

Gastar Exploration Inc.
Form 10-Q
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934
FOR THE QUARTERLY PERIOD ENDED June 30, 2016

OR

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

Commission File Number: 001-35211

GASTAR EXPLORATION INC.

(Exact name of registrant as specified in its charter)

Delaware	38-3531640
(State or other jurisdiction of	(I.R.S. Employer
incorporation or organization)	Identification No.)
1331 Lamar Street, Suite 650	
Houston, Texas	77010
(Address of principal executive offices)	(Zip Code)

(713) 739-1800

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(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer ☐

Accelerated filer ☒

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☐

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

The total number of outstanding common shares, \$0.001 par value per share, as of August 1, 2016 was 131,726,085.

GASTAR EXPLORATION INC.

QUARTERLY REPORT ON FORM 10-Q

For the three and six months ended June 30, 2016

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On November 14, 2013, Gastar Exploration Ltd., an Alberta, Canada corporation, changed its jurisdiction of incorporation to the State of Delaware and changed its name to “Gastar Exploration, Inc.” On January 31, 2014, Gastar Exploration, Inc. merged with and into Gastar Exploration USA, Inc., its direct subsidiary, as part of a reorganization to eliminate Gastar Exploration, Inc.’s holding company corporate structure. Pursuant to the merger agreement, shares of Gastar Exploration, Inc.’s common stock were converted into an equal number of shares of common stock of Gastar Exploration USA, Inc., and Gastar Exploration USA, Inc. changed its name to “Gastar Exploration Inc.” Gastar Exploration Inc. owns and continues to conduct Gastar Exploration, Inc.’s business in substantially the same manner as was being conducted prior to the merger.

Unless otherwise indicated or required by the context, (i) for any date or period prior to the January 31, 2014 merger described above, “Gastar,” the “Company,” “we,” “us,” “our” and similar terms refer collectively to Gastar Exploration, Inc.(formerly known as Gastar Exploration Ltd.) and its subsidiaries, including Gastar Exploration Inc. (formerly known as Gastar Exploration USA, Inc.), and for any date or period after January 31, 2014, such terms refer collectively to Gastar Exploration Inc. and its subsidiaries and (ii) all dollar amounts appearing in this Form 10-Q are stated in United States dollars (“U.S. dollars”) unless otherwise noted and (iii) all financial data included in this Form 10-Q have been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”).

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

Glossary of Terms

AMI	Area of mutual interest, an agreed designated geographic area where co-participants or other industry participants have a right of participation in acquisitions and operations
Bbl	Barrel of oil, condensate or NGLs
Bbl/d	Barrels of oil, condensate or NGLs per day
Bcf	One billion cubic feet of natural gas
Bcfe	One billion cubic feet of natural gas equivalent, calculated by converting liquids volumes on the basis of 1/6th of a barrel of oil, condensate or NGLs per Mcf
Boe	One barrel of oil equivalent determined using the ratio of six thousand cubic feet of natural gas to one barrel of oil, condensate or NGLs
Boe/d	Barrels of oil equivalent per day
Btu	British thermal unit, typically used in measuring natural gas energy content
CRP	Central receipt point
FASB	Financial Accounting Standards Board
GAAP	Accounting principles generally accepted in the United States of America
Gross acres	Refers to acres in which we own a working interest
Gross wells	Refers to wells in which we have a working interest
MBbl	One thousand barrels of oil, condensate or NGLs
MBbl/d	One thousand barrels of oil, condensate or NGLs per day
MBoe	One thousand barrels of oil equivalent, calculated by converting natural gas volumes on the basis of 6 Mcf of natural gas per barrel
MBoe/d	One thousand barrels of oil equivalent per day
Mcf	One thousand cubic feet of natural gas
Mcf/d	One thousand cubic feet of natural gas per day
Mcfe	One thousand cubic feet of natural gas equivalent, calculated by converting liquids volumes on the basis of 1/6th of a barrel of oil, condensate or NGLs per Mcf

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MMBtu/d	One million British thermal units per day
MMcf	One million cubic feet of natural gas
MMcf/d	One million cubic feet of natural gas per day
MMcfe	One million cubic feet of natural gas equivalent, calculated by converting liquids volumes on the basis of 1/6th of a barrel of oil, condensate or NGLs per Mcf
MMcfe/d	One million cubic feet of natural gas equivalent per day
Net acres	Refers to our proportionate interest in acreage resulting from our ownership in gross acreage
Net wells	Refers to gross wells multiplied by our working interest in such wells
NGLs	Natural gas liquids
NYMEX	New York Mercantile Exchange
PBU	Performance based unit comprising one of our compensation plan awards
psi	Pounds per square inch
PUD	Proved undeveloped reserves

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STACK Play	An acronymic name for a predominantly oil producing play referring to the exploration and development of the Sooner Trend of the Anadarko Basin in Canadian and Kingfisher Counties, Oklahoma
U.S.	United States of America
WTI	West Texas Intermediate

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

GASTAR EXPLORATION INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited) (in thousands, except share data)	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 50,761	\$ 50,074
Accounts receivable, net of allowance for doubtful accounts of \$1,953 and \$0, respectively	7,324	14,302
Commodity derivative contracts	7,729	15,534
Prepaid expenses	4,881	5,056
Total current assets	70,695	84,966
PROPERTY, PLANT AND EQUIPMENT:		
Oil and natural gas properties, full cost method of accounting:		
Unproved properties, excluded from amortization	87,727	92,609
Proved properties	1,239,324	1,286,373
Total oil and natural gas properties	1,327,051	1,378,982
Furniture and equipment	2,613	3,068
Total property, plant and equipment	1,329,664	1,382,050
Accumulated depreciation, depletion and amortization	(1,120,659)	(1,053,116)
Total property, plant and equipment, net	209,005	328,934
OTHER ASSETS:		
Commodity derivative contracts	5,223	9,335
Deferred charges, net	743	985
Advances to operators and other assets	561	331
Other	1,121	4,944
Total other assets	7,648	15,595
TOTAL ASSETS	\$ 287,348	\$ 429,495
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 2,887	\$ 2,029
Revenue payable	5,975	5,985
Accrued interest	3,512	3,730
Accrued drilling and operating costs	2,766	2,010
Advances from non-operators	5	167
Commodity derivative contracts	170	—
Commodity derivative premium payable	1,660	3,194

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Asset retirement obligation	89	89
Other accrued liabilities	6,748	6,764
Total current liabilities	23,812	23,968
LONG-TERM LIABILITIES:		
Long-term debt	417,765	516,476
Commodity derivative contracts	—	451
Commodity derivative premium payable	1,886	2,788
Asset retirement obligation	5,586	5,997
Total long-term liabilities	425,237	525,712
Commitments and contingencies (Note 11)		
STOCKHOLDERS' EQUITY:		
Preferred stock, 40,000,000 shares authorized		
Series A Preferred stock, par value \$0.01 per share; 10,000,000 shares designated;		
4,045,000 shares issued and outstanding at June 30, 2016 and December 31, 2015,		
respectively, with liquidation preference of \$25.00 per share	41	41
Series B Preferred stock, par value \$0.01 per share; 10,000,000 shares designated;		
2,140,000 shares issued and outstanding at June 30, 2016 and December 31, 2015,		
respectively, with liquidation preference of \$25.00 per share	21	21
Common stock, par value \$0.001 per share; 550,000,000 and 275,000,000 shares authorized at June 30, 2016 and December 31, 2015, respectively; 131,728,879 and 80,024,218 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	132	80
Additional paid-in capital	621,954	571,947
Accumulated deficit	(783,849)	(692,274)
Total stockholders' equity	(161,701)	(120,185)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$287,348	\$429,495

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

GASTAR EXPLORATION INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
	2015		2016	
	(in thousands, except share and per share data)			
REVENUES:				
Oil and condensate	\$ 11,345		\$ 17,584	
Natural gas	1,876		5,894	
NGLs	1,710		3,405	
Total oil, condensate, natural gas and NGLs revenues	14,931		29,457	
(Loss) gain on commodity derivatives contracts	(2,778)	(1,790)	(2,493)	8,433
Total revenues	12,153		26,964	
EXPENSES:				
Production taxes	364		1,069	
Lease operating expenses	4,584		10,663	
Transportation, treating and gathering	395		1,008	
Depreciation, depletion and amortization	5,591		19,320	
Impairment of oil and natural gas properties	—		48,497	
Accretion of asset retirement obligation	89		194	
General and administrative expense	6,272		11,947	
Total expenses	17,295		92,698	
LOSS FROM OPERATIONS	(5,142)	(107,462)	(65,734)	(99,290)
OTHER INCOME (EXPENSE):				
Interest expense	(9,263)	(6,936)	(18,561)	(14,497)
Investment income and other	(76)	3	(43)	6
LOSS BEFORE PROVISION FOR INCOME TAXES	(14,481)	(114,395)	(84,338)	(113,781)
Provision for income taxes	—	—	—	—
NET LOSS	(14,481)	(114,395)	(84,338)	(113,781)
Dividends on preferred stock	(3,619)	(3,619)	(7,237)	(7,237)
NET LOSS ATTRIBUTABLE TO COMMON				
STOCKHOLDERS				
	\$ (18,100)	(118,014)	(91,575)	(121,018)
NET LOSS PER SHARE OF COMMON STOCK				
ATTRIBUTABLE TO COMMON STOCKHOLDERS:				
Basic	\$ (0.17)	(1.52)	(1.00)	(1.56)
Diluted	\$ (0.17)	(1.52)	(1.00)	(1.56)
WEIGHTED AVERAGE SHARES OF COMMON				
STOCK				
OUTSTANDING:				
Basic	104,009,337	77,611,167	91,398,735	77,364,368
Diluted	104,009,337	77,611,167	91,398,735	77,364,368

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

GASTAR EXPLORATION INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	For the Six Months Ended June 30,	
	2016	2015
	(in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(84,338)	\$(113,781)
Adjustments to reconcile net loss to net cash provided by		
operating activities:		
Depreciation, depletion and amortization	19,320	30,551
Impairment of oil and natural gas properties	48,497	100,152
Stock-based compensation	2,335	2,773
Mark to market of commodity derivatives contracts:		
Total loss (gain) on commodity derivatives contracts	2,493	(8,433)
Cash settlements of matured commodity derivatives contracts, net	9,581	11,408
Cash premiums paid for commodity derivatives contracts	(565)	(45)
Amortization of deferred financing costs	2,825	1,736
Accretion of asset retirement obligation	194	256
Settlement of asset retirement obligation	—	(80)
Loss on sale of furniture and equipment	97	—
Changes in operating assets and liabilities:		
Accounts receivable	4,260	15,887
Prepaid expenses	175	1,397
Accounts payable and accrued liabilities	570	(4,806)
Net cash provided by operating activities	5,444	37,015
CASH FLOWS FROM INVESTING ACTIVITIES:		
Development and purchase of oil and natural gas properties	(23,370)	(84,724)
Advances to operators	(69)	(1,225)
Acquisition of oil and natural gas properties - refund	1,664	—
Proceeds from sale of oil and natural gas properties	77,621	2,008
Deposit for sale of oil and natural gas properties	—	6,620
Payments to non-operators	(162)	(1,820)
Sale (purchase) of furniture and equipment	82	(45)
Net cash provided by (used in) investing activities	55,766	(79,186)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	—	55,000
Repayment of revolving credit facility	(100,370)	(5,000)
Proceeds from issuance of common stock, net of issuance costs	45,069	—
Dividends on preferred stock	(3,618)	(7,237)
Deferred financing charges	(893)	(797)
Tax withholding related to restricted stock and performance based unit award vestings	(711)	(1,425)
Net cash (used in) provided by financing activities	(60,523)	40,541
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	687	(1,630)

CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	50,074	11,008
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$50,761	\$9,378

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

GASTAR EXPLORATION INC.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Description of Business

Gastar Exploration Inc. (the “Company” or “Gastar”) is a pure play Mid-Continent independent energy company engaged in the exploration, development and production of oil, condensate, natural gas and NGLs. Gastar’s principal business activities include the identification, acquisition, and subsequent exploration and development of oil and natural gas properties with an emphasis on unconventional reserves, such as shale resource plays. Gastar holds a concentrated acreage position in what is believed to be the core of the STACK Play, an area of central Oklahoma which is home to multiple oil and natural gas-rich reservoirs including the Meramec, Oswego, Osage, Woodford and Hunton formations. On April 8, 2016, Gastar sold substantially all of its producing assets and proved reserves and a significant portion of its undeveloped acreage in the Appalachian Basin for an adjusted sales price of \$76.6 million, subject to certain additional adjustments, with an effective date of January 1, 2016 (the “Appalachian Basin Sale”).

For any date or period prior to January 31, 2014, “Gastar,” the “Company,” “we,” “us,” “our” and similar terms refer collectively to Gastar Exploration, Inc. (formerly known as Gastar Exploration Ltd.) and its subsidiaries, including Gastar Exploration Inc. (formerly known as Gastar Exploration USA, Inc.), and for any date or period after January 31, 2014, such terms refer collectively to Gastar Exploration Inc. and its subsidiaries.

2. Summary of Significant Accounting Policies

The accounting policies followed by the Company are set forth in the notes to the Company’s audited consolidated financial statements included in its Annual Report on Form 10-K for the year ended December 31, 2015 (the “2015 Form 10-K”) filed with the SEC. Please refer to the notes to the consolidated financial statements included in the 2015 Form 10-K for additional details of the Company’s financial condition, results of operations and cash flows. No material item included in those notes has changed except as a result of normal transactions in the interim or as disclosed within this report.

The unaudited interim condensed consolidated financial statements of the Company included herein are stated in U.S. dollars and were prepared from the records of the Company by management in accordance with U.S. GAAP applicable to interim financial statements and reflect all normal and recurring adjustments, which are, in the opinion of management, necessary to provide a fair presentation of the results of operations and financial position for the interim periods. Such financial statements conform to the presentation reflected in the 2015 Form 10-K. The current interim period reported herein should be read in conjunction with the financial statements and accompanying notes, including Item 8. “Financial Statements and Supplementary Data, Note 2 – Summary of Significant Accounting Policies,” included in the 2015 Form 10-K.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates with regard to these financial statements include

the estimate of proved oil and natural gas reserve quantities and the related present value of estimated future net cash flows.

The unaudited interim condensed consolidated financial statements of the Company include the consolidated accounts of all of its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain reclassifications of prior year balances have been made to conform to the current year presentation; these reclassifications have no impact on net income (loss).

The results of operations for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued and has disclosed certain subsequent events in these condensed consolidated financial statements, as appropriate.

Accounts Receivable

Accounts receivable are reported net of the allowance for doubtful accounts. The allowance for doubtful accounts is determined based on a review of the Company's receivables. Receivable accounts are charged off when collection efforts have failed or the account is deemed uncollectible. At June 30, 2016, the Company determined that a receivable account from a third-party natural gas and NGLs purchaser would no longer be collectible as a result of the third-party purchaser filing for bankruptcy. A summary of the activity related to the allowance for doubtful accounts is as follows:

	June 30, 2016	December 31, 2015
	(in thousands)	
Allowance for doubtful accounts, beginning of period	\$ —	\$ —
Expense	—	—
Reductions/write-offs	1,953	—
Allowance for doubtful accounts, end of period	\$ 1,953	\$ —

Recent Accounting Developments

The following recently issued accounting pronouncements may impact the Company in future periods:

Compensation – Stock Compensation. In March 2016, the FASB issued updated guidance as part of its simplification initiative which is intended to simplify several aspects of the accounting for stock-based compensation transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. Amendments related to the timing of when excess tax benefits are recognized, minimum statutory withholding requirements, forfeitures, and intrinsic value should be applied using a modified retrospective transition method by means of a cumulative-effect adjustment to equity as of the beginning of the period in which the guidance is adopted. Amendments related to the presentation of employee taxes paid on the statement of cash flows when an employer withholds shares to meet the minimum statutory withholding requirement should be applied retrospectively. Amendments requiring recognition of excess tax benefits and tax deficiencies in the income statement and the practical expedient for estimating expected term should be applied prospectively. An entity may elect to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using either a prospective transition method or a retrospective transition method. The Company has not yet determined what the effects of adopting this updated guidance will be on its consolidated financial statements.

Leases. In February 2016, the FASB issued updated guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and enhance disclosures regarding key information about leasing arrangements. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplified the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. The amendments in this update are effective beginning on January 1, 2019 and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company has not yet determined what the effects of adopting this updated guidance will be on its consolidated financial statements.

Income Taxes. In November 2015, the FASB issued updated guidance as part of its simplification initiative for the presentation of deferred taxes. Current GAAP requires an entity to separate deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position where such classification generally does not align with the time period in which the recognized deferred tax amounts are expected to be recovered or settled. To simplify the presentation of deferred income taxes, the amendments in this update require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position and apply to all entities that present a classified statement of financial position, resulting in the alignment of the presentation of deferred income tax assets and liabilities with International Financial Reporting Standards (IFRS). IAS 1, Presentation of Financial Statements. This guidance is effective for public business entities for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Earlier application is permitted as of the beginning of an interim or annual reporting period and can be applied either prospectively or retrospectively to all periods presented. The Company does not expect the adoption of this guidance to materially impact its consolidated financial statements.

Debt Issuance Costs. In April 2015, the FASB issued updated guidance regarding simplification of the presentation of debt issuance costs. The updated guidance requires debt issuance costs related to a recognized debt liability, other than those costs related to line of credit arrangements, be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, similar to the presentation for debt discounts and premiums, instead of being presented as an asset. Debt disclosures will include the face amount of the debt liability and the effective interest rate. This guidance was effective for the Company on January 1, 2016. The Company's adoption of this guidance was applied retrospectively and did not have a material impact on the Company's consolidated financial statements.

Going Concern. In August 2014, the FASB issued updated guidance related to determining whether substantial doubt exists about an entity's ability to continue as a going concern. The amendment provides guidance for determining whether conditions or events give rise to substantial doubt that an entity has the ability to continue as a going concern within one year following the date of issuance of annual and interim financial statements, and requires specific disclosures regarding the conditions or events leading to substantial doubt. The updated guidance is effective for annual reporting periods ending after December 15, 2016 and for annual periods and interim periods thereafter. Earlier adoption is permitted, but the Company has not elected to adopt the updated guidance early. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

Revenue Recognition. In May 2014, the FASB issued an amendment to previously issued guidance regarding the recognition of revenue, which supersedes the revenue recognition requirements in Accounting Standards Codification ("ASC") Topic 605, "Revenue Recognition," and most industry-specific guidance. The FASB and the International Accounting Standards Board initiated a joint project to clarify the principles for recognizing revenue and to develop a common standard that would (i) remove inconsistencies and weaknesses in revenue requirements, (ii) provide a more robust framework for addressing revenue issues, (iii) improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets, (iv) provide more useful information to users of financial statements through improved disclosure requirements and (v) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve this core principle, an entity should apply the following steps: (1) identify the contract(s) with the customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This guidance supersedes prior revenue recognition requirements and most industry-specific guidance throughout the FASB Accounting Standards Codification. This guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. In April 2015, the FASB proposed to delay the effective date one year, beginning in fiscal year 2018 and such proposal was subsequently adopted by the FASB in August 2015. The Company is evaluating the new guidance and has not yet determined the impact this new standard may have on its consolidated financial statements or decided upon its method of adoption.

3. Property, Plant and Equipment

The amount capitalized as oil and natural gas properties was incurred for the purchase and development of various properties in the U.S., located in the states of Oklahoma, Pennsylvania and West Virginia. On April 8, 2016, the Company sold substantially all of its producing assets and proved reserves and a significant portion of its undeveloped acreage in Pennsylvania and West Virginia comprising the Company's Appalachian Basin assets.

The following table summarizes the components of unproved properties excluded from amortization at the dates indicated:

	June 30, 2016	December 31, 2015
	(in thousands)	
Unproved properties, excluded from amortization:		
Drilling in progress costs	\$2,197	\$ 1,533
Acreage acquisition costs	79,874	82,560
Capitalized interest	5,656	8,516
Total unproved properties excluded from amortization	\$87,727	\$ 92,609

The full cost method of accounting for oil and natural gas properties requires a quarterly calculation of a limitation on capitalized costs, often referred to as a full cost ceiling calculation. The ceiling is the present value (discounted at 10% per annum) of estimated future cash flow from proved oil, condensate, natural gas and NGLs reserves reduced by future operating expenses, development expenditures, abandonment costs (net of salvage) to the extent not included in oil and natural gas properties pursuant to authoritative guidance and estimated future income taxes thereon. To the extent that the Company's capitalized costs (net of accumulated depletion and deferred taxes) exceed the ceiling at the end of the reported period, the excess must be written off to

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expense for such period. Once incurred, this impairment of oil and natural gas properties is not reversible at a later date even if oil and natural gas prices increase. The ceiling calculation is determined using a mandatory trailing 12-month unweighted arithmetic average of the first-day-of-the-month commodities pricing and costs in effect at the end of the period, each of which are held constant indefinitely (absent specific contracts with respect to future prices and costs) with respect to valuing future net cash flows from proved reserves for this purpose. The 12-month unweighted arithmetic average of the first-day-of-the-month commodities prices are adjusted for basis and quality differentials in determining the present value of the proved reserves. The table below sets forth relevant pricing assumptions utilized in the quarterly ceiling test computations for the respective periods noted before adjustment for basis and quality differentials:

	2016		
	Total		
	Impairment	June 30	March 31
Henry Hub natural gas price (per MMBtu) ⁽¹⁾		\$2.24	\$2.40
West Texas Intermediate oil price (per Bbl) ⁽¹⁾		\$43.12	\$46.26
Impairment recorded (pre-tax) (in thousands)	\$48,497	\$—	\$48,497

	2015		
	Total		
	Impairment	June 30	March 31
Henry Hub natural gas price (per MMBtu) ⁽¹⁾		\$3.39	\$3.88
West Texas Intermediate oil price (per Bbl) ⁽¹⁾		\$71.68	\$82.72
Impairment recorded (pre-tax) (in thousands)	\$100,152	\$100,152	\$—

(1) For the respective periods, oil and natural gas prices are calculated using the trailing 12-month unweighted arithmetic average of the first-day-of-the-month prices based on Henry Hub spot natural gas prices and West Texas Intermediate spot oil prices.

The Company could potentially incur further ceiling test impairments in 2016 should commodities prices decline. However, it is difficult to project future impairment charges in light of numerous variables involved.

The Company's proved reserves estimates and their estimated discounted value and standardized measure will also be impacted by changes in lease operating costs, future development costs, production, exploration and development activities. The ceiling limitation calculation is not intended to be indicative of the fair market value of the Company's proved reserves or future results.

Appalachian Basin Sale

On February 19, 2016, the Company entered into an agreement to sell substantially all of its producing assets and proved reserves and a significant portion of its undeveloped acreage in the Appalachian Basin for \$80.0 million, subject to customary closing adjustments. Pursuant to the agreement, on April 8, 2016, the Company completed the Appalachian Basin Sale for an adjusted sales price of \$76.6 million, subject to certain additional adjustments. The Appalachian Basin Sale is reflected as a reduction to the full cost pool and the Company did not record a gain or loss related to the divestiture as it was not determined to be significant to the full cost pool and did not result in a significant change to the depletion rate.

Appalachian Basin Sale Pro Forma Operating Results

The following unaudited pro forma results for the three months ended June 30, 2015 and the six months ended June 30, 2016 and 2015 show the effect on the Company's consolidated results of operations as if the Appalachian Basin Sale had occurred at the beginning of the periods presented. The pro forma results are the result of excluding from the statement of operations of the Company the revenues and direct operating expenses for the properties divested adjusted for (1) the reduction in ARO liabilities and accretion expense for the properties divested, (2) the reduction in depreciation, depletion and amortization expense as a result of the divestiture and (3) the reduction in interest expense as a result of the pay down of debt under the Revolving Credit Facility in conjunction with the closing of the Appalachian Basin Sale. As a result, certain estimates and judgments were made in preparing the pro forma adjustments.

	For the Three Months Ended June 30, 2016 2015 (in thousands, except per share data) (Unaudited)	
Revenues	\$12,268	\$18,516
Net Loss	\$(17,892)	\$(114,495)
Loss per share:		
Basic	\$(0.17)	\$(1.48)
Diluted	\$(0.17)	\$(1.48)

	For the Six Months Ended June 30, 2016 2015 (in thousands, except per share data) (Unaudited)	
Revenues	\$ 23,889	\$ 46,668
Net Loss	\$ (86,540)	\$ (121,463)
Loss per share:		
Basic	\$ (0.95)	\$ (1.57)
Diluted	\$ (0.95)	\$ (1.57)

The pro forma information above includes numerous assumptions, is presented for illustrative purposes only and may not be indicative of the future results or results of operations that would have actually occurred had the Appalachian Basin Sale occurred as presented. In addition, future results may vary significantly from the results reflected in such pro forma information.

Husky Acquisition

On December 16, 2015, the Company completed the acquisition of additional working and net revenue interests in 103 gross (10.2 net) producing wells and certain undeveloped acreage in the STACK and Hunton Limestone formations in its existing AMI from its AMI co-participant Husky Ventures, Inc. ("Husky"), Silverstar of Nevada, Inc., Maximus Exploration, LLC and Atwood Acquisitions, LLC for an adjusted purchase price of approximately \$42.2 million, reflecting adjustment for an acquisition effective date of July 1, 2015 and which includes a \$715,000 deposit into escrow pending the resolution of title defects by the seller recorded to other assets at June 30, 2016, and the conveyance of approximately 11,000 net non-core, non-producing acres in Blaine, Major and Kingfisher Counties, Oklahoma to the sellers, subject to certain adjustments and customary closing conditions (the "Husky Acquisition"). In connection with the acquisition, the AMI participation agreements with the Company's AMI co-participant were dissolved.

The Company accounted for the acquisition as a business combination and therefore, recorded the assets acquired at their estimated acquisition date fair values. The Company incurred a total of \$1.5 million of transaction and integration costs associated with the acquisition since closing and expensed these costs as incurred as general and administrative expenses. The Company utilized relevant market assumptions to determine fair value and allocate the purchase price, such as future commodity prices, projections of estimated natural gas and oil reserves, expectations for future development and operating costs, projections of future rates of production, expected recovery rates and market multiples for similar transactions. Many of the assumptions used are unobservable and as such, represent Level 3 inputs under the fair value hierarchy as described in Note 5, "Fair Value Measurements." The Company's preliminary assessment of the fair value of the Husky Acquisition assets resulted in a fair market valuation of \$44.6 million. As the fair market valuation varied less than 6% from the purchase price allocation recorded, no adjustment was made to the purchase price allocation.

Husky Acquisition Pro Forma Operating Results

The following unaudited pro forma results for the three and six months ended June 30, 2015 show the effect on the Company's consolidated results of operations as if the Husky Acquisition had occurred at the beginning of the period presented. The pro forma results are the result of combining the statement of operations of the Company with the statements of revenues and direct operating expenses for the properties acquired from Husky adjusted for (1) assumption of ARO liabilities and accretion expense for the properties acquired and (2) additional depreciation, depletion and amortization expense as a result of the Company's increased ownership in the acquired properties. The statements of revenues and direct operating expenses for the Husky Acquisition assets exclude all other historical expenses of Husky. As a result, certain estimates and judgments were made in preparing the pro forma adjustments.

For the	For the
Three	Six

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	Months Ended June 30, 2015	Months Ended June 30, 2015
	(in thousands, except per share data) (Unaudited)	
Revenues	\$24,576	\$61,406
Net Loss	\$(116,783)	\$(118,665)
Loss per share:		
Basic	\$(1.50)	\$(1.53)
Diluted	\$(1.50)	\$(1.53)

The pro forma information above includes numerous assumptions, is presented for illustrative purposes only and may not be indicative of the future results or results of operations that would have actually occurred had the Husky Acquisition occurred as presented. Further, the above pro forma amounts do not consider any potential synergies or integration costs that may result from the transaction. In addition, future results may vary significantly from the results reflected in such pro forma information.

4. Long-Term Debt

Second Amended and Restated Revolving Credit Facility

On June 7, 2013, the Company entered into the Second Amended and Restated Credit Agreement among the Company, Wells Fargo Bank, National Association, as Administrative Agent, Collateral Agent, Swing Line Lender and Issuing Lender and the lenders named therein (the "Revolving Credit Facility"). At the Company's election, borrowings bear interest at the reference rate or the Eurodollar rate plus an applicable margin. The reference rate is the greater of (i) the rate of interest publicly announced by the administrative agent, (ii) the federal funds rate plus 50 basis points and (iii) LIBOR plus 1.0%. The applicable interest rate margin varies from 1.0% to 2.0% in the case of borrowings based on the reference rate and from 2.0% to 3.0% in the case of borrowings based on the Eurodollar rate, depending on the utilization percentage in relation to the borrowing base and subject to adjustments based on the Company's leverage ratio. An annual commitment fee of 0.5% is payable quarterly on the unutilized balance of the borrowing base. The Revolving Credit Facility has a scheduled maturity of November 14, 2017.

The Revolving Credit Facility will be guaranteed by all of the Company's future domestic subsidiaries formed during the term of the Revolving Credit Facility. Borrowings and related guarantees are secured by a first priority lien on certain domestic oil and natural gas properties currently owned by or later acquired by the Company and its subsidiaries, excluding de minimis value properties as determined by the lender. The Revolving Credit Facility is secured by a first priority pledge of the capital stock of each domestic subsidiary, a first priority interest on all accounts receivable, notes receivable, inventory, contract rights, general intangibles and material property of the issuer and 65% of the stock of any foreign subsidiary of the Company.

The Revolving Credit Facility contains various covenants, including, among others:

- Restrictions on liens, incurrence of other indebtedness without lenders' consent and common stock dividends and other restricted payments;
- Maintenance of a minimum consolidated current ratio as of the end of each quarter of not less than 1.0 to 1.0, as adjusted;
- Maintenance of a maximum ratio of net indebtedness to EBITDA of not greater than 4.0 to 1.0, subject to the modifications in Amendment No. 5 set forth below; and
- Maintenance of an interest coverage ratio on a rolling four quarters basis, as adjusted, of EBITDA to interest expense, as of the end of each quarter, to be less than 2.5 to 1.0, subject to the modifications in Amendment No. 5 set forth below.

All outstanding amounts owed become due and payable upon the occurrence of certain usual and customary events of default, including, among others:

- Failure to make payments;
- Non-performance of covenants and obligations continuing beyond any applicable grace period; and
- The occurrence of a change in control of the Company, as defined under the Revolving Credit Facility.

On March 9, 2015, the Company, together with the parties thereto, entered into a Master Assignment, Agreement and Amendment No. 5 to Second Amended and Restated Credit Agreement ("Amendment No. 5"). Amendment No. 5 amended the Revolving Credit Facility to, among other things, (i) increase the borrowing base from \$145.0 million to \$200.0 million, (ii) adjust the total leverage ratio for each fiscal quarter ending on or after March 31, 2015 but prior to September 30, 2016, to 5.25 to 1.00; for the fiscal quarter ending on September 30, 2016, to 5.00 to 1.00; for the fiscal quarter ending on December 31, 2016, to 4.75 to 1.00; for the fiscal quarter ending on March 31, 2017, to 4.25 to 1.00; and for each fiscal quarter ending on or after June 30, 2017, to 4.00 to 1.00, (iii) adjust the interest coverage ratio for each fiscal quarter ending on or after March 31, 2015 but prior to March 31, 2016, to 2.00 to 1.00 and for each fiscal quarter ending on or after March 31, 2016, to 2.50 to 1.00, and (iv) add the senior secured leverage ratio covenant, such ratio not to exceed, (a) for each fiscal quarter ending on or after March 31, 2015 but prior to June 30, 2016, 2.25 to 1.00 and (b) for each fiscal quarter ending on or after June 30, 2016, 2.00 to 1.00 provided that this senior secured leverage ratio shall cease to apply commencing with the first fiscal quarter end occurring after June 30,

2016 for which the total leverage ratio is equal to or less than 4.00 to 1.00.

On December 22, 2015, the Company, together with the parties thereto, entered into Amendment No. 6 to Second Amended and Restated Credit Agreement (“Amendment No. 6”). Amendment No. 6 amended the Revolving Credit Facility to permit the Company to exchange its outstanding Notes constituting Second Lien Debt under the Revolving Credit Facility for equity interests in the Company.

On January 29, 2016, the Company, together with the parties thereto, entered into Limited Waiver and Amendment No. 7 to Second Amended and Restated Credit Agreement (“Amendment No. 7”). Pursuant to Amendment No. 7, the Company obtained (i) a waiver until March 10, 2016 of any potential defaults at December 31, 2015 of its leverage ratio and senior secured leverage ratio under the Revolving Credit Facility and (ii) a permanent waiver of any defaults of the restricted payment covenant under the

Revolving Credit Facility resulting from (a) cash distributions paid on December 31, 2015 in respect of its Series A Preferred Stock and its Series B Preferred Stock and (b) the issuance on January 28, 2016, as a dividend on the Company's common stock, of the right to purchase Series C Junior Participating Preferred Stock pursuant to the Company's Rights Agreement dated as of January 18, 2016 as part of the Company's previously disclosed tax benefits preservation plan. The Revolving Credit Facility was also amended to permit the Company to make dividends and distributions of preferred equity interests or rights to purchase certain preferred equity interests. The entry into Amendment No. 7 permitted the Company to pay monthly cash dividends on its Series A Preferred Stock and its Series B Preferred Stock on February 1, 2016.

On March 9, 2016, the Company, together with the parties thereto, entered into Waiver and Amendment No. 8 to Second Amended and Restated Credit Agreement ("Amendment No. 8"). Pursuant to Amendment No. 8, the Company obtained the following relief with respect to its financial covenant compliance:

- (i) a permanent waiver of the defaults at December 31, 2015 of its leverage ratio and senior secured leverage ratio under the Revolving Credit Facility;
- (ii) relief from compliance with its leverage ratio through the fiscal quarter ending March 31, 2017, but the Company must maintain a maximum leverage ratio of not greater than 4.0 to 1.0 for each fiscal quarter ending on or after June 17, 2017;
- (iii) an adjustment to the interest coverage ratio for each fiscal quarter ending on or after June 30, 2016 but prior to June 30, 2017, to 1.10 to 1.00 and for each fiscal quarter ending on or after June 30, 2017 to 2.50 to 1.00; and
- (iv) an adjustment to its senior secured leverage ratio for each fiscal quarter ending on or after June 30, 2016 but prior to June 30, 2017, to 2.50 to 1.00 provided that during such period the Company may subtract all cash on hand in calculating the senior secured leverage ratio for such periods and for each fiscal quarter ending on or after June 30, 2017, to 2.00 to 1.00 provided that during such period the Company may only subtract up to \$5 million of cash on hand in calculating the senior secured leverage ratio for such periods.

As consideration for the financial covenant relief provided for in Amendment No. 8, the Revolving Credit Facility was also amended to, among other things:

- (i) set the interest margin at (a) 4.0% per annum for Eurodollar rate borrowings and (b) 3.0% per annum for borrowings based on the reference rate;
- (ii) reduce the borrowing base from \$200.0 million to \$180.0 million until the earlier of the closing of the Appalachian Basin Sale or April 10, 2016, at which point the borrowing base would automatically be reduced to \$100.0 million and require borrowings in excess of such amount be repaid immediately;
- (iii) require additional automatic reductions of the borrowing base in connection with asset sales in excess of \$5.0 million or the termination of any hedge agreements governing hedges with a settlement date on or after July 1, 2016;
- (iv) provide for an additional interim borrowing base redetermination in August 2016;
- (v) require the consent of the lenders to any asset sales in excess of \$5.0 million; and
- (vi) restrict the Company after March 2016 from making any distributions or paying any cash dividends to the holders of its preferred equity, including its outstanding shares of Series A Preferred Stock and Series B Preferred Stock.

Borrowing base redeterminations are scheduled semi-annually in May and November of each calendar year, although an additional scheduled redetermination will occur in August 2016, as set forth in Amendment No. 8. The Company and its lenders may each request one additional unscheduled redetermination during any six-month period between scheduled redeterminations. In connection with Amendment No. 8 and in conjunction with the closing of the Appalachian Basin Sale, the borrowing base was reduced from \$180.0 million to \$100.0 million on April 8, 2016. At June 30, 2016, the Revolving Credit Facility had a borrowing base of \$100.0 million, with \$99.6 million borrowings outstanding and \$370,000 of letters of credit issued under the Revolving Credit Facility. As of August 1, 2016, there were \$99.6 million borrowings outstanding and \$370,000 of letters of credit issued under the Revolving Credit Facility. Future increases in the borrowing base in excess of the original \$50.0 million are limited to 17.5% of the increase in adjusted consolidated net tangible assets as defined in the indenture pursuant to which the Company's senior secured notes are issued (as discussed below in "Senior Secured Notes").

On May 10, 2016, the requisite lenders under the Second Amended and Restated Credit Agreement permanently waived an unintended technical default under the Revolving Credit Facility resulting from the timing of the last monthly cash dividend payments made by the Company in March 2016 on the Company's two outstanding classes of preferred stock.

At June 30, 2016, the Company was in compliance with all financial covenants under the Revolving Credit Facility.

Senior Secured Notes

The Company has \$325.0 million aggregate principal amount of 8 5/8% Senior Secured Notes due May 15, 2018 (the "Notes") outstanding under an indenture (the "Indenture") by and among the Company, the Guarantors named therein (the "Guarantors"), Wells Fargo Bank, National Association, as Trustee (in such capacity, the "Trustee") and Collateral Agent (in such capacity, the "Collateral

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Agent”). The Notes bear interest at a rate of 8.625% per year, payable semi-annually in arrears on May 15 and November 15 of each year. The Notes mature on May 15, 2018.

In the event of a change of control, as defined in the Indenture, each holder of the Notes will have the right to require the Company to repurchase all or any part of their notes at an offer price in cash equal to 101% of the aggregate principal amount thereof, plus accrued and unpaid interest, if any, to the date of purchase.

The Notes will be guaranteed, jointly and severally, on a senior secured basis by certain future domestic subsidiaries (the “Guarantees”). The Notes and Guarantees will rank senior in right of payment to all of the Company's and the Guarantors' future subordinated indebtedness and equal in right of payment to all of the Company's and the Guarantors' existing and future senior indebtedness. The Notes and Guarantees also will be effectively senior to the Company's unsecured indebtedness and effectively subordinated to the Company's and Guarantors' under the Revolving Credit Facility, any other indebtedness secured by a first-priority lien on the same collateral and any other indebtedness secured by assets other than the collateral, in each case to the extent of the value of the assets securing such obligation.

The Indenture contains covenants that, among other things, limit the Company's ability and the ability of its subsidiaries to:

- Transfer or sell assets or use asset sale proceeds;
- Pay dividends or make distributions, redeem subordinated debt or make other restricted payments;
- Make certain investments; incur or guarantee additional debt or issue preferred equity securities;
- Create or incur certain liens on the Company's assets;
- Incur dividend or other payment restrictions affecting future restricted subsidiaries;
- Merge, consolidate or transfer all or substantially all of the Company's assets;
- Enter into certain transactions with affiliates; and
- Enter into certain sale and leaseback transactions.

Covenants in the Indenture also limit the Company's ability to borrow on a first priority lien secured basis, including its ability to refinance the full amount of currently outstanding borrowings under its Revolving Credit Facility or to re-borrow on such facility in the event current borrowings thereunder are paid down. These and other covenants that are contained in the Indenture are subject to important limitations and qualifications that are described in the Indenture.

A summary of the Notes balance for the periods indicated is as follows:

	June 30, 2016 (in thousands)	December 31, 2015
Notes, principal balance	\$ 325,000	\$ 325,000
Less:		
Unamortized discounts	(5,781)	(7,151)
Deferred financing costs	(1,084)	(1,373)
Notes, net	\$ 318,135	\$ 316,476

5. Fair Value Measurements

The Company's financial assets and liabilities are measured at fair value on a recurring basis. The Company discloses its recognized non-financial assets and liabilities, such as asset retirement obligations, unproved properties and other property and equipment, at fair value on a non-recurring basis. For non-financial assets and liabilities, the Company is required to disclose information that enables users of its financial statements to assess the inputs used to develop these measurements. The Company assesses its unproved properties for impairment whenever events or circumstances indicate the carrying value of those properties may not be recoverable. The fair value of the unproved properties is measured using an income approach based upon internal estimates of future production levels, current and future prices, drilling and operating costs, discount rates, current drilling plans and favorable and unfavorable drilling activity on the properties being evaluated and/or adjacent properties or estimated market data based on area

transactions, which are Level 3 inputs. For the three and six months ended June 30, 2016 and 2015, respectively, due to continued lower natural gas prices for dry gas and no current plans to drill or extend leases in Marcellus East, management's evaluation of unproved properties resulted in impairment and the Company reclassified an immaterial amount of costs from unproved to proved properties for each period. As no other fair value measurements are required to be recognized on a non-recurring basis at June 30, 2016, no additional disclosures are provided at June 30, 2016.

As defined in the guidance, fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). To estimate fair value, the Company utilizes market data or assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities ("Level 1") and the lowest priority to unobservable inputs ("Level 3"). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. The Company's cash equivalents consist of short-term, highly liquid investments, which have maturities of 90 days or less, including sweep investments and money market funds.
- Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument.
- Level 3 inputs are measured based on prices or valuation models that require inputs that are both significant to the fair value measurement and less observable from objective sources. These inputs may be used with internally developed methodologies or third party broker quotes that result in management's best estimate of fair value. The Company's valuation models consider various inputs including (a) quoted forward prices for commodities, (b) time value, (c) volatility factors and (d) current market and contractual prices for the underlying instruments. Significant increases or decreases in any of these inputs in isolation would result in a significantly higher or lower fair value measurement. Level 3 instruments are commodity costless collars, index swaps, basis and fixed price swaps and put and call options to hedge natural gas, oil and NGLs price risk. At each balance sheet date, the Company performs an analysis of all applicable instruments and includes in Level 3 all of those whose fair value is based on significant unobservable inputs. The fair values derived from counterparties and third-party brokers are verified by the Company using publicly available values for relevant NYMEX futures contracts and exchange traded contracts for each derivative settlement location. Although such counterparty and third-party broker quotes are used to assess the fair value of its commodity derivative instruments, the Company does not have access to the specific assumptions used in its counterparties valuation models. Consequently, additional disclosures regarding significant Level 3 unobservable inputs were not provided and the Company does not currently have sufficient corroborating market evidence to support classifying these contracts as Level 2 instruments.

As required, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. The determination of the fair values below incorporates various factors, including the impact of the counterparty's non-performance risk with respect to the Company's financial assets and the Company's non-performance risk with respect to the Company's financial liabilities. The Company has not elected to offset the fair value amounts recognized for multiple derivative instruments executed with the same counterparty, but reports them gross on its consolidated balance sheets.

Transfers between levels are recognized at the end of the reporting period. There were no transfers between levels during the 2016 and 2015 periods.

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The following tables set forth by level within the fair value hierarchy the Company's financial assets and liabilities that were accounted for at fair value on a recurring basis as of June 30, 2016 and December 31, 2015:

	Fair value as of June 30, 2016			
	Level			
	Level 1	2	Level 3	Total
	(in thousands)			
Assets:				
Cash and cash equivalents	\$50,761	\$ —	\$—	\$50,761
Commodity derivative contracts	—	—	12,952	12,952
Liabilities:				
Commodity derivative contracts	—	—	(170)	(170)
Total	\$50,761	\$ —	\$12,782	\$63,543

	Fair value as of December 31, 2015			
	Level			
	Level 1	2	Level 3	Total
	(in thousands)			
Assets:				
Cash and cash equivalents	\$50,074	\$ —	\$—	\$50,074
Commodity derivative contracts	—	—	24,869	24,869
Liabilities:				
Commodity derivative contracts	—	—	(451)	(451)
Total	\$50,074	\$ —	\$24,418	\$74,492

The table below presents a reconciliation of the assets and liabilities classified as Level 3 in the fair value hierarchy for the three and six months ended June 30, 2016 and 2015. Level 3 instruments presented in the table consist of net derivatives that, in management's opinion, reflect the assumptions a marketplace participant would have used at June 30, 2016 and 2015.

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2016	2015	2016	2015
	(in thousands)			
Balance at beginning of period	\$16,076	\$31,823	\$24,418	\$27,502
Total (losses) gains included in earnings	(2,778)	(1,790)	(2,493)	8,433
Purchases	565	45	565	911
Issuances	(165)	(1,127)	(165)	(1,313)
Settlements ⁽¹⁾	(916)	(6,578)	(9,543)	(13,160)
Balance at end of period	\$12,782	\$22,373	\$12,782	\$22,373
The amount of total losses for the period included in earnings attributable to the change in mark to market of commodity derivatives contracts still held at June 30, 2016 and 2015	\$(3,343)	\$(7,777)	\$(9,840)	\$(3,525)

(1)Included in gain (loss) on commodity derivatives contracts on the condensed consolidated statements of operations. At June 30, 2016, the estimated fair value of accounts receivable, prepaid expenses, accounts and revenue payables and accrued liabilities approximates their carrying value due to their short-term nature. The estimated fair value of the Company's long-term debt at June 30, 2016 was \$367.0 million based on quoted market prices of the Notes (Level 1) and the respective carrying value of the Revolving Credit Facility because the interest rate approximates the current market rate (Level 2).

The Company has consistently applied the valuation techniques discussed above in all periods presented.

The fair value guidance, as amended, establishes that every derivative instrument is to be recorded on the balance sheet as either an asset or liability measured at fair value. See Note 6, "Derivative Instruments and Hedging Activity."

6. Derivative Instruments and Hedging Activity

The Company maintains a commodity price risk management strategy that uses derivative instruments to minimize significant, unanticipated earnings fluctuations that may arise from volatility in commodity prices. The Company uses costless collars, index, basis and fixed price swaps and put and call options to hedge oil, condensate, natural gas and NGLs price risk.

All derivative contracts are carried at their fair value on the balance sheet and all changes in value are recorded in the condensed consolidated statements of operations in (loss) gain on commodity derivatives contracts. For the three months ended June 30, 2016 and 2015, the Company reported losses of \$3.3 million and \$7.8 million, respectively, in the condensed consolidated statements of operations related to the change in the fair value of its commodity derivative contracts still held at June 30, 2016 and 2015. For the six months ended June 30, 2016 and 2015, the Company reported losses of \$9.8 million and \$3.5 million, respectively, in the condensed consolidated statements of operations related to the change in the fair value of its commodity derivative contracts still held at June 30, 2016 and 2015.

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As of June 30, 2016, the following crude derivative transactions were outstanding with the associated notional volumes and weighted average underlying hedge prices:

Settlement Period	Derivative Instrument	Average		Total of			
		Daily Volume (in Bbls)	Notional Volume	Base Fixed Price	Floor (Long)	Short Put	Ceiling (Short)
2016 ⁽²⁾	Costless three-way collar	250	38,250	\$—	\$85.00	\$65.00	\$95.10
2016 ⁽²⁾	Costless three-way collar	330	50,490	\$—	\$80.00	\$65.00	\$97.35
2016 ⁽²⁾	Costless three-way collar	450	68,850	\$—	\$57.50	\$42.50	\$80.00
2016 ⁽²⁾	Put spread	550	84,150	\$—	\$85.00	\$65.00	\$—
2016 ⁽²⁾	Fixed price swap	300	45,900	\$56.30	\$—	\$—	\$—
2016 ⁽³⁾	Costless collar	1,500	46,500	\$—	\$40.00	\$—	\$53.00
2017	Costless three-way collar	280	102,200	\$—	\$80.00	\$65.00	\$97.25
2017	Costless three-way collar	250	91,250	\$—	\$80.00	\$60.00	\$98.70
2017 ⁽⁴⁾	Protective spread	200	36,200	\$60.00	\$—	\$42.50	\$—
2017	Put spread	500	182,500	\$—	\$82.00	\$62.00	\$—
2017 ⁽⁴⁾	Protective spread	200	36,200	\$57.50	\$—	\$42.50	\$—
2017 ⁽⁴⁾	Fixed price swap	300	54,300	\$50.10	\$—	\$—	\$—
2017 ⁽⁵⁾	Costless three-way collar	200	36,800	\$—	\$60.00	\$42.50	\$85.00
2017 ⁽⁵⁾	Costless three-way collar	200	36,800	\$—	\$57.50	\$42.50	\$76.13
2018 ⁽⁶⁾	Put spread	425	103,275	\$—	\$80.00	\$60.00	\$—

(1) Crude volumes hedged include oil, condensate and certain components of our NGLs production.

(2) For the period August to December 2016.

(3) For the month of July 2016.

(4) For the period January to June 2017.

(5) For the period July to December 2017.

(6) For the period January to August 2018.

As of June 30, 2016, the following natural gas derivative transactions were outstanding with the associated notional volumes and weighted average underlying hedge prices:

Settlement Period	Derivative Instrument	Average		Total of		
		Daily Volume (in MMBtus)	Notional Volume	Floor (Long)	Short Put	Ceiling (Short)
2016 ⁽¹⁾	Costless three-way collar	2,500	230,000	\$ 3.00	\$ 2.25	\$ 3.65
2016 ⁽²⁾	Costless three-way collar	2,000	306,000	\$ 4.00	\$ 3.25	\$ 4.58
2016 ⁽²⁾	Costless three-way collar	5,000	765,000	\$ 3.40	\$ 2.65	\$ 4.10
2017	Costless three-way collar	5,000	1,825,000	\$ 3.00	\$ 2.35	\$ 4.00
2017 ⁽³⁾	Costless collar	2,000	180,000	\$ 3.10	\$—	\$ 3.78

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2018 Costless three-way collar 5,000 1,825,000 \$ 3.00 \$2.35 \$ 4.00

- (1) For the period August to October 2016.
- (2) For the period August to December 2016.
- (3) For the period January to March 2017.

As of June 30, 2016, the following NGLs derivative transactions were outstanding with the associated notional volumes and weighted average underlying hedge prices:

Settlement Period	Derivative Instrument	Average			Base
		Daily	Total of	Notional	
		Volume	Volume	Fixed	Price
		(in Bbls)			
2016 ⁽¹⁾	Fixed price swap	500	76,500		\$ 20.79

- (1) For the period August to December 2016.

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As of June 30, 2016, all of the Company's economic derivative hedge positions were with large financial institutions, which are not known to the Company to be in default on their derivative positions. The Company is exposed to credit risk to the extent of non-performance by the counterparties in the derivative contracts discussed above; however, the Company does not anticipate non-performance by such counterparties. None of the Company's derivative instruments contain credit-risk related contingent features.

In conjunction with certain derivative hedging activity, the Company deferred the payment of certain put premiums for the production month period August 2016 through December 2018. The put premium liabilities become payable monthly as the hedge production month becomes the prompt production month. The Company amortizes the deferred put premium liabilities as they become payable. The following table provides information regarding the deferred put premium liabilities for the periods indicated:

	June 30, 2016	December 31, 2015
	(in thousands)	
Current commodity derivative put premium payable	\$1,660	\$ 3,194
Long-term commodity derivative put premium payable	1,886	2,788
Total unamortized put premium liabilities	\$3,546	\$ 5,982

	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2016
	(in thousands)	
Put premium liabilities, beginning balance	\$4,062	\$ 5,982
Settlement of put premium liabilities	(351)	(2,271)
Additional put premium liabilities	(165)	(165)
Put premium liabilities, ending balance	\$3,546	\$ 3,546

The following table provides information regarding the amortization of the deferred put premium liabilities by year as of June 30, 2016:

	Amortization (in thousands)
August to December 2016	\$ 923
January to December 2017	1,654
January to August 2018	969
Total unamortized put premium liabilities	\$ 3,546

Additional Disclosures about Derivative Instruments and Hedging Activities

The tables below provide information on the location and amounts of derivative fair values in the condensed consolidated statement of financial position and derivative gains and losses in the condensed consolidated statement of operations for derivative instruments that are not designated as hedging instruments:

Fair Values of Derivative Instruments

Derivative Assets (Liabilities)

		Fair Value	
		June 30, 2016	December 31, 2015
Balance Sheet Location		(in thousands)	
Derivatives not designated as hedging instruments			
Commodity derivative contracts	Current assets	\$7,729	\$ 15,534
Commodity derivative contracts	Other assets	5,223	9,335
Commodity derivative contracts	Current liabilities	(170)	—
Commodity derivative contracts	Long-term liabilities	—	(451)
Total derivatives not designated as hedging instruments			
		\$12,782	\$ 24,418

		Amount of Gain (Loss)	
		Recognized in Income on	
		Derivatives For the Three Months Ended June 30,	
Location of Gain (Loss)			
Recognized in Income on			
Derivatives		2016	2015
		(in thousands)	
Derivatives not designated as hedging			
instruments			
Commodity derivative contracts	Loss on commodity derivatives contracts	\$(2,778)	\$(1,790)
Total		\$(2,778)	\$(1,790)

		Amount of Gain (Loss)	
		Recognized in Income on	
		Derivatives For the Six Months Ended June 30,	
Location of (Gain) Loss			
Recognized in Income on			
Derivatives		2016	2015
		(in thousands)	
Derivatives not designated as hedging			
instruments			
Commodity derivative contracts	(Loss) gain on commodity derivatives contracts	\$(2,493)	\$8,433
Total		\$(2,493)	\$8,433

7. Capital Stock
Common Stock

On May 7, 2015, the Company entered into an at-the-market issuance sales agreement with MLV & Co. LLC (the “Sales Agent”) to sell, from time to time through the Sales Agent, shares of the Company's common stock (the “ATM Program”). The shares will be issued pursuant to the Company's existing effective shelf registration statement on Form S-3, as amended (Registration No. 333-193832). The Company registered shares having an aggregate offering price of up to \$50.0 million. To date, no shares have been sold through the ATM program.

On May 12, 2016, the Company sold 50,000,000 shares of its common stock in an underwritten public offering at a price of \$0.95 per share, or \$47.5 million before offering costs and expenses (the “Equity Offering”). The Company received approximately \$44.8 million of proceeds from the offering, net of offering costs and expenses of approximately \$2.7 million.

On June 14, 2016, the Company's stockholders approved an amendment to the Company's certificate of incorporation to increase the number of authorized shares of common stock from 275,000,000 to 550,000,000, which amendment became effective on July 5, 2016.

Stockholder Rights Agreement

On January 18, 2016, the Company's Board of Directors adopted a stockholder rights plan (the “Rights Agreement”) pursuant to which the Company declared a dividend of one right (a “Right”) for each of the Company's issued and outstanding shares of common stock. The dividend was paid to stockholders of record on January 28, 2016. Each Right entitles the holder, subject to the terms of the Rights Agreement, to purchase one one-thousandth of a share of the Company's Series C Junior Participating Preferred Stock (the “Series C Preferred Stock”) at a price of \$6.96, subject to certain adjustments. The purpose of the Rights Agreement is to diminish the risk that the Company's ability to reduce potential future federal income tax obligations would become subject to limitations by reason of an “ownership change,” as defined in Section 382 of the Internal Revenue Code of 1986, as amended.

The Rights generally become exercisable on the earlier of (i) ten business days after any person or group obtains beneficial ownership of 4.9% of the Company's outstanding common stock (an “Acquiring Person”) or (ii) ten business days after commencement of a tender or exchange offer resulting in any person or group becoming an Acquiring Person. The exercise price payable, and the number of shares of Series C Preferred Stock or other securities or property issuable, upon exercise of the Rights are subject to adjustment from time to time to prevent dilution. In the event that, after a person or a group has become an Acquiring Person, the Company is acquired in a merger or other business combination transaction (or 50% or more of the Company's assets or earning power are sold), proper provision will be made so that each holder of a Right will thereafter have the right to receive, upon the

exercise thereof at the then-current exercise price of the Right, that number of shares of common stock of the acquiring company having a market value at the time of that transaction equal to two times the exercise price.

The Company may redeem the Rights in whole, but not in part, at any time before a person or group becomes an Acquiring Person at a price of \$0.001 per Right, subject to adjustment. At any time after any person or group becomes an Acquiring Person, the Company may generally exchange each Right in whole or in part at an exchange ratio of two shares of common stock per outstanding Right, subject to adjustment. The Rights will expire on January 18, 2019 unless terminated on an earlier date pursuant to the terms of the Rights Agreement.

The Series C Preferred Stock is not redeemable by the Company and has certain voting rights and dividend and liquidation privileges.

The Rights Agreement was amended on May 11, 2016 to make certain provisions inapplicable to purchasers of the Equity Offering who are approved by the board of directors of the Company, or a committee thereof, so that no such purchaser will be deemed an "Acquiring Person" under the Rights Agreement by virtue of their purchase of common stock in the Equity Offering.

Preferred Stock

Pursuant to the Company's certificate of incorporation, the Company has 40,000,000 shares of preferred stock authorized. The Company has designated 10,000,000 of such shares to constitute its 8.625% Series A Cumulative Preferred Stock (the "Series A Preferred Stock") and 10,000,000 of such shares to constitute its 10.75% Series B Cumulative Preferred Stock (the "Series B Preferred Stock"). The Series A Preferred Stock and the Series B Preferred Stock each have a par value of \$0.01 per share and a liquidation preference of \$25.00 per share.

Series A Preferred Stock

At June 30, 2016, there were 4,045,000 shares of the Series A Preferred Stock issued and outstanding with a \$25.00 per share liquidation preference.

The Series A Preferred Stock ranks senior to the Company's common stock and on parity with the Series B Preferred Stock with respect to the payment of dividends and distribution of assets upon liquidation, dissolution or winding up. The Series A Preferred Stock is subordinated to all of the Company's existing and future debt and all future capital stock designated as senior to the Series A Preferred Stock.

The Series A Preferred Stock cannot be converted into common stock, but may be redeemed, at the Company's option for \$25.00 per share plus any accrued and unpaid dividends whether declared or not.

There is no mandatory redemption of the Series A Preferred Stock.

The Company paid cumulative dividends on the Series A Preferred Stock at a fixed rate of 8.625% per annum of the \$25.00 per share liquidation preference. Effective March 9, 2016, the Revolving Credit Facility prohibited the payment of cash dividends on the Company's preferred stock commencing April 2016. Accordingly, the Company did not declare or pay dividends on the Series A Preferred Stock in April 2016. Dividends on the Series A Preferred Stock will accumulate regardless of whether any such dividends are declared. If the Company fails to pay full cash dividends in four calendar quarters, whether consecutive or non-consecutive, and until accumulated dividends are paid in full for four calendar quarters with the last two calendar quarters' dividends paid in cash, then (i) the fixed rate of Series A Preferred Stock each increases by 2.00%, (ii) the Company may be required to issue a dividend of common stock to pay accrued and unpaid dividends, if such dividends are not paid in cash, provided it has sufficient surplus to pay such a dividend under state law, and (iii) the holders of Series A Preferred Stock and Series B Preferred Stock, voting as a single class, will have the right to elect up to two additional directors to the board of directors of

the Company. Under certain circumstances, “pay in kind” dividends of additional shares of Series A Preferred Stock may be payable in lieu of cash or common stock dividends. For the three and six months ended June 30, 2016, the Company recognized dividends of \$2.2 million and \$4.4 million, respectively, for the Series A Preferred Stock.

Series B Preferred Stock

At June 30, 2016, there were 2,140,000 shares of the Series B Preferred Stock issued and outstanding with a \$25.00 per share liquidation preference.

The Series B Preferred Stock ranks senior to the Company’s common stock and on parity with the Series A Preferred Stock with respect to the payment of dividends and distribution of assets upon liquidation, dissolution or winding up. The Series B Preferred

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Stock are subordinated to all of the Company's existing and future debt and all future capital stock designated as senior to the Series B Preferred Stock.

Except upon a change in ownership or control, as defined in the Series B Preferred Stock certificate of designations of rights and preferences, the Series B Preferred Stock may not be redeemed before November 15, 2018, at or after which time it may be redeemed at the Company's option for \$25.00 per share in cash. Following a change in ownership or control, the Company will have the option to redeem the Series B Preferred Stock within 90 days of the occurrence of the change in control, in whole but not in part for \$25.00 per share in cash, plus accrued and unpaid dividends (whether or not declared), up to, but not including the redemption date. If the Company does not exercise its option to redeem the Series B Preferred Stock upon a change of ownership or control, the holders of the Series B Preferred Stock have the option to convert the shares of Series B Preferred Stock into the Company's common stock based upon an average common stock trading price then in effect but limited to an aggregate of 11.5207 shares of the Company's common stock per share of Series B Preferred Stock, subject to certain adjustments. If the Company exercises any of its redemption rights relating to shares of Series B Preferred Stock, the holders of Series B Preferred Stock will not have the conversion right described above with respect to the shares of Series B Preferred Stock called for redemption.

There is no mandatory redemption of the Series B Preferred Stock.

The Company paid cumulative dividends on the Series B Preferred Stock at a fixed rate of 10.75% per annum of the \$25.00 per share liquidation preference. Effective March 9, 2016, the Revolving Credit Facility prohibited the payment of cash dividends on the Company's preferred stock commencing April 2016. Accordingly, the Company did not declare or pay dividends on the Series B Preferred Stock in April 2016. Dividends on the Series B Preferred Stock will accumulate regardless of whether any such dividends are declared. If the Company fails to pay full cash dividends in four calendar quarters, whether consecutive or non-consecutive, and until accumulated dividends are paid in full for four calendar quarters with the last two calendar quarters' dividends paid in cash, then (i) the fixed rate of Series B Preferred Stock each increases by 2.00%, (ii) the Company may be required to issue a dividend of common stock to pay accrued and unpaid dividends, if such dividends are not paid in cash, provided it has sufficient surplus to pay such a dividend under state law, and (iii) the holders of Series A Preferred Stock and Series B Preferred Stock, voting as a single class, will have the right to elect up to two additional directors to the board of directors of the Company. Under certain circumstances, "pay in kind" dividends of additional shares of Series B Preferred Stock may be payable in lieu of cash or common stock dividends. For the three and six months ended June 30, 2016, the Company recognized dividends of \$1.4 million and \$2.9 million, respectively, for the Series B Preferred Stock.

Other Share Issuances

The following table provides information regarding the issuances and forfeitures of common stock pursuant to the Company's long-term incentive plan for the periods indicated:

	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2016
Other share issuances:		
Shares of restricted common stock granted	16,581	1,714,645
Shares of restricted common stock vested	—	1,439,840
Shares of common stock issued pursuant to PBUs vested,	—	502,593

net of forfeitures		
Shares of restricted common stock surrendered upon		
vesting/exercise ⁽¹⁾	—	386,241
Shares of restricted common stock forfeited	124,976	126,336

(1) Represents shares of common stock forfeited in connection with the payment of estimated withholding taxes on shares of restricted common stock that vested during the period.

On June 12, 2014, the Company's stockholders approved an amendment and restatement to the Gastar Exploration Inc. Long-Term Incentive Plan (the "LTIP"), effective April 24, 2014, to, among other things, increase the number of shares of common stock reserved for issuance under the LTIP by 3,000,000 shares of common stock. There were 1,252,375 shares of common stock available for issuance under the LTIP at June 30, 2016.

Shares Reserved

At June 30, 2016, the Company had 594,600 common shares reserved for the exercise of stock options.

8. Interest Expense

The following table summarizes the components of interest expense for the periods indicated:

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2016	
	2015		2015	
	(in thousands)			
Interest expense:				
Cash and accrued	\$8,210	\$7,241	\$17,117	\$15,169
Amortization of deferred financing costs ⁽¹⁾	1,836	915	2,825	1,736
Capitalized interest	(783)	(1,220)	(1,381)	(2,408)
Total interest expense	\$9,263	\$6,936	\$18,561	\$14,497

(1) The three months ended June 30, 2016 and 2015 includes \$693,000 and \$629,000, respectively, of debt discount accretion related to the Notes. The six months ended June 30, 2016 and 2015 includes \$1.4 million and \$1.2 million, respectively, of debt discount accretion related to the Notes.

9. Income Taxes

For the three and six months ended June 30, 2016 and 2015, respectively, the Company did not recognize a current income tax benefit or provision as the Company has a full valuation allowance against assets created by net operating losses generated. The Company believes it more likely than not that the assets will not be utilized.

10. Earnings per Share

In accordance with the provisions of current authoritative guidance, basic earnings or loss per share is computed on the basis of the weighted average number of common shares outstanding during the periods. Diluted earnings or loss per share is computed based upon the weighted average number of common shares outstanding plus the assumed issuance of common shares for all potentially dilutive securities.

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2016	
	2015		2015	
	(in thousands, except per share and share data)			
Net loss attributable to common stockholders	\$(18,100)	\$(118,014)	\$(91,575)	\$(121,018)
Weighted average common shares outstanding - basic	104,009,337	77,611,167	91,398,735	77,364,368
Incremental shares from unvested restricted shares	—	—	—	—
Incremental shares from outstanding stock options	—	—	—	—

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Incremental shares from outstanding PBUs	—	—	—	—
Weighted average common shares outstanding - diluted	104,009,337	77,611,167	91,398,735	77,364,368
Net loss per share of common stock attributable to				
common stockholders:				
Basic	\$ (0.17)	\$ (1.52)	\$ (1.00)	\$ (1.56)
Diluted	\$ (0.17)			