, common stock or any other securities, including the Rights or any shares of Preferred Stock issuable upon exercise of the Rights or any shares of common stock issuable upon conversion of the Preferred Stock. Offers and sales of Preferred Stock issuable upon exercise of the Rights and common stock issuable upon conversion of the Preferred Stock will only be made by means of a prospectus meeting the requirements of the Securities Act of 1933, as amended (the Securities Act), and applicable state securities laws, on the terms and subject to the conditions set forth in such prospectus. In connection with the Rights Offering, we plan to file a prospectus supplement to our Shelf Registration Statement on Form S-3 (File No. 333-163193) with the Securities and Exchange Commission (SEC).

Use of Proceeds

Proceeds from the Rights Offering Transaction will be used to pay down indebtedness under the Company s existing credit facility.

Principal Terms of the Preferred Stock

General Information

The Preferred Stock will rank senior to our common stock in liquidation preference. As of the date of this proxy statement, the Company does not have any shares of preferred stock issued and outstanding, and, therefore the Preferred Stock will be our most senior equity security when issued in the Rights Offering Transaction. The number of shares of Preferred Stock that will be issued or reserved for issuance as of the Backstop Closing Date will be 7,401,832 (which number includes 3,401,832 shares of Preferred Stock reserved exclusively for the

payment of dividends in kind (PIK Dividends)). The Preferred Stock does not have preemption rights. For more detailed information describing the Preferred Stock, we urge you to review the copy of the form of Certificate of Designations attached hereto as Appendix B.

Conversion; Conversion Price

The Preferred Stock will be convertible into common stock at an initial conversion price of $1.30 per share. The initial conversion price will be subject to adjustment as provided below. The Preferred Stock will be convertible at any time after the closing date of the Rights Offering (the Closing Date), in whole or in part, at the option of the Preferred Stockholder. The Preferred Stock will convert into a number of shares of common stock determined by dividing (i) the sum of (A) $10.00 plus (B) accrued but unpaid dividends by (ii) the conversion price. The conversion price and resulting number of shares of common stock issued upon conversion of Preferred Stock will be adjusted to reflect stock splits and similar events and will be entitled to anti-dilution adjustments for any dividends paid on common stock in cash or in common stock, the issuance of additional equity securities at a price less than the conversion price (including rights and options but excluding any shares, rights or options issued pursuant to certain option agreements entered into with J. Darby Seré or William C. Rankin, the Company s 2005 Stock Option Plan, the Company s 2006 Long Term Incentive Plan or any similar long term incentive plan subsequently approved by the Company s stockholders) on a weighted average basis, and the occurrence of certain material corporate transactions at a per share valuation less than the conversion price.

Forced Conversion by the Company

The Company will have the right, at any time beginning three years after the Closing Date but no sooner than ninety (90) days after a previous Forced Conversion Notice (as defined below), to convert any or all shares of Preferred Stock into common stock at the conversion price, subject to the limitations described herein and in the Certificate of Designations; provided that in order for the Company to exercise such option, the daily volume-weighted average trading price of the common stock on the national securities exchange on which the common stock is then traded (the VWAP) must be greater than 225% of the conversion price for twenty (20) out of the trailing thirty (30) trading days (the VWAP Trigger). The trading day immediately following the occurrence of a VWAP Trigger shall be referred to as a Forced Conversion Determination Date . The maximum number of shares of common stock to be issued to the holders of the Preferred Stock subject to a forced conversion in connection with any Forced Conversion Determination Date will be equal to, either (i) in the case that the VWAP Trigger is greater than 225% but less than 250% of the conversion price, the greater of three million shares of common stock, as adjusted for any common stock splits, common stock dividends on common stock or a similar event subsequent to the Closing Date, or ten (10) times the average daily trading volume (ADTV) of the common stock during the VWAP Trigger period, or (ii) in the case that the VWAP is greater than or equal to 250% of the conversion price, the greater of six million shares of common stock, as adjusted for any common stock splits, common stock dividends on common stock or similar event subsequent to the Closing Date, or ten (10) times the ADTV of the common stock during the VWAP Trigger period.

To convert the Preferred Stock into shares of our common stock pursuant to a forced conversion, the Company will, within five business days of a Forced Conversion Determination Date, give written notice (a Forced Conversion Notice , and the date of such notice, a Forced Conversion Notice Date) to each holder of Preferred Stock stating that the Company elects to force conversion of such Preferred Stock and shall state therein (i) the number of shares of Preferred Stock to be converted, (ii) the VWAP of the common stock during the VWAP Trigger period, (iii) the Company s computation of the number of shares of common stock to be received by the holder upon the date of conversion, and (iv) the date of the conversion, which will be no more than ten (10) trading days following the Forced Conversion Determination Date.

Dividends

Dividends will be paid quarterly on the Preferred Stock, including any Preferred Stock issued as PIK Dividends, which in the Company s sole discretion and in any combination hereof, may be paid either in the form of cash, in which case the applicable annual rate will be equal to 8.0% for the first three years after closing and thereafter 9.6%, or, until the fifth anniversary of the Closing Date, in PIK Dividends, in which case the applicable annual rate will be equal to 12.5%. All dividends will be cumulative and all unpaid dividends will compound on a quarterly basis at the 12.5% rate.

Voting Rights

The holders of Preferred Stock will be entitled to vote on all matters which the holders of our common stock are entitled to vote, and except as otherwise stated herein, the Preferred Stockholder will vote together with our common stockholders as a single class. Each holder of Preferred Stock will be entitled to a number of votes equal to the number of shares of common stock into which all of the outstanding shares of Preferred Stock held by such holder on the record date are convertible immediately prior to the vote. So long as any shares of Preferred Stock are outstanding, the Company may not take any of the following acts without receiving the approval of at least 50% of the shares of Preferred Stock, voting as a separate class:

- any amendment, alteration or change in the powers, designations, preferences, rights, qualifications, limitations or restrictions of the Preferred Stock in any manner that affects the Preferred Stockholders; or
- any amendment, repeal or alteration of any provision of the Certificate of Incorporation or the Bylaws of the Company or in the Certificate of Designations in any manner that adversely affects the Preferred Stockholders.

So long as at least 750,000 shares of Preferred Stock are outstanding (as adjusted for stock dividends, splits, combinations and similar events), the Company may not take any of the following acts without receiving the prior written consent of holders representing at least 50% of the shares of Preferred Stock, voting as a separate class:

- any increase in the total number of authorized or issued shares of Preferred Stock, except as required for payment of dividends;
- any authorization, creation or issuance of any senior securities or securities in parity with the Preferred Stock (including but not limited to convertible debt of the Company);
- any redemption, acquisition or purchase of any junior securities or securities in parity with the Preferred Stock except for such redemptions, acquisitions or other purchases of (A) common stock up to $5 million in the aggregate and (B) shares of Preferred Stock in accordance with the terms thereof;
- a change in control of the Company;
- a Liquidation Event (as defined below); or
- any contract or other arrangement to do any of the foregoing.

Liquidation

Upon the occurrence of a liquidation, dissolution or winding up of the Company resulting in a payment or distribution of assets to the holders of any of the Company s capital stock (each such event, a Liquidation Event), the holders of Preferred Stock (including PIK Dividends) will be entitled to receive, prior and in preference to any payment, or segregation for payment, of any consideration to any holder of any junior security of the Company, an amount in cash equal to the greater of (i) $10.00 per share, plus any accrued but unpaid dividends (in each case adjusted for

any stock dividends, splits, combinations or similar events), and (ii) an amount equal to the amount such holders of Preferred Stock would have received upon the Liquidation Event if they had converted their shares of Preferred Stock into shares of our common stock.

Redemption; Redemption Price

If not converted, the Preferred Stock (including any PIK Dividends) will be redeemable by the Company on or at any time after a Liquidation Event. In the absence of a Liquidation Event, if not converted, a holder of Preferred Stock (including any PIK Dividends) may cause the Company to redeem the Preferred Stock held by such holder, in whole or in part, on or after eight (8) years from the Closing Date, upon 30 days prior written notice to the Company. Upon any redemption of Preferred Stock by the Company, as of the effective date of the redemption, the Company will pay to each holder of Preferred Stock, $10.00 per share of Preferred Stock (including any PIK Dividends) held plus any accrued but unpaid dividends (in each case adjusted for any stock dividends, splits, combinations or similar events).

Interests of Certain Persons

On May 28, 2010, the Company entered into a settlement agreement with North Shore, an affiliate of Yorktown, and Sherwood and certain Sherwood affiliates, whereby the Company agreed, in exchange for a release of North Shore s claims against the Company, Sherwood and Sherwood s affiliates, to pay North Shore a fee of $220,000 plus reimbursement of North Shore s expenses in connection with the negotiation, preparation, administration and enforcement of the commitment letter it entered into with the Company and its negotiations with the Company regarding a potential backstop arrangement. Also on May 28, 2010, the Company entered into a similar settlement agreement with NGPC, and Sherwood and certain Sherwood affiliates, whereby the Company agreed, in exchange for a release of NGPC s claims against the Company, Sherwood and Sherwood s affiliates, to pay NGPC a fee of $350,000 plus reimbursement of NGPC s expenses in connection with the negotiation, preparation, administration and enforcement of the commitment letter it entered into with the Company and its negotiations with the Company regarding a potential backstop arrangement.

On June 2, 2010, Yorktown IV entered into an agreement with Sherwood whereby Yorktown IV agreed not to exercise or transfer certain of its rights to purchase Preferred Stock that Yorktown IV will receive in the Rights Offering in order to induce Sherwood to enter into the Investment Agreement and for a cash payment of $65,000. Specifically, Yorktown IV has agreed not to transfer or exercise rights relating to 9,187,072 shares of common stock held by Yorktown IV, which would permit it to exercise rights relating to the remaining 5,000,000 shares during the Rights Offering. Following receipt of an executed copy of this agreement, Sherwood and the Company executed the Investment Agreement on June 2, 2010.

Except as described herein, we are not aware of any current plans or proposals by Sherwood or its affiliates with respect to any extraordinary corporate transactions involving us or any sale of our assets or change in our management, capitalization, dividend policy, Certificate of Incorporation or Bylaws, or any other change in our business or corporate structure or with respect to the delisting or deregistration of any of our securities.

Certain Effects of the Rights Offering and The Rights Offering Transaction

To the extent that holders of our common stock do not exercise their Rights, and shares of our Preferred Stock are purchased by Sherwood or other stockholders pursuant to the Rights Offering, such non-exercising holders proportionate equity and voting interest in the Company will be reduced.

Even if some stockholders other than Sherwood exercise their Rights, Sherwood could have a substantial ownership interest in the Company after the Rights Offering Transaction. As a result, Sherwood could have the voting power to significantly influence the election of the Board of Directors and the approval of other matters presented for consideration by the stockholders. Sherwood also will have the power to nominate up to two directors (and in certain cases, a majority of the Board), as described below under the section entitled Investment Agreement *Corporate Governance Arrangements* on page 16.

The Rights Offering Transaction may also result in a decrease in the market value of our common stock. This decrease in market value may continue after the completion of the Rights Offering Transaction. Following the Rights Offering Transaction, Sherwood and our other stockholders or their transferees will own

30,769,231 shares of common stock, on an as-converted basis (subject to adjustment), or approximately 44% of the common stock then outstanding, which number could increase to 56,937,169 shares of common stock, on an as-converted basis (subject to adjustment), if the Company elects for five years following the Closing Date to pay all dividends it is required to pay on the Preferred Stock in the form of PIK Dividends. Because the Company intends to file a prospectus supplement to its registration statement with respect to shares issued in the Rights Offering, all of the Preferred Shares acquired by our non-affiliate stockholders will be available for sale immediately after such prospectus supplement becomes effective without any control over the timing or volume of sales thereof by the Company or any third party. The Company has also agreed to register shares issued to Sherwood in the Rights Offering Transaction for resale. It is possible that if Sherwood or other stockholders attempt to convert the Preferred Stock to common stock and to sell a significant percentage of such available shares within a short period of time, the market for our common stock may be adversely affected. It is also unclear whether the market for our common stock or Preferred Stock could absorb a large number of attempted sales in a short period of time, regardless of the price at which the shares of our common stock or Preferred Stock might be offered. Even if a substantial number of sales do not occur within a short period of time, the mere existence of this market overhang could have a negative impact on the market for our common stock or Preferred Stock and our ability to raise additional capital.

We currently have 125,000,000 shares of common stock authorized for issuance. The reservation of a portion of these authorized shares for the conversion of Preferred Stock issued in the Rights Offering Transaction or issued as PIK Dividends will reduce the number of shares available for other issuances.

Reasons for Soliciting Stockholder Approval for the Rights Offering

We are seeking stockholder approval of the Rights Offering because we are required to do so under the terms of the Investment Agreement, and because our Board determined that this Rights Offering would only occur if our stockholders approved both the Rights Offering and the Investment Agreement. In order for the Rights Offering to occur, our stockholders must approve both this proposal (approval of the Rights Offering) and Proposal Two (approval of the Investment Agreement).

Consequences if the Rights Offering and Investment Agreement are Not Approved by the Stockholders

If the Rights Offering and Investment Agreement are not both approved by the requisite vote of our stockholders, we will not be able to proceed with the Rights Offering and Sherwood will be entitled to terminate the Investment Agreement. Under such circumstances, we would owe Sherwood a fee equal to $2,100,000 (less amounts previously paid to Sherwood). Upon termination of the Rights Offering, all of the outstanding borrowings under our credit facility would become current liabilities, and it is likely that our independent registered public accounting firm would include an explanatory paragraph in its report regarding our financial statements expressing substantial doubt regarding our ability to continue as a going concern, which would also create a default under our credit facility. There is no assurance that we would be able to amend or renew our credit facility on commercially reasonably terms, if at all. In that case, we would be required to seek alternative sources of liquidity to pay down our indebtedness and continue operations. In that event, we might not be able to obtain an alternative source of financing on reasonable terms, if at all. If we were unable to obtain financing or otherwise restructure our existing indebtedness prior to maturity, we would probably pursue a restructuring of our indebtedness or file for protection under the U.S. Bankruptcy Code. Any such outcome would adversely affect the price of our common stock as well as our business, financial condition and results of operations.

Required Vote

The affirmative vote of a majority of the total votes cast by the holders of the shares of our common stock present in person or represented by proxy at the special meeting and entitled to vote on this proposal is required to approve this proposal.

Yorktown IV, which owns approximately 36% of our outstanding common stock, has notified to the Company that it intends to vote all of its 14,187,072 shares of common stock in favor of the Rights Offering and Investment Agreement proposals.

The Board of Directors recommends a vote FOR the proposal to approve the Rights Offering, and your proxy will be so voted, unless you specify otherwise.

PROPOSAL TWO

APPROVAL OF INVESTMENT AGREEMENT

AND THE TRANSACTIONS CONTEMPLATED THEREIN

The Company is submitting for stockholder approval a proposal to approve the Investment Agreement, pursuant to which Sherwood Energy, LLC has committed to purchase at $10.00 per share, any shares of Preferred Stock not purchased in the Rights Offering. Unless both the Investment Agreement and Rights Offering are approved by our stockholders, the Company will not proceed with the Rights Offering Transaction.

Investment Agreement

In connection with the Rights Offering, on June 2, 2010, we entered into an Investment Agreement with Sherwood, a copy of which is attached to this proxy statement as Appendix A. The following description of the Investment Agreement is qualified in its entirety by reference to Appendix A.

General Information; Backstop Fees

Subject to the terms and conditions of the Investment Agreement, we are obligated to sell to Sherwood, and Sherwood is obligated to purchase, any and all of the 4,000,000 shares of Preferred Stock that are not purchased by stockholders or their transferees under the Rights Offering, at the offered price of $10.00 per share, up to $40,000,000 (the Backstop Commitment). As compensation for the Backstop Commitment, the Company will pay Sherwood a backstop fee of $1,200,000; the initial $250,000 fee the Company paid to Sherwood will be applied against the backstop fee. If the purchase price for shares of Preferred Stock purchased by Sherwood is less than $30,000,000, the Company must pay Sherwood an additional fee equal to three percent (3%) of the difference between $30,000,000 and the price paid for the shares of Preferred Stock purchased by Sherwood. In the event that the Investment Agreement is terminated for any reason other than a breach by Sherwood, the Company will owe Sherwood the entire $1,200,000 backstop fee plus an additional backstop fee of $900,000.

If no stockholders exercise their Rights, Sherwood is obligated to purchase all 4,000,000 shares of Preferred Stock offered in the Rights Offering. In the event that no stockholders exercise their rights, the as-converted ownership interest of the remaining stockholders would decrease to approximately 56% and could further decrease to 41% if the Company elects for the five years following the Closing Date (as defined below) to pay all dividends it is required to pay on the Preferred Stock in the form of PIK Dividends.

Corporate Governance Arrangements

The Investment Agreement provides that upon the closing date of Sherwood s purchase of the Preferred Stock pursuant to the Backstop Commitment (the Backstop Closing Date), the Company will take all steps necessary to increase the size of the Board to no more than nine (9) members. For as long as Sherwood, together with its affiliates who are deemed to beneficially own shares of Preferred Stock beneficially owned by Sherwood (the Sherwood 13(d) Investor Group), beneficially owns more than forty percent (40%) of the shares Sherwood acquires pursuant to its Backstop Commitment or otherwise, or beneficially owns ten percent (10%) or more of the common stock of the Company on an as-converted basis, Sherwood will be entitled to nominate two persons to serve on the Board. For as long as the Sherwood 13(d) Investor Group beneficially owns more than forty percent (40%) of the shares Sherwood acquired pursuant to its Backstop Commitment or otherwise, or beneficially owns five percent (5%) or more of the common stock of the Company on an as-converted basis, Sherwood will be entitled to nominate one person to serve on the Board. Additionally, for such time that Sherwood has the right to nominate at least one director to the Board, one member of each of the Audit Committee and the Compensation Committee will be a director nominated by Sherwood, provided that such person meets the applicable independence requirements. The Company will recommend to its stockholders to vote for the Sherwood nominee and use commercially reasonable efforts to solicit proxies from stockholders to vote in favor of the Sherwood nominee.

In the event of a default under the Investment Agreement, which includes a default of the Company s obligations under its credit facility or the Company s failure to pay dividends on the Preferred Stock, the Board will be expanded and Sherwood will be allowed to appoint additional directors or the Company will secure the resignations of directors not appointed by Sherwood, such that Sherwood nominees will constitute a majority of the members of the Board. Upon the cure or waiver of the event of default, as applicable, the Board will be reduced to the size immediately preceding the default, and the Sherwood directors appointed in connection with the expansion will resign. If the Company is unable to effectuate an expansion or reconfiguration of the Board, or if an event of default continues for more than twelve (12) months, Sherwood may cause the Company to redeem all of Sherwood s shares of Preferred Stock (including PIK Dividends) at the redemption price of $10.00 per share plus any unpaid dividends.

Upon the Backstop Closing Date and for so long thereafter as the Sherwood 13(d) Investor Group continues to beneficially own forty percent (40%) or more of the shares Sherwood acquired pursuant to its Backstop Commitment or otherwise, or continues to beneficially own five percent (5%) or more of the common stock of the Company on an as-converted basis, the Company shall not take any of the following actions without the approval of all of the Sherwood-nominated director(s):

incur any new indebtedness for borrowed money or capital leases (excluding borrowings pursuant to the Company s credit agreement) in a single transaction in excess of $500,000 within any 12-month period;

authorize or issue equity securities that are senior or *pari passu* to the Preferred Stock or convertible into equity securities that are senior or *pari passu* to the Preferred Stock;

redeem or repurchase equity securities;

enter into or be a party to a transaction with any director, officer or employee of the Company, any associate of such persons, or any related party that requires disclosure under Item 404(a) of Regulation S-K;

liquidate, dissolve or wind-up its affairs, or effect any business combination;

enter into a merger, consolidation or restructuring, transfer of assets or other business combination, sale of capital stock, tender offer, exchange offer, recapitalization or other similar transaction that if consummated would result in a person acquiring beneficial ownership of fifty percent (50%) or more of the voting power of the Company or all or substantially all of the consolidated total assets of the Company;

appoint a new Chief Executive Officer and/or President;

make any alteration or change in the right, preferences or privileges of the Preferred Stock or increase or decrease the number of authorized shares of Preferred Stock;

amend or waive any provision of the Certificate of Incorporation, the Bylaws, or the Certificate of Designations that adversely affects the rights of the Preferred Stock; or

make any material change in the business of the Company from the exploration, exploitation, development and production of oil and natural gas and related activities.

Participation Rights

Under the Investment Agreement, the Company has granted Sherwood a participation right to purchase its pro rata share, up to $30,000,000, of authorized but unissued debt securities and preferred stock of the Company, and all rights, options or warrants to purchase shares and securities of any type that are, or may become, convertible into or exchangeable for debt securities or preferred stock. Sherwood must exercise its participation right within thirty (30) days of Company s delivery of a notice to Sherwood that it proposes to issue any such securities. The calculation of Sherwood s pro rata share is based on Sherwood s percentage ownership of

common stock on an as-converted basis. To the extent that the Company has granted preemptive rights on any share issuance to third parties and such preemptive rights are not fully exercised, Sherwood will have the additional right to purchase the unsubscribed amount.

Corporate Opportunity

Under the Investment Agreement, the Company has renounced, to the fullest extent permitted under Delaware law, any interest of expectancy in any business opportunity, transaction or other matter in which Sherwood, its affiliates, any Sherwood-nominated director of the Company, or any portfolio company in which Sherwood or any of its affiliates has an equity interest, participates or desires to seek participation and that involves any aspect of the energy business or industry, including without limitation, the oil and gas exploration and production business, other than certain business opportunities presented to the Company or its directors as set forth in the Investment Agreement, including exploration, production or development of coalbed methane and non-conventional shallow gas in the Cahaba Basin in Alabama and the central Appalachian Basin in West Virginia.

Termination

The Investment Agreement may be terminated prior to the Backstop Closing upon written notice as follows: (i) by Sherwood or the Company following the termination of the Rights Offering, provided that such party s acts or omissions shall not have caused or resulted in the termination of the Rights Offering; (ii) by Sherwood if the Backstop Closing does not occur on or before September 16, 2010, provided that Sherwood s failure to fulfill any obligation shall not be the cause of the failure of the Backstop Closing to occur, and further provided that if the Rights Offering shall have closed and all conditions precedent to the Backstop Closing have been satisfied, such date will be extended; (iii) by Sherwood or the Company in the event of the issuance of a final and nonappealable order by any governmental entity enjoining or prohibiting the transaction; (iv) by Sherwood or the Company for material breach or default by the other party that has not been cured within thirty (30) days; or (v) by Sherwood or the Company in the event a material adverse effect has occurred with regard to the other party that is not curable or that has not been cured within thirty (30) days.

Use of Proceeds

Proceeds from the Rights Offering Transaction will be used to pay down indebtedness under the Company s existing credit facility.

Reasons for Soliciting Stockholder Approval for the Investment Agreement

Our common stock trades on the NASDAQ Global Market. Under NASDAQ Marketplace Rules, we are required to obtain stockholder approval of the Investment Agreement and the transactions contemplated in the Investment Agreement, including the issuance of Preferred Stock (and common stock issuable upon conversion thereof) pursuant to the Investment Agreement. The NASDAQ Global Market requires stockholder approval in a transaction (other than a public offering) involving the issuance or potential issuance of common stock (or securities convertible into common stock) equal to 20% or more of our common stock outstanding. Because the Company will be required to pay a backstop fee to Sherwood under the terms of the Investment Agreement, NASDAQ has advised the Company that the issuance of Preferred Stock to Sherwood would not qualify under NASDAQ s public offering exemption. Therefore, because the Company may issue to Sherwood Preferred Stock representing (on an as-converted basis) greater than 20% of the currently outstanding shares of our common stock, we are seeking stockholder approval of the Investment Agreement and the transactions contemplated therein, including the issuance of Preferred Stock to Sherwood pursuant to the Backstop Commitment.

Consequences if the Rights Offering and Investment Agreement are Not Approved by the Stockholders

If the Rights Offering and Investment Agreement are not both approved by the requisite vote of our stockholders, we will not be able to proceed with the Rights Offering and Sherwood will be entitled to terminate the Investment Agreement. Under such circumstances, we would owe Sherwood a fee equal to $2,100,000 (less amounts previously paid to Sherwood), which Sherwood can elect to receive in cash, shares of our common stock, or some combination thereof. Upon termination of the Rights Offering, all of the outstanding borrowings under our credit facility would become current liabilities, and it is likely that our independent registered public accounting firm would include an explanatory paragraph in its report regarding our financial statements expressing substantial doubt regarding our ability to continue as a going concern, which would also create a default under our credit facility. There is no assurance that we would be able to amend or renew our credit facility on commercially reasonably terms, if at all. In that case, we would be required to seek alternative sources of liquidity to pay down our indebtedness and continue operations. In that event, we might not be able to obtain an alternative source of financing on reasonable terms, if at all. If we were unable to obtain financing or otherwise restructure our existing indebtedness prior to maturity, we would probably pursue a restructuring of our indebtedness or file for protection under the U.S. Bankruptcy Code. Any such outcome would adversely affect the price of our common stock as well as our business, financial condition and results of operations.

Required Vote

The affirmative vote of a majority of the total votes cast by the holders of the shares of our common stock present in person or represented by proxy at the special meeting and entitled to vote on this proposal is required to approve this proposal.

Yorktown IV, which owns approximately 36% of our outstanding common stock, has notified to the Company that it intends to vote all of its 14,187,072 shares of common stock in favor of the Rights Offering and Investment Agreement proposals.

The Board of Directors recommends a vote FOR the proposal to approve the Investment Agreement and the transactions contemplated therein, and your proxy will be so voted, unless you specify otherwise.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS, DIRECTORS

AND EXECUTIVE OFFICERS

The following table sets forth, as of June 8, 2010, the beneficial ownership of common stock of the Company (the only equity securities of the Company presently outstanding) by (i) each director and nominee for director of the Company, (ii) the named executive officers listed in our Summary Compensation Table in our Annual Report on Form 10-K/A for the year ended December 31, 2009, (iii) all directors and executive officers of the Company as a group, and (iv) each person who was known to the Company to be the beneficial owner of more than five percent of the outstanding shares of common stock. However, the following table does not give effect to any shares or rights to acquire shares that stockholders may acquire in connection with, or as a result of, the Rights Offering Transaction.

Unless otherwise indicated in the footnotes to this table, each of the stockholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned.

Name and Address of Beneficial Owner	Number of Shares(1)	Percent of Class(2)
Yorktown Energy Partners IV, L.P. 410 Park Avenue New York, New York 10022	14,187,072	36.0%
W. Howard Keenan, Jr. 410 Park Avenue New York, New York 10022	14,279,732(3)	36.2%
T. Rowe Price 100 East Pratt Street Baltimore, Maryland 21202	4,278,640(4)	10.9%
Central Securities Corporation 630 Fifth Avenue New York, New York 10111	2,000,000(6)	5.1%
Robeco Investment Management, Inc. 909 Third Avenue, 32nd Floor New York, New York 10022	1,627,614(5)	4.1%
J. Darby Seré 909 Fannin, Suite 1850 Houston, Texas 77010	1,630,001(7)	4.1%
William C. Rankin 909 Fannin, Suite 1850 Houston, Texas 77010	1,261,131(8)	3.2%
Philip G. Malone 5336 Stadium Trace Parkway, Suite 206 Birmingham, Alabama 35244	986,847(9)	2.5%
Brett S. Camp 5336 Stadium Trace Parkway, Suite 206 Birmingham, Alabama 35244	950,787(10)	2.4%
Tony Oviedo 909 Fannin, Suite 1850 Houston, Texas 77010	99,243(11)	0.3%

Name and Address of Beneficial Owner	Number of Shares(1)	Percent of Class(2)
J. Hord Armstrong, III 909 Fannin, Suite 1850 Houston, Texas 77010	68,177(12)	0.17%
Stanley L. Graves 909 Fannin, Suite 1850 Houston, Texas 77010	59,347(14)	0.15%
James C. Crain 909 Fannin, Suite 1850 Houston, Texas 77010	58,347(13)	0.15%
Charles D. Haynes 909 Fannin, Suite 1850 Houston, Texas 77010	53,347(15)	0.1%
All executive officers and directors as a group (ten persons)	19,446,959	47.7%

(1) Unless otherwise indicated, all shares of stock are held directly with sole voting and investment power. Securities not outstanding, but included in the beneficial ownership of each such person are deemed to be outstanding for the purpose of computing the percentage of outstanding securities of the class owned by such person, but are not deemed to be outstanding for the purpose of computing percentage of the class owned by any other person. The total number includes shares issued and outstanding as of May 1, 2010, plus shares which the owner shown above has the right to acquire within 60 days of that date.

(2) For purposes of calculating the percent of the class outstanding held by each owner shown above with a right to acquire additional shares, the total number of shares excludes the shares which all other persons have the right to acquire within 60 days of March 1, 2010, pursuant to the exercise of outstanding stock options and warrants.

(3) Includes 14,187,072 shares of common stock owned by Yorktown Energy Partners IV, L.P. W. Howard Keenan, Jr. is a member and a manager of the general partner of Yorktown Energy Partners IV, L.P. Mr. Keenan disclaims beneficial ownership of all shares held by Yorktown Energy Partners IV, L.P., except to the extent of his pecuniary interest therein.

(4) Represents shares owned at March 31, 2010 based on information obtained in a Schedule 13F filed on May 14, 2010 with the Securities and Exchange Commission.

(5) Represents shares owned at March 31, 2010 based on information obtained in a Schedule 13F filed on May 11, 2010 with the Securities and Exchange Commission.

(6) Represents shares owned at March 31, 2010 based on information obtained in a Schedule 13F filed on May 12, 2010 with the Securities and Exchange Commission.

(7) Includes options to purchase up to 567,494 shares of common stock, 97,236 shares of common stock that are held in a charitable family foundation of which Mr. Seré shares dispositive power and voting control, 376,202 shares that are held jointly with Mr. Seré s wife for which Mr. Seré shares dispositive power and voting control, 256,231 shares of common stock that are held in a limited partnership under the control of Mr. Seré and for which he holds voting control and dispositive power, 103,162 shares held by a trust whose beneficiaries are Mr. Seré s children and for which Mr. Seré serves as the trustee and holds voting control and dispositive power, 1,997 shares that are held by a corporation that Mr. Seré controls and for which he holds voting control and dispositive power and 103,162 shares held by a trust whose beneficiaries are Mr. Seré s children and for which Mr. Seré s wife serves as trustee for which Mr. Seré disclaims voting control and dispositive power.

(8) Includes options to purchase up to 629,294 shares of common stock, 1,216 shares of common stock that are held by a limited liability company wholly-owned by Mr. Rankin and for which he holds voting control and dispositive power, 162,350 shares of common stock held by a grantor retained annuity trust for which he holds voting and dispositive power, and 212,325 shares of common stock that are held in a limited partnership under the control of Mr. Rankin, and for which he holds voting and dispositive power.

(9) Includes options to purchase up to 40,508 shares of common stock and 443,684 shares of common stock held by the spouse of Philip G. Malone.
(10) Includes options to purchase up to 40,508 shares of common stock and 443,684 shares of common stock held by the spouse of Brett S. Camp.
(11) Includes options to purchase up to 64,056 shares of common stock.
(12) Includes options to purchase up to 2,000 shares of common stock.
(13) Includes 1,500 shares that are held in a family trust of which Mr. Crain is the trustee and has dispositive power and voting control and options to purchase up to 2,000 shares of common stock.
(14) Includes 5,000 shares held in an SEP account in the name of Mr. Graves and options to purchase up to 2,000 shares of common stock.
(15) Includes 100 shares held by Mr. Haynes spouse and options to purchase up to 2,000 shares of common stock.

STOCKHOLDER PROPOSALS AND OTHER MATTERS

The 2010 annual meeting of Stockholders of the Company will take place on November 9, 2010. Stockholder proposals for the 2010 annual meeting of Stockholders must be received by the Company at its offices in Houston, Texas, and addressed to the Secretary of the Company a reasonable time before the Company begins to print and send its proxy materials, which we anticipate beginning on or about September 1, 2010. We expect that the 2011 annual meeting of Stockholders of the Company will take place during the first half of May 2011. Stockholder proposals for inclusion in the Company s proxy materials for the 2011 annual meeting of Stockholders must be received by the Company at its offices in Houston, Texas, addressed to the Secretary of the Company, at a reasonable time before the Company begins to print and send its proxy materials, which we anticipate beginning on or about January 15, 2011.

OTHER BUSINESS

At the date of this proxy statement, the only business that the Board of Directors intends to present or knows that others will present at the special meeting is as set forth above. If, however, any other matters are properly brought before the special meeting, or any adjournment thereof, it is the intention of the persons named in the accompanying form of proxy to vote such proxy on such matters in accordance with their best judgment.

By Order of the Board of Directors

/s/ Stephen M. Smith
Stephen M. Smith
Secretary

Appendix A

Execution Copy

INVESTMENT AGREEMENT

by and between

GEOMET, INC.

and

SHERWOOD ENERGY, LLC

Dated as of June 2, 2010

TABLE OF CONTENTS

INVESTMENT AGREEMENT

This INVESTMENT AGREEMENT dated as of June 2, 2010 (this "Agreement") is by and between GeoMet, Inc., a Delaware corporation (the "Company"), and Sherwood Energy, LLC, a Delaware limited liability company (the "Investor").

BACKGROUND

WHEREAS, the Company has proposed to offer and sell certain shares of Preferred Stock (as defined below) pursuant to a Rights Offering (as defined below), on the terms and subject to the conditions set forth herein;

WHEREAS, the Company desires that the Investor provide, and the Investor has agreed to provide, a Backstop Commitment (as defined below) to the Rights Offering, on the terms and subject to the conditions set forth herein;

WHEREAS, in connection with its purchase of Preferred Stock pursuant to the Backstop Commitment, the Investor wishes to receive certain additional rights relating to its Preferred Stock, and the Company desires to grant such rights on the terms and subject to the conditions set forth herein;

NOW, THEREFORE, in consideration of the mutual covenants and agreements contained in this Agreement, the receipt and sufficiency of which are hereby acknowledged, the parties to this Agreement hereby agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATION

Section 1.1 Definitions. As used in this Agreement, the following terms have the respective meanings set forth below:

"10b-5 Representation" shall have the meaning set forth in Section 2.1(c).

"Acquisition Transaction" means (a) a merger, consolidation, restructuring, transfer of assets or other business combination, sale of shares of Capital Stock, tender offer, exchange offer, recapitalization or other similar transaction that if consummated would result in any Person or Persons acquiring beneficial ownership of Equity Securities or Capital Stock representing 50% or more of the Total Voting Power of the Company or (b) any other direct or indirect acquisition of 50% or more of the Total Voting Power of the Company or all or substantially all of the consolidated total assets (including Equity Securities of its Subsidiaries) of the Company, in each case other than the transactions contemplated by this Agreement.

"Additional Backstop Fee" shall have the meaning set forth in Section 2.3(e)(ii).

"Adjustments" shall have the meaning set forth in Section 6.1.

"Affiliate" of any Person means, as to any Person, any Subsidiary of such Person, or any other Person which, directly or indirectly, Controls, is Controlled by, or is under common Control with, such Person, *provided* that for purposes of this Agreement, the Company and its Subsidiaries shall not be deemed to be Affiliates of Investor.

"Aggregate Offered Shares" means four million (4,000,000) shares of Preferred Stock.

Agreement shall have the meaning set forth in the Preamble.

Ancillary Agreements means the Certificate of Designation and the officer s certificates to be delivered pursuant to Section 5.2(c) or Section 5.3(d), as applicable.

As-Converted Basis shall mean, when used herein in connection with any calculation of the aggregate number of Common Stock outstanding, that such calculation shall take into account the aggregate number of shares of Common Stock issuable upon conversion of all securities that are convertible into Common Stock, including the Preferred Stock.

Audit Committee means the Audit Committee of the Board.

Backstop Closing shall have the meaning set forth in Section 2.3(c).

Backstop Closing Date shall have the meaning set forth in Section 2.3(c).

Backstop Commitment shall have the meaning set forth in Section 2.3(a).

Backstop Fee shall have the meaning set forth in Section 2.3(e)(i).

Backstop Shares shall have the meaning set forth in Section 2.3(a).

Beneficially Own, Beneficially Owned, Beneficial Ownership and Beneficial Owner with respect to any securities means a holder who is deemed to be the beneficial owner, or ownership that is deemed to be beneficial ownership, of such securities under Rule 13d-3 or Rule 13d-5 of the Exchange Act, and shall include such securities Beneficially Owned by all other Persons with whom a holder would constitute a Group with respect to such securities, *provided, however*, that the shares of Common Stock issuable upon conversion of the Preferred Stock shall not be deemed to be Beneficially Owned by the holders of the Preferred Stock until such conversion.

Board means the board of directors of the Company.

Business Day means any day other than a Saturday, Sunday or one on which banks are authorized to close in Houston, Texas.

Business Opportunity shall have the meaning set forth in Section 7.6.

Capital Stock of any Person means any and all shares, interests, participations or other equivalents however designated of corporate stock or other equity participations, including partnership interests, whether general or limited, of such Person and any rights (other than debt securities convertible or exchangeable into an equity interest), warrants or options to acquire an equity interest in such Person.

Certificate of Designations means the Company s Certificate of Designations governing the terms of the Preferred Stock, substantially in the form attached as Exhibit I hereto.

Certified Ownership Percentage shall have the meaning set forth in Section 5.2(d).

Common Stock means the common stock, par value $0.001 per share, of the Company.

Company shall have the meaning set forth in the Preamble.

Company Financial Statements shall have the meaning set forth in Section 3.8(b).

Company Indemnified Parties shall have the meaning set forth in Section 10.2(b).

Company Marks shall have the meaning set forth in Section 6.8.

Company SEC Documents shall have the meaning set forth in Section 3.8(a).

Compensation Committee means the Compensation Committee of the Board.

Contract has the same meaning as material contract as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC.

Control has the meaning specified in Rule 12b-2 under the Exchange Act.

Credit Agreement means that certain Fourth Amended and Restated Credit Agreement among the Company, as borrower, the financial institutions party thereto, Bank of America, N.A., as administrative agent, BNP Paribas, as syndication agent, and Banc of America Securities LLC and BNP Paribas, as co-lead arrangers and book managers, as amended and in effect on the date hereof.

Date of Delivery shall mean, for purposes of Section 7.7, the date that a particular notice is received or deemed to be received in accordance with Section 7.7.

Default shall have occurred upon the delivery of a written declaration of an Event of Default to the Company by Investor, *provided* that any Event of Default resulting from the act or omission of one or more Investor Directors shall not constitute a Default.

DGCL means the General Corporation Law of the State of Delaware.

Effect shall have the meaning set forth in the definition of Material Adverse Effect.

Employee means each current, former, or retired employee, director or officer of the Company or any of its Subsidiaries.

Employee Benefit Plan shall mean all ERISA Plans and Other Benefit Obligations of which the Company is or was a sponsor or co-sponsor, or to which the Company otherwise contributes or has contributed, or in which the Company otherwise participates or has participated, or with respect to which the Company has any liability.

Environmental Claims shall have the meaning set forth in Section 3.15.

Environmental Laws shall have the meaning set forth in Section 3.15.

Equity means shares of Capital Stock or a partnership, profits, capital or member interest, or options, warrants or any other right to substitute for or otherwise acquire the Capital Stock or a partnership, profits, capital or member interest of the Company.

Equity Securities means any and all shares of Common Stock of the Company, securities of the Company convertible into, or exchangeable or exercisable for, such shares, and options, warrants or other rights to acquire such shares.

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

ERISA Plan shall have the meaning set forth in ERISA Section 3.13.

ERISA Affiliate means any Person which is (or at any relevant time was) a member of a controlled group of corporations which, under common control with, or a member of an affiliated service group with the Company as such terms are defined in Internal Revenue Code sections 414(b), (c), (m) or (o).

Event of Default shall have the meaning set forth in Section 8.1.

Exchange Act shall have the meaning set forth in Section 3.8(a).

Existing Instrument has the meaning set forth in Section 3.5.

FCPA has the meaning set forth in Section 3.17.

GAAP means generally accepted accounting principles in the United States of America as in effect from time to time.

Governmental Entity means any national, state, local, county, parish or municipal government, domestic or foreign, any agency, board, bureau, commission, court, tribunal, subdivision, department or other governmental or regulatory authority or instrumentality that has jurisdiction over any of the Company or any of its properties or assets or any matter relating to the transactions contemplated by this Agreement.

Group has the meaning set forth in Section 13(d) of the Exchange Act as in effect on the date of this Agreement.

Indemnified Party means an Investor Indemnified Party or Company Indemnified Parties, as the case may be.

Indemnifying Party means the Company or the Investor, as the case may be.

Information shall have the meaning set forth in Section 6.7(a).

Initial Investor Designees means the Investor Nominees that the Investor would be entitled to nominate for election to the Board in accordance with Section 7.2(a) had an election of directors taken place on the Backstop Closing Date, as the case may be, after giving effect to the Backstop Closing.

Internal Revenue Code means the United States Internal Revenue Code of 1986, as amended.

Investment means, with respect to any Person, any loan, advance, extension of credit, capital contribution to, investment in or purchase of the stock securities of, or interests in, any other Person; provided, that Investment shall not include current customer and trade accounts which are payable in accordance with customary trade terms.

Investor shall have the meaning set forth in the Preamble.

Investor 13(d) Group means Investor and such Affiliates of Investor who are deemed to Beneficially Own the Preferred Stock Beneficially Owned by Investor and any person with whom Investor or any such Affiliates would constitute a Group with respect to Preferred Stock. For the avoidance of doubt, the Investor 13(d) Group shall include any Investor Directors.

Investor Directors means Investor Nominees who are elected or appointed to serve as members of the Board in accordance with this Agreement.

Investor Group shall have the meaning set forth in Section 7.6.

Investor Indemnified Parties shall have the meaning set forth in Section 10.2(a).

Investor Nominees means such Persons as are designated by Investor, as such designations may change from time to time in accordance with this Agreement, to serve as members of the Board pursuant to Section 7.2(a) hereof.

Knowledge of a Person is the actual awareness of such fact or other matter after reasonable due inquiry (a) in the case of a natural person, by such Person or (b) in the case of a Person that is not a natural person, by its officers, directors and senior management.

Law means any federal, state, local or foreign law, statute or ordinance, common law, or any rule, regulation, judgment, order, writ, injunction, decree, arbitration award, license or permit of any Governmental Entity.

Losses shall have the meaning set forth in Section 10.2(a).

Material Adverse Effect means any fact, circumstance, event, change, effect or occurrence (an Effect) that, individually or in the aggregate with all other Effects, (x) with respect to either party, would reasonably be expected to prevent, materially delay or materially impair the ability of such party to consummate the transactions contemplated hereby in the timeframe contemplated hereby or (y) has had or caused, or would reasonably be expected to have or cause, a material adverse effect on the assets, properties, business, prospects, results of operations, or condition (financial or otherwise) of the Company and its Subsidiaries, taken as a whole, but, in the case of this clause (y) shall not include (a) Effects to the extent resulting from the announcement of the execution of this Agreement or the pendency of the transactions contemplated hereby (including, without limitation, and solely by way of example of such Effects, the direct and substantiated effect of the public announcement of this Agreement or the transactions contemplated hereby on the relationships of the Company or any of its Subsidiaries with customers, suppliers, distributors or employees), *provided* that this clause (a) shall not diminish the effect of, and shall be disregarded for purposes of, any representations or warranties herein; (b) declines in the price or trading volume of shares of any Capital Stock of the Company, provided that the exception in this clause (b) shall not prevent or otherwise affect a determination that any Effect underlying such decline has resulted in, or contributed to, a Material Adverse Effect with respect to the Company; and (c) Effects to the extent resulting from any changes in Law or in GAAP (or the interpretation thereof) after the date hereof, unless any such Effects disproportionately affect the assets, properties, business, results of operations or financial condition of the Company and its Subsidiaries, taken as a whole, relative to other participants in the coalbed methane exploration and production industry, *provided* that the exception in this clause (c) shall not apply to any changes in Law regarding (1) the ability to use hydraulic fracturing in coalbed methane exploration and production, (2) the proper disposal of groundwater, hydraulic fracturing fluid, proppant and/or a combination thereof during the fluid recovery/dewatering process or (3) the operation of coalbed methane exploration and production wells.

Materials of Environmental Concern shall have the meaning set forth in Section 3.15.

NASDAQ means NASDAQ Global Market.

New Securities shall have the meaning set forth in Section 7.7(b).

New Securities Notice shall have the meaning set forth in Section 7.7(c).

Nominating Committee shall have the meaning set forth in Section 7.1(b).

Non-Investor Director means any member of the Board that is not an Investor Director.

Other Benefit Obligations all obligations, arrangements, or customary practices, whether or not legally enforceable, or provided benefits, other than salary, as compensation for services rendered, to present or former directors, employees, or agents, other than obligations, arrangements, and practices that are ERISA Plans. Other Benefit Obligations include consulting agreements under which the compensation paid does not depend upon the amount of service rendered, sabbatical policies, severance payment policies, and fringe benefits within the meaning of Internal Revenue Code Section 132.

Permits shall have the meaning set forth in Section 3.7(b).

Person means an individual, a corporation, a partnership, a limited liability company, limited partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

Pre-Closing Period shall have the meaning set forth in Section 6.1.

Preferred Stock means the Series A Convertible Redeemable Preferred Stock, having the terms set forth in the Certificate of Designations.

Previously Disclosed means (a) information set forth in or incorporated by reference into the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2009 or its other reports and forms filed with the SEC under Sections 13(a), 14(a) or 15(d) of the Exchange Act on or after January 1, 2010 (except for risks and forward looking information set forth in the Risk Factors section of such annual report or in any forward looking statement disclaimers or similar statements that are similarly non-specific and are predictive or forward looking in nature) and (b) the information set forth in the Schedules corresponding to the provision of this Agreement to which such information relates (*provided* that any disclosure with respect to a particular paragraph or Section of this Agreement or the Schedules shall be deemed to be disclosed for other paragraphs and Sections of this Agreement and the Schedules to the extent that the relevance of such disclosure would be reasonably apparent to a reader of such disclosure).

Pro Rata Share means on any issuance date for New Securities, the number or amount of New Securities equal to the product of (i) the total number or amount of New Securities to be issued by the Company or its applicable Subsidiary on such date and (ii) the fraction determined by dividing (A) the number of shares of Common Stock (on an As-Converted Basis) owned by Investor immediately prior to such issuance by (B) the total number of shares of Common Stock (on an As-Converted Basis) outstanding on such date immediately prior to such issuance.

Prospectus Supplement shall have the meaning set forth in Section 2.1(a).

Proxy Statement shall mean the proxy statement filed with the Commission, whether in preliminary or definitive form, relating to the Rights Offering and the transactions contemplated hereunder, together with all amendments, supplements and exhibits thereto.

Recommendation has the meaning set forth in Section 2.2(a).

Record Date means the date as of which each holder of Common Stock shall be offered one (1) Right for each share of Common Stock held as of such date, which date shall be selected by the Board in accordance with the DGCL and the requirements of NASDAQ.

Redemption Price shall mean the Subscription Price plus any accrued but unpaid dividends.

Registration Statement shall have the meaning set forth in Section 2.1(a).

Renounced Business Opportunity shall have the meaning set forth in Section 7.6.

Representatives means, with respect to a Person, such Person s directors, officers, investment bankers, attorneys, accountants and other advisors or representatives.

Required Stockholder Approval means the affirmative vote of a majority of the total votes cast on the Stockholder Proposal by the holders of Common Stock present in person or by proxy at the meeting of shareholders of the Company and entitled to vote.

Rights means the rights to be issued by the Company to the holders of shares of its Common Stock in the Rights Offering, which rights shall be transferable at the sole discretion of the Company.

Rights Offering shall have the meaning set forth in Section 2.1(d).

Schedules means the disclosure schedules delivered by the Company to Investor concurrently with the execution of this Agreement.

SEC means the Securities and Exchange Commission.

Securities Act shall have the meaning set forth in Section 3.8(a).

Share Grouping shall mean the number of shares of Common Stock determined by dividing the total number of outstanding shares of Common Stock of the Company (excluding shares of Common Stock held in treasury) as of the Record Date by the number of Aggregate Offered Shares.

Stock Plans means the Company s 2005 Stock Option Plan, as amended prior to the date hereof, the Company s 2006 Long-Term Incentive Plan, as amended and restated prior to the date hereof, the Non-Qualified Stock Option Agreements dated as of December 7, 2000, May 19, 2003, September 22, 2003 and April 27, 2004 between the Company and each of J. Darby Seré and William C. Rankin, each as amended prior to the date hereof, and any subsequent equity compensation plan approved by the Company s Stockholders.

Stockholder Meeting has the meaning set forth in Section 2.2(a).

Stockholder Proposal means the proposal to be presented at the Stockholders Meeting to approve the issuance of the Preferred Stock pursuant to the Rights Offering and subject to the terms of this Agreement.

Stockholders means the holders of any of the Capital Stock of the Company.

Subscription Notice shall have the meaning set forth in Section 2.3(a).

Subscription Period shall have the meaning set forth in Section 2.1(d).

Subscription Price means $10.00 per share of Preferred Stock.

Subsidiary means, for any Person, any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other Persons performing

similar functions (including that of a general partner) are at the time directly or indirectly owned, collectively, by such Person and any Subsidiaries of such