MAGELLAN PETROLEUM CORP /DE/
Form 10-Q
May 15, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(MARK ONE)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015
¨ 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 001-5507
MAGELLAN PETROLEUM CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	06-0842255
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1775 Sherman Street, Suite 1950, Denver, CO	80203
(Address of principal executive offices)	(Zip Code)

(720) 484-2400
(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. þ 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). þ 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	o	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	Smaller reporting company	þ

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes þ No
The number of shares outstanding of the issuer's single class of common stock as of May 13, 2015 was 45,701,107, which is net of 9,675,114 treasury shares held by the registrant.

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PART I - FINANCIAL INFORMATION
ITEM 1 FINANCIAL STATEMENTS (UNAUDITED)

MAGELLAN PETROLEUM CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share amounts)

	March 31, 2015	June 30, 2014
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$3,031	$16,422
Securities available-for-sale	4,122	11,935
Accounts receivable — trade	287	886
Accounts receivable — working interest partners	218	—
Inventories	656	739
Prepaid and other assets	1,899	2,105
Total current assets	10,213	32,087
PROPERTY AND EQUIPMENT, NET (SUCCESSFUL EFFORTS METHOD):		
Proved oil and gas properties	29,850	29,335
Less accumulated depletion, depreciation, and amortization	(4,056)	(3,575)
Unproved oil and gas properties	695	550
Wells in progress	27,464	21,296
Land, buildings, and equipment (net of accumulated depreciation of $633 and $483 as of March 31, 2015, and June 30, 2014, respectively)	248	368
Net property and equipment	54,201	47,974
OTHER NON-CURRENT ASSETS:		
Goodwill	1,174	1,174
Other long term assets	571	200
Total other non-current assets	1,745	1,374
Total assets	$66,159	$81,435
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Short term line of credit	$3,501	$—
Current portion of asset retirement obligations	356	397
Accounts payable	3,283	3,586
Accrued and other liabilities	2,109	2,121
Accrued dividends	—	429
Total current liabilities	9,249	6,533
LONG TERM LIABILITIES:		
Asset retirement obligations, net of current portion	2,596	2,476
Contingent consideration payable	—	1,852
Other long term liabilities	126	118
Total long term liabilities	2,722	4,446
COMMITMENTS AND CONTINGENCIES (Note 15)		

PREFERRED STOCK (Note 10):		
Series A convertible preferred stock (par value $0.01 per share): Authorized 28,000,000 shares, issued 20,798,719 and 20,089,436 as of March 31, 2015, and June 30, 2014, respectively; liquidation preference of $29,217 and $28,220 as of March 31, 2015, and June 30, 2014, respectively	25,406	24,539
Total preferred stock	25,406	24,539
EQUITY:		
Common stock (par value $0.01 per share): Authorized 300,000,000 shares, issued, 55,376,221 and 55,004,838 as of March 31, 2015, and June 30, 2014, respectively	554	550
Treasury stock (at cost): 9,675,114 and 9,425,114 shares as of March 31, 2015, and June 30, 2014, respectively	(9,806)	(9,344)
Capital in excess of par value	92,851	92,986
Accumulated deficit	(45,020)	(36,266)
Accumulated other comprehensive loss	(9,879)	(2,009)
Total equity attributable to Magellan Petroleum Corporation	28,700	45,917
Non-controlling interest in subsidiary	82	—
Total equity	28,782	45,917
Total liabilities, preferred stock and equity	$66,159	$81,435

The notes to the condensed consolidated financial statements (unaudited) are an integral part of these financial statements.

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MAGELLAN PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except share and per share amounts)

	THREE MONTHS ENDED March 31,		NINE MONTHS ENDED March 31,	
	2015	2014	2015	2014
REVENUE FROM OIL PRODUCTION	$688	$1,907	$3,543	$5,674
OPERATING EXPENSES:				
Lease operating	1,417	1,397	3,901	4,714
Depletion, depreciation, amortization, and accretion	246	337	761	956
Exploration	368	1,605	1,276	2,776
General and administrative	2,664	1,588	7,190	6,411
Loss on investment in securities	168	—	168	—
Total operating expenses	4,863	4,927	13,296	14,857
Loss from operations	(4,175)	(3,020)	(9,753)	(9,183)
OTHER INCOME (EXPENSE):				
Net interest expense	(25)	(80)	(42)	(103)
Fair value revision of contingent consideration payable	1,888	—	1,888	—
Other income (expense)	75	28	157	(78)
Total other income (expense)	1,938	(52)	2,003	(181)
Loss from continuing operations, before tax	(2,237)	(3,072)	(7,750)	(9,364)
Income tax expense	(43)	—	(43)	—
Loss from continuing operations, net of tax	(2,280)	(3,072)	(7,793)	(9,364)
DISCONTINUED OPERATIONS:				
Loss from discontinued operations, net of tax	—	(2,589)	—	(5,245)
Gain on disposal of discontinued operations, net of tax	—	30,182	—	30,182
Net income from discontinued operations	—	27,593	—	24,937
Net (loss) income	(2,280)	24,521	(7,793)	15,573
Net loss attributable to non-controlling interest in subsidiary	165	—	335	—
Net (loss) income attributable to Magellan Petroleum Corporation	(2,115)	24,521	(7,458)	15,573
Preferred stock dividends	(437)	(432)	(1,296)	(1,267)
Net (loss) income attributable to common stockholders	$(2,552)	$24,089	$(8,754)	$14,306

(Loss) income per common share (Note 12):				
Weighted average number of basic shares outstanding	45,701,107	45,348,709	45,677,673	45,348,753
Weighted average number of diluted shares outstanding	45,701,107	45,348,709	45,677,673	45,348,753
Basic and diluted loss per common share:				
Net loss from continuing operations attributable to Magellan Petroleum Corporation, including preferred stock dividends	$(0.06)	$(0.08)	$(0.19)	$(0.23)
Net income from discontinued operations	$0.00	$0.61	$0.00	$0.55
Net (loss) income attributable to common stockholders	$(0.06)	$0.53	$(0.19)	$0.32

The notes to the condensed consolidated financial statements (unaudited) are an integral part of these financial statements.

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MAGELLAN PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME (UNAUDITED)
(In thousands)

	THREE MONTHS ENDED March 31,		NINE MONTHS ENDED March 31,	
	2015	2014	2015	2014
Net (loss) income	$(2,280)	$24,521	$(7,793)	$15,573
Other comprehensive (loss) income, net of tax:				
Foreign currency translation (loss) gain	(431)	823	(2,262)	744
Reclassification of foreign currency translation loss on intercompany account balances to earnings upon reversal of permanent investment in foreign subsidiaries	659	—	659	—
Reclassification of foreign currency translation gain to earnings upon sale of subsidiary	—	(6,049)	—	(6,049)
Reclassification of impairment loss on securities available-for-sale to earnings due to determination as other than temporary	168	—	168	—
Unrealized holding (loss) gain on securities available-for-sale	1,339	1,004	(6,435)	1,012
Other comprehensive (loss) income, net of tax	1,735	(4,222)	(7,870)	(4,293)
Comprehensive (loss) income	$(545)	$20,299	$(15,663)	$11,280

The notes to the condensed consolidated financial statements (unaudited) are an integral part of these financial statements.

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MAGELLAN PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY (UNAUDITED)
(In thousands)

	Common Stock	Treasury Stock	Capital in Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive Loss	Non-controlling Interest	Total Stockholders' Equity
June 30, 2014	$550	$(9,344)	$92,986	$(36,266)	$(2,009)	$—	$45,917
Formation of Utah CO2 LLC	—	—	—	—	—	96	$96
Contributions to Utah CO2 LLC	—	—	—	—	—	321	$321
Net loss	—	—	—	(7,458)	—	(335)	$(7,793)
Other comprehensive loss, net of tax	—	—	—	—	(7,870)	—	$(7,870)
Stock and stock based compensation	2	—	1,313	—	—	—	$1,315
Executive and employee forfeiture of options upon resignation	—	—	(430)	—	—	—	$(430)
Executive forfeiture of restricted stock upon resignation	(1)	—	(43)	—	—	—	$(44)
Purchase of stock and options from former executive	—	(462)	(983)			—	$(1,445)
Net shares repurchased for employee tax costs upon vesting of restricted stock	—	—	(104)	—	—	—	$(104)
Stock options exercised, net of shares withheld to satisfy employee tax obligations	3	—	112	—	—	—	$115
Preferred stock dividend	—	—	—	(1,296)	—	—	$(1,296)
March 31, 2015	$554	$(9,806)	$92,851	$(45,020)	$(9,879)	$82	$28,782

The notes to the condensed consolidated financial statements (unaudited) are an integral part of these financial statements.

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MAGELLAN PETROLEUM CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	NINE MONTHS ENDED March 31, 2015	2014
OPERATING ACTIVITIES:		
Net (loss) income	$(7,793)	$15,573
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Foreign transaction loss	659	—
Depletion, depreciation, amortization, and accretion	761	956
Fair value revision of contingent consideration payable	(1,888)	—
Accretion expense of contingent consideration payable	36	234
Inventory book to physical adjustment	123	—
Loss on investment in securities	168	—
Gain on disposal of Amadeus Basin assets	—	(30,182)
Exploration costs previously capitalized	20	733
Stock compensation expense	841	1,667
Net changes in operating assets and liabilities:		
Accounts receivable	542	(64)
Inventories	(86)	165
Prepayments and other current assets	162	(410)
Accounts payable and accrued liabilities	(65)	473
Net cash used in operating activities of continuing operations	(6,520)	(10,855)
INVESTING ACTIVITIES:		
Additions to property and equipment	(7,157)	(16,710)
Utah CO_2 option	(371)	—
Proceeds from first cash installment for the sale of Amadeus Basin assets	—	13,859
Net cash used in investing activities of continuing operations	(7,528)	(2,851)
FINANCING ACTIVITIES:		
Purchase of common stock	(566)	(11)
Purchase of stock options	(983)	—
Proceeds from issuance of common stock, net	115	—
Payment of preferred stock dividend	(859)	—
Borrowings (repayments) on line of credit, net	3,501	—
Short term debt issuances	—	1,000
Short term debt repayments	—	(1,303)
Capital contributions by non-controlling interest	147	—
Net cash provided by (used in) financing activities of continuing operations	1,355	(314)
CASH FLOWS FROM DISCONTINUED OPERATIONS:		
Adjustments to reconcile net loss to net cash provided by operating activities of discontinued operations	—	1,366
Net cash used in investing activities of discontinued operations	—	(1,265)
Net cash provided by discontinued operations	—	101
Effect of exchange rate changes on cash and cash equivalents	(698)	464

Net decrease in cash and cash equivalents	(13,391)	(13,455)

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Cash and cash equivalents at beginning of period	16,422	32,469
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$3,031	$19,014
Supplemental disclosure of cash flow information:		
Cash paid for interest	$33	$28
Cash paid for income taxes	$43	$—
Supplemental schedule of non-cash activities:		
Unrealized holding loss and foreign currency translation loss on securities available-for-sale	$(7,813)	$922
Change in accounts payable and accrued liabilities related to property and equipment	$(666)	$1,070
Preferred stock dividends paid in kind	$867	$1,038
Increase in both accrued or other liabilities and prepaid or other assets related to Sopak	$79	$545
Property contributed for capital contribution of non-controlling interest	$102	$—
Property contributed for deferred capital contribution of non-controlling interest	$98	$—
Accrued capital contributions of non-controlling interest	$168	$—

The notes to the condensed consolidated financial statements (unaudited) are an integral part of these financial statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1 - Basis of Presentation

Description of Operations

Magellan Petroleum Corporation (the "Company" or "Magellan" or "we") is an independent oil and gas exploration and production company focused on the development of CO_2-enhanced oil recovery ("CO_2-EOR") projects in the Rocky Mountain region. Historically active internationally, Magellan also owns significant exploration acreage in the Weald Basin, onshore UK, and an exploration block, NT/P82, in the Bonaparte Basin, offshore Northern Territory, Australia, which the Company currently plans to farmout.

The Company conducts its operations through three wholly owned subsidiaries corresponding to the geographical areas in which the Company operates: Nautilus Poplar LLC ("NP") in the US, Magellan Petroleum (UK) Limited ("MPUK"), and Magellan Petroleum Australia Pty Ltd ("MPA").

Our strategy is to enhance shareholder value by maximizing the value of our CO_2-EOR business and our international projects. We are committed to efficiently investing financial, technical, and management capital in our projects in order to achieve the greatest risk-adjusted value and returns for our shareholders.

We were founded in 1957 and incorporated in Delaware in 1967. The Company's common stock has been trading on NASDAQ since 1972 under the ticker symbol "MPET".

Our principal executive offices are located at 1775 Sherman Street, Suite 1950, Denver, Colorado 80203, and our phone number is (720) 484-2400.

Principles of Consolidation and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of Magellan and its wholly owned subsidiaries, NP, MPUK, and MPA, and have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X published by the US Securities and Exchange Commission (the "SEC"). Accordingly, these interim unaudited condensed consolidated financial statements do not include all of the information and footnotes required by GAAP for complete annual period financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments are of a normal recurring nature. All intercompany transactions have been eliminated. Operating results for the nine months ended March 31, 2015, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2015. This report should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2014 (the "2014 Form 10-K"). All amounts presented are in US dollars, unless otherwise noted. Amounts expressed in Australian currency are indicated as "AUD."

Certain amounts in our prior period financial statements have been reclassified to conform to the current period presentation.

During the nine months ended March 31, 2015, the Company formed a majority owned subsidiary, Utah CO2 LLC, a Delaware limited liability company ("Utah CO2"), through which the Company purchased an option to acquire CO_2 at Farnham Dome in Utah. The Company owns a controlling 51% of the equity in Utah CO2 and consolidates this entity in the accompanying condensed consolidated financial statements. The remaining 49% is owned by two separate third parties. Another third-party owns a 10% economic participation interest in the Company's equity interest in Utah CO2, which participation interest does not bear any governance rights over the Company's investment in Utah CO2. The non-controlling interest reported in the accompanying condensed consolidated financial statements relates to the non-controlling interest in this entity, including the participation interest.

The Company owns an 11% interest in Central Petroleum Limited (ASX:CTP) ("Central"), a Brisbane-based exploration and production company traded on the Australian Securities Exchange. The Company accounts for this investment as securities available-for-sale in the accompanying condensed consolidated financial statements.

Use of Estimates
The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of oil and gas reserves, assets and liabilities,

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disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements, and the reported amounts of revenues and expenses, including stock-based compensation expense, during the reporting periods. Actual results could differ from those estimates.

Foreign Currency Translation
The functional currency of our foreign subsidiaries is their local currency. Assets and liabilities of foreign subsidiaries are translated to US dollars at period-end exchange rates, and our unaudited condensed consolidated statements of operations and cash flows are translated at average exchange rates during the reporting periods. Resulting translation adjustments are recorded in accumulated other comprehensive loss, a separate component of stockholders' equity. A component of accumulated other comprehensive loss will be released into income when the Company executes a partial or complete sale of an investment in a foreign subsidiary or a group of assets of a foreign subsidiary considered a business and/or when the Company no longer holds a controlling financial interest in a foreign subsidiary or group of assets of a foreign subsidiary considered a business.
Transactions denominated in currencies other than the local currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in foreign currency transaction gains and losses that are reflected in results of operations as unrealized (based on period end translation) or realized (upon settlement of the transactions) and reported under general and administrative expenses in the consolidated statements of operations. During the three months ended March 31, 2015, the Company made a determination that it was no longer permanently invested in its foreign subsidiaries because (i) the Company has begun an effort to repay its intercompany balances through the repatriation of cash from these subsidiaries and (ii) the Company is increasingly focusing on its US operations. As such, the Company recorded on its statement of operations an expense reclassification from accumulated other comprehensive loss arising from foreign currency exchange losses on its intercompany account balances.

Securities available-for-sale
Securities available-for-sale are comprised of investments in publicly traded securities and are carried at quoted market prices. Unrealized gains and losses are excluded from earnings and recorded as a component of accumulated other comprehensive loss in stockholders' equity, net of deferred income taxes. The Company recognizes gains or losses when securities are sold. On a quarterly basis, we perform an assessment to determine whether there have been any events or economic circumstances to indicate that a security with an unrealized loss has suffered other-than-temporary impairment. As a result of this review, during the nine months ended March 31, 2015, a loss of $168 thousand was recognized. Refer to Note 4 - Securities Available-for-Sale for further information. No impairment was recorded during the nine months ended March 31, 2014.

Oil and Gas Exploration and Production Activities
The Company follows the successful efforts method of accounting for its oil and gas exploration and production activities. Under this method, all property acquisition costs, and costs of exploratory and development wells are capitalized until a determination is made that the well has found proved reserves or is deemed noncommercial. If an exploratory well is deemed to be noncommercial, the well costs are charged to exploration expense as dry hole cost. Exploration expenses include dry hole costs, geological and geophysical expenses. Noncommercial development well costs are charged to impairment expense if circumstances indicate that a decline in the recoverability of the carrying value may have occurred.

The Company records its proportionate share in joint venture operations in the respective classifications of assets, liabilities, and expenses. The cost of CO_2 injection is capitalized until a production response is seen as a result of the injection and it is determined that the well has found proved reserves. After oil production from the well begins, CO_2 injection costs are expensed as incurred.

Depreciation, depletion, and amortization ("DD&A") of capitalized costs related to proved oil and gas properties is calculated on a property-by-property basis using the units-of-production method based upon proved reserves. The computation of DD&A takes into consideration restoration, dismantlement, and abandonment costs as well as the anticipated proceeds from salvaging equipment.

The sale of a partial interest in a proved oil and gas property is accounted for as normal retirement, and no gain or loss is recognized as long as the treatment does not significantly affect the units-of-production depletion rate. A gain or loss is recognized for all other sales of producing properties.

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The Company reviews its proved oil and gas properties for impairment whenever events and circumstances indicate that a decline in the recoverability of their carrying value may have occurred. The Company estimates the expected undiscounted future cash flows of its oil and gas properties and compares such undiscounted future cash flows to the carrying amount of the oil and gas properties to determine if the carrying amount is recoverable. If the carrying amount exceeds the estimated undiscounted future cash flows, the Company will adjust the carrying amount of the oil and gas properties to fair value. The factors used to determine fair value include, but are not limited to, recent sales prices of comparable properties, the present value of estimated future cash flows, net of estimated operating and development costs, using estimates of reserves, future commodity pricing, future production estimates, anticipated capital expenditures, and various discount rates commensurate with the risk and current market conditions associated with realizing the expected cash flows projected. The Company undertook such a review during the quarter ended March 31, 2015, as a result of the recent decline in oil prices and concluded that no impairment was needed as of March 31, 2015.

Asset Retirement Obligations

The Company recognizes an estimated liability for future costs associated with the plugging and abandonment of its oil and gas properties. A liability for the fair value of an asset retirement obligation and corresponding increase in the carrying value of the related long-lived asset are recorded at the time a well is acquired or the liability to plug is legally incurred. The increase in carrying value is included in proved oil and gas properties in the accompanying condensed consolidated balance sheets. The Company depletes the amount added to proved oil and gas property costs, net of estimated salvage values, and recognizes expense in connection with the accretion of the discounted liability over the remaining estimated economic lives of the respective oil and gas properties.

Revenue Recognition

The Company derives revenue primarily from the sale of produced oil. Oil revenues are recognized when production is sold to a purchaser at a fixed or determinable price, when delivery has occurred and title has transferred, and collectability of the revenue is probable. Transportation costs, if and when they arise, are included in lease operating expenses.

Major Customers

The Company's consolidated oil production revenue is derived from its NP segment and was generated from a single customer for the nine months ended March 31, 2015 and 2014.

Stock Based Compensation

Stock option grants may contain time based, market based, or performance based vesting provisions. Time based options ("TBOs") are expensed on a straight-line basis over the vesting period. Market based options ("MBOs") are expensed on a straight-line basis over the derived service period, even if the market condition is not achieved. Performance based options ("PBOs") are amortized on a straight-line basis between the date upon which the achievement of the relevant performance condition is deemed probable and the date the performance condition is expected to be achieved. Management re-assesses whether achievement of performance conditions is probable at the end of each reporting period. If changes in the estimated outcome of the performance conditions affect the quantity of the awards expected to vest, the cumulative effect of the change is recognized in the period of change.

The fair value of the stock options is determined on the grant date and is affected by our stock price and other assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, risk free interest rates, expected dividends, and the expected option exercise term. The Company estimates the fair value of PBOs and time based stock options using the Black-Scholes-Merton pricing model. The simplified method is used to estimate the expected term of stock options due to a lack of related historical data regarding exercise, cancellation, and forfeiture. For MBOs, the fair value is estimated using Monte Carlo simulation techniques.

Accumulated Other Comprehensive Loss

Comprehensive loss is presented net of applicable income taxes in the accompanying consolidated statements of stockholders' equity and comprehensive loss. Other comprehensive loss is comprised of revenues, expenses, gains, and losses that under GAAP are reported as separate components of stockholders' equity instead of net loss.

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Loss per Common Share

Income and losses per common share are based upon the weighted average number of common and common equivalent shares outstanding during the period. The effects of potential dilutive securities in the determinations of diluted earnings per share are the dilutive effects of stock options, non-vested restricted stock, and the shares of Series A convertible preferred stock.

The potential dilutive impact of stock options and non-vested restricted stock is determined using the treasury stock method. The potential dilutive impact of the shares of Series A convertible preferred stock is determined using the "if-converted" method. In applying the if-converted method, conversion is not assumed for purposes of computing dilutive shares if the effect would be antidilutive. The Series A convertible preferred stock is convertible at a rate of one common share for one preferred share. We did not include any stock options, non-vested restricted stock, or common stock issuable upon the conversion of the Series A convertible preferred stock in the calculation of diluted loss per share during the three and nine months ended March 31, 2015, and 2014, as their effect would have been antidilutive.

Segment Information
As of June 30, 2013, the Company determined, based on the criteria of ASC Topic 280, that it operates in three segments, NP, MPUK, and MPA, as well as a head office, Magellan ("Corporate"), which is treated as a cost center. The Company's chief operating decision maker is J. Thomas Wilson (President and CEO of the Company), who reviews the results and manages operations of the Company in the three reporting segments of NP, MPUK, and MPA, as well as Corporate. For information pertaining to our reporting segments, see Note 13 - Segment Information, and Part II, Item 8 of our 2014 Form 10-K.

Recently Issued Accounting Standards
In August 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-15, Presentation of Financial Statements - Going Concern. The objective of ASU 2014-15 is to provide guidance on management’s responsibility to evaluate whether there is substantial doubt about a company’s ability to continue as a going concern and to provide related footnote disclosures. ASU 2014-15 is effective for fiscal years ending after December 15, 2016, and annual and interim periods thereafter. The Company is evaluating the impact of the adoption of this standard on its condensed consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, “Compensation-Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period.” ASU 2014-12 requires a reporting entity to treat a performance target that affects vesting and that could be achieved after the requisite service period as a performance condition. It is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. ASU 2014-12 may be adopted either prospectively for share-based payment awards granted or modified on or after the effective date, or retrospectively, using a modified retrospective approach. The modified retrospective approach would apply to share-based payment awards outstanding as of the beginning of the earliest annual period presented in the financial statements on adoption, and to all new or modified awards thereafter. The Company has chosen to early adopt this standard retrospectively to July 1, 2013, which adoption did not impact the Company's condensed consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, which establishes a comprehensive new revenue recognition standard designed to depict the transfer of goods or services to a customer in an amount that reflects the consideration the entity expects to receive in exchange for those goods or services. In doing so, companies may need to use more judgment and make more estimates than under current revenue recognition guidance. The ASU allows for the use of either the full or modified retrospective transition method, and the standard as written will be effective for us in the first quarter of our fiscal year 2018 unless a deferral for adoption is provided by the FASB; early adoption is not permitted. In April, 2015, the FASB issued a proposed ASU that would defer adoption of ASU 2014-09 by one year. If the proposed ASU is adopted, ASU 2014-9 will be effective for us in the first quarter of our fiscal year 2019. The Company is currently evaluating which transition approach to use and the impact of the adoption of this standard on its condensed consolidated financial statements.

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Note 2 - Sale of Amadeus Basin Assets

On March 31, 2014 (the "Central Closing Date"), pursuant to the Share Sale and Purchase Deed dated February 17, 2014 (the "Sale Deed"), the Company sold its Amadeus Basin assets, the Palm Valley and Dingo gas fields ("Palm Valley" and "Dingo," respectively), to Central through the sale of the Company's wholly owned subsidiary, Magellan Petroleum (N.T.) Pty. Ltd ("MPNT"), to Central's wholly owned subsidiary Central Petroleum PV Pty. Ltd ("Central PV"). In exchange for the assets, Central paid to Magellan (i) AUD $20,000 thousand, (ii) customary purchase price adjustments amounting to AUD $800 thousand; and (iii) 39.5 million newly issued shares of Central stock (ASX: CTP), equivalent to an ownership interest in Central of approximately 11%.

The Sale Deed also provides that the Company is entitled to receive 25% of the revenues generated at the Palm Valley gas field from gas sales when the volume-weighted gas price realized at Palm Valley exceeds AUD $5.00/Gigajoule ("GJ") and AUD $6.00/GJ for the first 10 years following the Central Closing Date and for the following 5 years, respectively, with such prices to be escalated in accordance with the Australian CPI. Between the third and fifth anniversaries of the Central Closing Date, inclusive, the Company may seek from Central a one-time payment (the "Bonus Discharge Amount") corresponding to the present value, assuming an annual discount rate of 10%, of any expected remaining bonus payments in exchange for foregoing future bonus payments. If the Company receives the Bonus Discharge Amount, bonus payments and the Bonus Discharge Amount together may not exceed AUD $7,000 thousand. The Company also retained its rights to receive any and all bonuses (the "Mereenie Bonus") payable by Santos Ltd ("Santos") and contingent upon production at the Mereenie oil and gas field achieving certain threshold levels. The Mereenie Bonus was established in 2011 pursuant to the terms of the asset swap agreement between the Company and Santos for the sale of the Company's interest in Mereenie to Santos and the Company's purchase of the interests of Santos in the Palm Valley and Dingo gas fields. For additional information, see Note 3 - Discontinued Operations.

Note 3 - Discontinued Operations

As discussed in detail in Note 2 - Sale of Amadeus Basin Assets, on March 31, 2014, pursuant to the Sale Deed, the Company completed the sale of Palm Valley and Dingo to Central PV. The assets of Palm Valley and Dingo were previously reported under the MPA segment. Accordingly, MPA's results of operations associated with this sale were reclassified to discontinued operations in the third quarter of fiscal year 2014. Prior period amounts related to discontinued operations in the unaudited condensed consolidated statement of operations and statement of cash flows have also been reclassified to conform to the current period presentation. Summarized results of the Company's discontinued operations are as follows:

	THREE MONTHS ENDED March 31,		NINE MONTHS ENDED March 31,	
	2015	2014	2015	2014
	(In thousands)		(In thousands)	
Revenue	$—	$356	$—	$814
Net income from discontinued operations	$—	$27,593	$—	$24,937

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The Company recorded purchase price adjustments pursuant to the Sale Deed relating to the reimbursement of Dingo development costs and post completion costs. As of March 31, 2014, the gain related to the Company's discontinued operations is summarized as follows:

	March 31, 2014 (In thousands)
Assets and liabilities sold	
Property and equipment, net	$(10,100)
Deferred income taxes	(7,217)
Goodwill allocated to disposal group	(1,000)
Asset retirement obligations	4,457
Other assets and liabilities, net	1,178
Total assets and liabilities of discontinued operations	(12,682)
Consideration	
First cash installment - received on Central Closing Date	13,859
Second cash installment - received on April 15, 2014	4,624
Stock of Central	19,147
Total consideration	37,630
Reclassification of foreign currency translation gains to earnings upon sale of foreign subsidiary	6,049
Transaction costs	(815)
Gain on disposal of discontinued operations, net of tax	$30,182

For additional information about the sale of the Amadeus Basin assets and the Sale Deed, see Note 2 - Sale of Amadeus Basin Assets.

Note 4 - Securities Available-for-Sale

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses, and fair market value of available-for-sale equity securities, nearly all of which are attributable to the Company's investment in Central stock, as follows:

	March 31, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Equity securities	$19,339	$—	$(15,217)	$4,122

	June 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
Equity securities	$19,339	$—	$(7,404)	$11,935

Subsequent to March 31, 2015, the Company began the process of selling its investment in the common stock of an ASX-listed offshore exploration company other than Central for expected proceeds of approximately $24 thousand. The Company entered into this investment in 2009 and 2010 at an amortized cost of $192 thousand. Although the Company still held the investment as of March 31, 2015, as of the date of release of the accompanying condensed consolidated financial statements, the cumulative unrealized loss on this investment was deemed other-than-temporary and therefore an impairment loss of $168 thousand was recognized for the three and nine months ended March 31, 2015.

Note 5 - Debt
Note Payable. The outstanding principal of a $1.7 million note payable by NP, re-issued in January 2011 (the "Note Payable"), was fully amortized as of June 30, 2014.

Line of Credit. The Company, through its wholly owned subsidiary NP, maintains a line of credit note (the "LCN") with West Texas State Bank ("WTSB"). As of March 31, 2015, $3,501 thousand of the total available $8,000 thousand LCN was drawn and $4,499 thousand remained available to borrow. The LCN will mature on September 30, 2015, and is subject to quarterly floating interest payments based on the Prime Rate (currently approximately 3.25%) and a floor rate of 3.25%. The LCN is secured by substantially all of NP's assets including a first lien on NP's oil and gas leases from the surface to the top of the Bakken, but excluding any rights to assets within or below the Bakken. Magellan, the parent entity of NP, provided a guarantee of the LCN secured by a pledge of its membership interest in NP. Magellan and NP are subject to certain customary restrictive covenants under the terms of the LCN. As of March 31, 2015, the Company was in compliance with all such covenants. As of May 13, 2015, the outstanding balance on the LCN totaled $5,500 thousand. The Company is currently in discussions with WTSB to convert the LCN to a term loan before the maturity date. If the Company is unable to obtain such conversion, the Company plans to repay the outstanding balance with expected proceeds from the contemplated sale of certain of its assets.

Note 6 - Asset Retirement Obligations
The estimated valuation of asset retirement obligations ("AROs") is based on the Company's historical experience and management's best estimate of plugging and abandonment costs by field. Assumptions and judgments made by management when assessing an ARO include: (i) the existence of a legal obligation; (ii) estimated probabilities, amounts, and timing of settlements; (iii) the credit-adjusted risk-free rate to be used; and (iv) inflation rates. Accretion expense is recorded under depletion, depreciation, amortization, and accretion in the unaudited condensed consolidated statements of operations. If the recorded value of ARO requires revision, the revision is recorded to both the ARO and the asset retirement capitalized cost.
The following table summarizes the ARO activity for the nine months ended March 31, 2015:

	Total (In thousands)
Fiscal year opening balance	$2,873
Accretion expense	130
Effect of exchange rate changes	(51)
Balance at March 31, 2015	2,952
Less current asset retirement obligation	356
Long term asset retirement obligation	$2,596