SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

[X] ANNUAL REPORT PURSUANT TO SECTION 13 or 15 (d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

Commission File Number 0-7246

[] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transaction period from _____ to _____

PETROLEUM DEVELOPMENT CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	95-2636730
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

103 East Main Street, Bridgeport, West Virginia 26330

(Address of principal executive offices) (zip code)

Registrant's telephone number, including area code (304) 842-3597

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Petroleum Development Corporation Common Stock, $.01 par value

(Title of class)

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 and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is an accelerated filer (as definition in Rule 12b-2 of the Exchange Act). Yes X No

As of March 5, 2003, 15,734,767 shares of the Registrant's Common Stock were issued and outstanding, and the aggregate market value of such shares held by non-affiliates of the Registrant on such date was $67,881,269 (based on the last traded price of $5.80).

DOCUMENTS INCORPORATED BY REFERENCE

Document	Form 10-K Part III
Proxy	Items 10, 11, 12, and 13 (except as presented herein)

PART I

Item 1. Business

The Company is an independent energy company engaged primarily in the development, production and marketing of natural gas and oil. The Company has grown primarily through drilling and development activities, the acquisition of natural gas and oil producing wells and the expansion of its natural gas marketing activities. As of December 31, 2002, the Company operates approximately 2,200 wells located in the Appalachian basin, Michigan, and the Rocky Mountain Region, with gross proved reserves of 364 billion cubic feet equivalent of natural gas ("Bcfe", based on one barrel of oil equals 6 thousand cubic feet equivalent of natural gas ("Mcfe")) of which the Company's share is 141 Bcfe. The wells operated by the Company currently produce an aggregate of approximately 55,000 thousand cubic feet equivalent of gas per day, of which the Company's share is approximately 21,500 Mcfe.

The Company's operations are divided into three regions, the Appalachian Basin, Michigan Basin, and the Rocky Mountain Region. The Company has conducted operations in Appalachian Basin since its inception in 1969, in Michigan Basin since 1997, and the Rocky Mountain Region since 1999. During 2002 approximately 27% of production was generated by Appalachian Basin wells, 28% by Michigan Basin wells and 45% by Rocky Mountain wells. As of the end of 2002, the Company's total proved reserves were located as follows: Appalachian Basin 32%, Michigan Basin 20% and Rocky Mountain Region 48%. The majority of the Company's undeveloped reserves are in the Rocky Mountain Region and the planned drilling for 2003 will be focused in that area.

In all three regions the Company has historically targeted shallow, developmental natural gas reserves for development. In some areas of the Rocky Mountain Region, Michigan and the Appalachian Basin the wells also produce oil in conjunction with natural gas.

The Company owns Riley Natural Gas (RNG), a natural gas marketing company, which aggregates and resells natural gas developed by the Company and other producers. This allows the Company to diversify its operations beyond natural gas drilling and production. RNG has established relationships with many of the natural gas producers in the Appalachian Basin and has significant expertise in the natural gas end-user market. In addition, RNG has extensive experience in the use of hedging strategies, which the Company utilizes to manage the financial impact on the Company of changes in the price of natural gas.

Since 1984, the Company has sponsored limited partnerships formed to engage in drilling operations. The Company typically purchases a 20% ownership interest in these drilling limited partnerships. In 2002, the Company, through four public drilling partnerships, raised $56.9 million making it the sponsor of the largest public oil and gas partnership program in the United States as it has been for the last several years. The drilling programs have provided the Company with access to the capital resources necessary to expand its drilling opportunities and to maintain the infrastructure necessary to support such activities.

Available Information

The Company's Internet address is www.petd.com. Electronic copies of the Company's annual report on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to those reports are available free of charge by visiting the "Investor Relations - Edgar Link" section of www.petd.com. These reports are posted as soon as reasonably practicable after they are electronically filed with the Securities and Exchange Commission.

Industry Overview

Natural gas is the second largest energy source in the United States, after liquid petroleum. The 21.5 Tcf of natural gas consumed in 2002 represented approximately 23% of the total energy used in the United States. Natural gas is consumed in the United States as follows: 37% by industrial end-users as feedstock for products such as plastic and fertilizer or as the energy source for producing products such as glass; 23% and 15% by residential and commercial end-users, respectively, for uses including heating, cooling and cooking; and 25% by utilities for the generation of electricity. (Source U.S. Energy Information Administration)

The Company believes that the market for natural gas will grow in the future. The demand for natural gas has increased due to four main factors:

Efficiency. Relative to other energy sources, natural gas losses during transportation from source to destination are slight, averaging only about 9% of the natural gas energy.

Environmentally favorable. Natural gas is the cleanest and most environmentally safe of the fossil fuels.

Safety. The delivery of natural gas is among the safest means of distributing energy to customers, as the natural gas transmission system is fixed and is located underground.

Price. The deregulation of the natural gas industry and a favorable regulatory environment have resulted in end-users' ability to purchase natural gas on a competitive basis from a greater variety of sources.

The Company believes that the foregoing factors, together with the increased availability of natural gas as a form of energy for residential, commercial and industrial uses, should increase the demand for natural gas as well as create new markets for natural gas.

As local supplies of natural gas are inadequate to meet demand in certain sections of the country, the West Coast and the Northeast import natural gas from producing areas via interstate natural gas pipelines. The cost of transporting natural gas from the major producing areas to markets creates a price advantage for production located closer to the consuming regions. The natural gas industry in the Appalachian Basin and Michigan benefit from proximity to the northeastern United States. In contrast, much of the production in the Rocky Mountains is transported significant distances to end use markets.

In the early 1980's, natural gas companies began exploiting the northern portion of Michigan's lower peninsula, when certain favorable tax credits for natural gas development were enacted. The result of such development was new advances in drilling technology, which made natural gas drilling in this area profitable even after the expiration of these tax credits. In Michigan's lower peninsula, there is an abundance of shallow Antrim gas shale, which can provide significant reserves per well drilled. Additionally, this area is close to certain end-user markets, which has provided favorable premiums in gas sales prices.

During 1998 the Company began to establish a lease position in the Rocky Mountain producing region. The region is believed to hold substantial undeveloped natural gas resources. Recent and planned additions to pipeline capacity in the region have made the area more attractive for development. Gas from the region will generally sell for less than gas in the Appalachian and Michigan Basins, but costs of development are expected to be less. The Company currently has over 150 development locations in the Wattenberg field in the DJ Basin, and 63,000 acres available for development in the Piceance Basin, both basins are located in Colorado.

Business Strategy

The Company's objective is to expand its natural gas reserves, production and revenues through a strategy that includes the following key elements:

Expand drilling operations. For its size, the Company has had one of the most active drilling programs in the country. The Company drilled 70 wells in 2002, compared to 141 wells in 2001. The Company believes that it will be able to drill a substantial number of new wells on its current undeveloped leased properties. As of December 31, 2002, the Company had leases or other development rights to 3,500 undeveloped acres in the Michigan Basin, 950 undeveloped acres in the Appalachian Basin and 69,300 undeveloped acres in the Rocky Mountain Region. As drilling activity increases, the Company benefits as its fixed costs may be spread over a larger number of wells.

Acquire producing properties. The Company's acquisition efforts are focused on properties that fit well within existing operations or that help to build critical mass in areas where the Company is establishing new operations. Acquisitions will likely offer economies in management and administration, and therefore the Company believes that it will be able to acquire more producing wells without incurring substantial increases in its administrative costs.

Pursue geographic expansion. The Company has proven its ability to drill and operate in geographically diverse domestic areas. Since 1996, the Company expanded its operations from the Appalachian Basin, first to Michigan, and more recently to the Rocky Mountains. In 2002 over two-thirds of the Company's production was generated in the two newer regions. The Company plans to conduct the majority of its drilling activities in the Rocky Mountain region during 2003, but will continue to seek additional opportunities for expansion to areas where the Company's experience and expertise can be applied successfully.

Reduce risks inherent in natural gas development and marketing. An integral part of the Company's strategy has been and will continue to be to concentrate on shallow development, (rather than exploratory) drilling, and geographical diversification to reduce risk levels associated with natural gas and oil production. Development drilling is less risky than exploratory drilling and is likely to generate cash returns more quickly. The focus on shallow wells builds on the Company's knowledge and experience, and also provides greater investment diversification than an equal investment in a smaller number of deeper and/or more expensive wells. Geographical diversification can help to offset possible weakness in the natural gas market or disappointing drilling results in one area. The Company believes that successful natural gas marketing is essential to profitable operations in a deregulated gas market. To further this goal, the Company has the expertise of RNG, an experienced natural gas marketer. The Company also uses natural gas and oil hedges to reduce the effects of volatility of energy prices. The Company intends to continue to expand its marketing capabilities to keep pace with the changing natural gas industry.

Exploration and Development Activities

The Company's development activities focus on the identification and drilling of new productive wells and the acquisition of existing producing wells from other producers.

Prospect Generation

The Company's staff of professional geologists is responsible for identifying areas with potential for economic production of natural gas and oil. These geologists have decades of cumulative experience drilling natural gas and oil wells. They utilize results from logs and other tools to evaluate existing wells and to predict the location of attractive new gas reserves. To further this process, the Company has collected and continues to collect logs, core data, production information and other raw data available from state and private agencies, other companies and individuals actively drilling in the regions being evaluated. From this information the geologists develop models of the subsurface structures and formations that are used to predict areas with above-average prospects for economic development.

On the basis of these models, the geologists instruct the Company's land department to obtain available natural gas leaseholds, farmouts and other development rights in these prospective areas. These rights are then obtained, if possible, by the Company's land department or contract landmen under the direction of the Company's land manager. In most cases, the Company pays a lease bonus and annual rental payments, converting, upon initiation of production, to a royalty on gross production revenue in return for obtaining the leases. In addition overriding royalty payments may be made to third parties in conjunction with the acquisition of drilling rights initially leased by others. As of December 31, 2002, the Company had a total leasehold inventory of approximately 183,950 acres. See--"Properties--Oil and Natural Gas Leases."

Drilling Activities

When prospects have been identified and leased, the Company develops these properties by drilling wells. In 2002, the Company drilled a total of 70 wells all of which were successfully completed as producing wells. Typically, the Company will act as driller-operator for these prospects, entering into contracts with partnerships, primarily Company-sponsored partnerships, and other entities that are interested in exploration or development of the prospects. The Company generally retains an interest in each well it drills. See "Financing of Drilling Activities."

Much of the work associated with drilling, completing and connecting wells, including drilling, fracturing, logging and pipeline construction, is performed by subcontractors specializing in those operations, as is common in the industry. A large part of the material and services used by the Company in the development process is acquired through competitive bidding by approved vendors. The Company also directly negotiates rates and costs for services and supplies when conditions indicate that such an approach is warranted. As the prices paid to the Company by its investor partners for the Company's services are frequently fixed before the wells are drilled or are determined solely on the well depth, the Company is subject to the risk that prices of goods or services used in the development process could increase, rendering its contracts with its investor partners less profitable or unprofitable. In addition, problems encountered in the process can substantially increase development costs, sometimes without recourse for the Company to recover its costs from its partners. To minimize these risks, the Company seeks to lock in its development costs in advance of drilling and, when possible, at the time of negotiation and execution of its investor partnership agreements.

Acquisitions of Producing Properties

In addition to drilling new wells, the Company continues to pursue opportunities to purchase existing wells from other producers and greater ownership interests in the wells it operates. Generally, outside interests purchased include a majority interest in the wells and well operations.

During 1999, the Company purchased a 100% working interest in 53 producing wells in the D-J Basin of Colorado which added 3.6 Bcf of natural gas and 370,000 barrels of oil to the Company's reserves. During 2000, the Company purchased 100% of the working interest in 168 producing wells in the DJ Basin of Colorado which added 4.9 Bcf of natural gas and 560,000 barrels of oil to the Company's reserves. Certain well interests in its Company sponsored partnerships were also purchased in 2002, 2001 and 2000.

Production

The following table shows the Company's net production in Bbls of crude oil and in Mcf of natural gas and the costs and weighted average selling prices thereof, for the last five years.

	Year Ended December 31,				
	2002	2001	2000	1999	1998
Production(1):					

Oil(MBbls)	227	195	109	8	8
Natural Gas (MMcf)	6,462	6,085	5,737	3,451	2,453
Equivalent MMcfs(2)	7,824	7,255	6,391	3,499	2,501
Average sales price:					
Oil (per Bbl)	$24.41	$22.53	$29.99	$18.75	$10.61
Natural gas (per Mcf)(3)	$2.68	$3.53	$2.74	$2.46	$2.46
Average production cost (lifting cost) Per equivalent Mcf(4)	$0.82	$0.83	$0.66	$0.69	$0.61

---

(1) Production as shown in the table is net to the Company and is determined by multiplying the gross production volume of properties in which the Company has an interest by the percentage of the leasehold or other property interest owned by the Company.

(2) A ratio of energy content of natural gas and oil (six Mcf of natural gas equals one barrel of oil) was used to obtain a conversion factor to convert oil production into equivalent Mcfs of natural gas.

(3) The Company utilizes commodity-based derivative instruments as hedges to manage a portion of its exposure to price volatility of its natural gas sales. The effect of hedges on the average sales price of natural gas for the years ended December 31, 2002, 2001, 2000, 1999 and 1998 was $0.02, $(0.56), $(0.91), $(0.01) and $0.14, respectively.

(4) Production costs represent oil and gas operating expenses as reflected in the financial statements of the Company.

Well Operations

The Company currently operates approximately 1,502 wells in the Appalachian Basin, 204 wells in the Michigan Basin and 463 wells in the Rocky Mountain Region. The Company's ownership interest in these wells ranges from 0% to 100%, and, on average, the Company has an approximate 50% ownership interest in the wells it operates. Currently these wells produce an aggregate of about 55,000 Mcfe of natural gas per day, including the Company's share of 21,500 Mcfe per day.

The Company is paid a monthly operating charge for each well it operates for outside owners. The rate is competitive with rates charged by other operators in the area. The charge covers monthly operating and accounting costs, insurance and other recurring costs. The Company may also receive additional compensation for special non-recurring activities, such as reworks and recompletions.

Transportation

Natural gas wells are connected by pipelines to natural gas markets. Over the years, the Company has developed extensive gathering systems in some of its areas of operations. The Company also continues to construct new trunklines as necessary to provide for the marketing of natural gas being developed from new areas and to enhance or maintain its existing systems.

The Company is paid a transportation fee for natural gas that is moved by other shippers through these pipeline systems. In many cases the Company has been able to receive higher natural gas prices as a result of its ability to move natural gas to more attractive markets through this pipeline system, to the benefit of both the Company and its investor partners.

Item 2. Properties

Drilling Activity

The following table summarizes the Company's development drilling activity for the years ended December 31, 1998, 1999, 2000, 2001 and 2002. There is no correlation between the number of productive wells completed during any period and the aggregate reserves attributable to those wells. The Company's exploratory wells drilled in the past five years consist of one dry hole (0.19 net) drilled in 1998 and five dry holes (2.44 net) drilled in 1999.

	Development Wells Drilled					
	Total		Productive		Dry	
	Drilled	Net	Drilled	Net	Drilled	Net
1998	212	56.99	201	54.22	11	2.77
1999	173	54.64	165	53.10	8	1.54
2000	97	27.39	97	27.39	-	-
2001	141	40.00	135	37.94	6	2.06

2002	70	13.71	70	13.71	-	-
Total	693	192.73	668	186.36	25	6.37

Summary of Productive Wells

The table below shows the number of the Company's productive gross and net wells at December 31, 2002.

	Productive Wells			
	Gas		Oil	
Location	Gross	Net	Gross	Net
Colorado	458	265.70	-	-
Michigan	197	109.23	7	2.66
North Dakota	-	-	5	1.83
Ohio	11	3.42	-	-
Pennsylvania	531	165.76	-	-
Tennessee	1	0.71	36	13.62
West Virginia	919	518.27	4	1.72
Total	2,117	1,063.09	52	19.83

Reserves

All of the Company's oil and natural gas reserves are located in the United States. The Company's approximate net proved reserves were estimated by Wright & Company, Inc. independent petroleum engineers ("Wright & Company"), to be 128,851,000 Mcf of natural gas and 2,073,000 Bbls of oil at December 31, 2002, 118,608,000 Mcf of natural gas and 2,126,000 Bbls of oil at December 31, 2001 and 118,640,000 Mcf of natural gas and 2,166,000 Bbls of oil at December 31, 2000.

The Company's approximate net proved developed reserves were estimated, by Wright & Company to be 94,847,000 Mcf of natural gas and 1,849,000 Bbls of oil at December 31, 2002, 88,477,000 Mcf of natural gas and 1,801,000 Bbls of oil at December 31, 2001 and 92,131,000 Mcf of natural gas and 1,527,000 Bbls of oil at December 31, 2000.

The Company's reserves by region are as follows as of December 31, 2002:

	Oil Mbbl)	Gas (Mmcf)	Natural Gas Equivalent (Mmcfe)	%
Proved Developed Reserves				
Appalachian Basin	46	45,216	45,492	42.94%
Michigan Basin	48	26,671	26,959	25.45%
Rocky Mountain Region	1,755	22,960	33,490	31.61%
Total Proved Developed Reserves	1,849	94,847	105,941	100.00%

Proved Undeveloped Reserves

Proved Undeveloped Reserves

Appalachian Basin	0	0	0	0.00%
Michigan Basin	0	1,488	1,488	4.21%
Rocky Mountain Region	224	32,516	33,860	95.79%
Total Proved Undeveloped	224	34,004	35,348	100.00%

Total Proved Reserves

Appalachian Basin	46	45,216	45,492	32.20%
Michigan Basin	48	28,159	28,447	20.13%
Rocky Mountain Region	1,979	55,476	67,350	47.67%
Total Proved Reserves	2,073	128,851	141,289	100.00%

No major discovery or other favorable or adverse event that would cause a significant change in estimated reserves is believed by the Company to have occurred since December 31, 2002. Reserves cannot be measured exactly, as reserve estimates involve subjective judgment. The estimates must be reviewed periodically and adjusted to reflect additional information gained from reservoir performance, new geological and geophysical data and economic changes.

The standardized measure of discounted future estimated net cash flows attributable to the Company's proved oil and gas reserves, giving effect to future estimated income tax expenses, was estimated by Wright & Company to be $98.5 million as of December 31, 2002, $46.4 million as of December 31, 2001 and $104.6 million as of December 31, 2000. These amounts are based on year-end prices, adjusted for hedging contracts at the respective dates. The values expressed are estimates only, and may not reflect realizable values or fair market values of the natural gas and oil ultimately extracted and recovered. The standardized measure of discounted future net cash flows may not accurately reflect proceeds of production to be received in the future from the sale of natural gas and oil currently owned and does not necessarily reflect the actual costs that would be incurred to acquire equivalent natural gas and oil reserves.

Net Proved Natural Gas and Oil Reserves

The proved reserves of natural gas and oil of the Company as estimated by Wright & Company at December 31, 2002 are set forth below. These reserves have been prepared in compliance with the rules of the Securities and Exchange Commission (the "SEC") based on year-end prices. An analysis of the change in

estimated quantities of natural gas and oil reserves from January 1, 2002 to December 31, 2002, all of which are located within the United States, is shown below:

	Natural Gas (Mcf)	Oil (Bbls)
Proved developed and undeveloped reserves:		
Beginning of year	118,608,000	2,126,000
Revisions of previous estimates	1,469,000	124,000
Beginning of year as revised	120,077,000	2,250,000
New discoveries and extensions		
Rocky Mountain region	19,607,000	130,000
Dispositions to partnerships	(4,792,000)	(80,000)
Acquisitions		
Michigan	4,000	-
Rocky Mountain region	75,000	-
Appalachian basin	342,000	-
Production	(6,462,000)	(227,000)
End of year	128,851,000	2,073,000
Proved developed reserves:		
Beginning of year	88,477,000	1,801,000
End of year	94,847,000	1,849,000

Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Natural Gas and Oil Reserves

Summarized in the following table is information for the Company with respect to the standardized measure of discounted future net cash flows relating to proved natural gas and oil reserves. Future cash inflows are computed by applying year-end prices, adjusted for any hedging contracts, of natural gas and oil relating to the Company's proved reserves to year-end quantities of those reserves. Future production, development, site restoration and abandonment costs are derived based on current costs, assuming continuation of existing economic conditions. Future income tax expenses are computed by applying the statutory rate in effect at December 31, 2002 to the future pretax net cash flows, less the tax basis of the properties, and gives effect to permanent differences, tax credits and allowances related to the properties.

	As of December 31, 2002
Future estimated revenues	$ 548,949,000
Future estimated production costs	(143,878,000)
Future estimated development costs	(50,971,000)
Future estimated income tax expense	(105,876,000)
Future net cash flows	248,224,000
10% annual discount for estimated timing of cash flows	(149,755,000)
Standardized measure of discounted future estimated net cash flows	$ 98,469,000

The following table summarizes the principal sources of change in the standardized measure of discounted future estimated net cash flows from January 1, 2002 through December 31, 2002:

Sales of oil and natural gas production, net of production costs	$(16,449,000)
Net changes in prices and production costs	143,574,000
Extensions, discoveries and improved recovery, less related costs	39,347,000
Dispositions to partnerships	(6,940,000)
Acquisitions	1,167,000
Development costs incurred during the period	16,429,000
Revisions of previous quantity estimates	3,318,000
Changes in estimated income taxes	(55,516,000)
Accretion in discount	(72,900,000)
	$52,030,000

It is necessary to emphasize that the data presented should not be viewed as representing the expected cash flow from, or current value of, existing proved reserves, as the computations are based on a large number of estimates and arbitrary assumptions. Reserve quantities cannot be measured with precision, and their estimation requires many judgmental determinations and frequent revisions. The required projection of production and related expenditures over time requires further estimates with respect to pipeline availability, rates of demand and governmental control. Actual future prices and costs are likely to be substantially different from the current prices and costs utilized in the computation of reported amounts. Any analysis or evaluation of the reported amounts should give specific recognition to the computational methods and the limitations inherent therein.

Substantially all of the Company's natural gas and oil reserves have been mortgaged or pledged as security for the Company's credit agreement. See Note 3 of Notes to Consolidated Financial Statements.

Oil and Natural Gas Leases

The following table sets forth, as of December 31, 2002, the acres of developed and undeveloped oil and natural gas acreage leased and available to the Company, listed alphabetically by state.

	Developed Acreage	Undeveloped Acreage
Colorado	21,200	62,700
Michigan	23,900	3,500
North Dakota	1,700	6,600
Ohio	400	-
Pennsylvania	9,000	350
Tennessee	5,400	-
West Virginia	48,600	600
Total	110,200	73,750

Title to Properties

The Company believes that it holds good and indefeasible title to its properties, in accordance with standards generally accepted in the natural gas industry, subject to such exceptions stated in the opinion of counsel employed in the various areas in which the Company conducts its exploration activities, which exceptions, in the Company's judgment, do not detract substantially from the use of such property. As is customary in the natural gas industry, only a perfunctory title examination is conducted at the time the properties believed to be suitable for drilling operations are acquired by the Company. Prior to the commencement of drilling operations, an extensive title examination is conducted and curative work is performed with respect to defects which the Company deems to be significant. A title examination has been performed with respect to substantially all of the Company's producing properties. No single property owned by the Company represents a materi al portion of the Company's holdings.

The properties owned by the Company are subject to royalty, overriding royalty and other outstanding interests customary in the industry. The properties are also subject to burdens such as liens incident to operating agreements, current taxes, development obligations under natural gas and oil leases, farm-out arrangements and other encumbrances, easements and restrictions. The Company does not believe that any of these burdens will materially interfere with the use of the properties.

Natural Gas Sales

Natural gas is sold by the Company under contracts with terms ranging from one month to three years. Virtually all of the Company's contract pricing provisions are tied to a market index, with certain adjustments based on, among other factors, whether a well delivers to a gathering or transmission line, quality of natural gas and prevailing supply and demand conditions, so that the price of the natural gas fluctuates to remain competitive with other available natural gas supplies. As a result, the Company's revenues from the sale of natural gas will suffer if market prices decline and benefit if they increase. The Company believes that the pricing provisions of its natural gas contracts are customary in the industry.

The Company sells its natural gas to industrial end-users and utilities. Two customers, Cinnabar Energy Services and Duke Energy accounted for 21.1% and 11.0%, respectively of the Company's revenues from oil and gas sales (10.8% and 5.6% of total revenues) in 2002. One customer, Cinnabar Energy Services, accounted for 25.2% and 17.7% of the Company's revenues from oil and gas sales (13.1% and 11.3% of total revenues) in 2001 and 2000, respectively. No other single purchaser of the Company's natural gas accounted for 10% or more of the Company's total revenues during 2002, 2001 or 2000.

At December 31, 2002, natural gas produced by the Company sold at prices per Mcf ranging from $0.90 to $5.93, depending upon well location, the date of the sales contract and other factors. The weighted net average price of natural gas sold by the Company during 2002 was $2.68 per Mcf.

In general, the Company, together with its marketing subsidiary, RNG, has been and expects to continue to be able to produce and sell natural gas from its wells without significant curtailment by providing natural gas to purchasers at competitive prices. Open access transportation on the country's interstate pipeline system has greatly increased the range of potential markets. Whenever feasible the Company allows for multiple market possibilities from each of its gathering systems, while seeking the best available market for its natural gas at any point in time.

Oil Sales

The Company's acquisition in December 1999 of 53 wells and in April 2000 of 108 wells in the Wattenberg field in Colorado and ongoing development activities in the Rocky Mountains added to oil production and reserves. At the end of 2002 oil was about 9% of the Company's total equivalent reserves.

The Company is currently able to sell all the oil that it can produce under existing sales contracts with petroleum refiners and marketers. The Company does not refine any of its oil production. The Company's crude oil production is sold to purchasers at or near the Company's wells under short-term purchase contracts at prices and in accordance with arrangements that are customary in the oil industry. One purchaser, Teppco Crude Oil, L.P. accounted for 11.9% of the Company's revenues from oil and gas sales (5.6% of total revenues) in 2002. No customer accounted for more than 10% of the Company's revenues from oil and gas sales in 2001 or 2000. At December 31, 2002, oil produced by the Company sold at prices ranging from $23.93 to $28.64 per barrel, depending upon the location and quality of oil. In 2002, the weighted net average price per barrel of oil sold by the Company was $24.41.

Oil production is subject to many of the same operating hazards and environmental concerns as natural gas production, but is also subject to the risk of oil spills. Federal regulations require certain owners or operators of facilities that store or otherwise handle oil, such as the Company, to procure and implement spill prevention, control, counter-measures and response plans relating to the possible discharge of oil into surface waters. The Oil Pollution Act of 1990 ("OPA") subjects owners of facilities to strict joint and several liability for all containment and cleanup costs and certain other damages arising from oil spills. Noncompliance with OPA may result in varying civil and criminal penalties and liabilities. Operations of the Company are also subject to the Federal Clean Water Act and analogous state laws relating to the control of water pollution, which laws provide varying civil and criminal penalties and liabilities for release of petroleum or it s derivatives into surface waters or into the ground.

Natural Gas Marketing

The Company's natural gas marketing activities involve the aggregation and reselling of natural gas produced by the Company and others. The Company believes that in a deregulated market, successful natural gas marketing is essential to profitable operations. A variety of factors affect the market for natural gas, including the availability of other domestic production, natural gas imports, the availability and price of alternative fuels, the proximity and capacity of natural gas pipelines, general fluctuations in the supply and demand for natural gas and the effects of state and federal regulations on natural gas production and sales. The natural gas industry also competes with other industries in supplying the energy and fuel requirements of industrial, commercial and individual customers.

RNG, a wholly owned subsidiary, is a natural gas marketing company that specializes in the acquisition, aggregation and marketing of natural gas production in the Company's operating areas. RNG markets natural gas produced by the Company and also purchases natural gas from other producers and resells to utilities, end users or other marketers. The employees of RNG have extensive knowledge of natural gas markets in the Company's areas of operations. Such knowledge

assists the Company in maximizing its prices as it markets natural gas from Company-operated wells. The gas is marketed to natural gas utilities, pipelines and industrial and commercial customers, either directly through the Company's gathering system, or utilizing transportation services provided by regulated interstate pipeline companies.

Hedging Activities

The Company utilizes commodity-based derivative instruments as hedges to manage a portion of its exposure to price volatility stemming from its natural gas sales and marketing activities. These instruments consist of NYMEX-traded natural gas futures and option contracts for Appalachian and Michigan production, and CIG (Colorado Interstate Gas Index)-based contracts for Colorado production. The contracts hedge committed and anticipated natural gas purchases and sales, generally forecasted to occur within the next twelve-month period. Company policy prohibits the use of natural gas futures or options for speculative purposes and permits utilization of hedges only if there is an underlying physical position.

The Company has extensive experience with the use of financial hedges to reduce the risk and impact of natural gas price changes. These hedges are used by RNG to coordinate fixed and variable priced purchases and sales, and by the Company to "lock in" fixed prices from time to time for the Company's share of production, and to establish "floors" and "ceilings" or "collars" on the possible range of the price realized for the sale of natural gas and oil. In order for future contracts to serve as effective hedges, there must be sufficient correlation to the underlying hedged transaction. While hedging can help provide price protection if spot prices drop, hedges can also limit upside potential.

For unhedged natural gas sales not subject to fixed price contracts, the Company is subject to price fluctuations for natural gas sold in the spot market. The Company continues to evaluate the potential for reducing these risks by entering into hedge transactions. In addition, the Company may also close out any portion of hedges that may exist from time to time which may result in a gain or loss on that hedge transaction. There are no hedge contracts outstanding as of December 31, 2002 related to oil production.

Financing of Drilling Activities

The Company conducts development drilling activities for its own account and for other investors. In 1984, the Company began sponsoring private drilling limited partnerships, and, in 1989, the Company began to register the partnership interests offered under public drilling programs with the SEC. The Company's public partnerships had $56.9 million in subscriptions in 2002, $57.1 million in subscriptions in 2001 and $55.6 million in 2000. The Company generally invests, as its equity contribution to each drilling partnership, an additional sum approximating 20% of the aggregate subscriptions received for that particular drilling partnership. As a result, the Company is subject to substantial cash commitments at the closing of each drilling partnership. The funds received from these programs are restricted to use in future drilling operations. While funds were received by the Company pursuant to drilling contracts in the years indicated, the Company recognizes re venues from drilling operations on the percentage of completion method as the wells are drilled, rather than when funds are received. Most of the Company's drilling and development funds now are received from partnerships in which the Company serves as managing general partner. However, because wells produce for a number of years, the Company continues to serve as operator for a number of unaffiliated parties. In addition to the partnership structure, the Company also utilizes joint venture arrangements for financing drilling activities.

The financing process begins when the Company enters into a development agreement with an investor partner, pursuant to which the Company agrees to assign its rights in the property to be drilled to the partnership or other entity. The partnership or other entity thereby becomes owner of a working interest in the property.

The Company's development contracts with its investor partners have historically taken many different forms. Generally the agreements can be classified as on a "footage-based" rate, whereby the Company receives drilling and completion payments based on the depth of the well; "cost-plus," in which the Company is reimbursed for its actual cost of drilling plus some additional amount for overhead and profit; or "turnkey," in which a specified amount is paid for drilling and another amount for completion. As part of the compensation for its services, the Company also has received some interest in the production from the well in the form of an overriding royalty interest, working interest or other proportionate share of revenue or profits. The Company's development contracts may provide for a combination of several of the foregoing payment options. Basic drilling and completion operations are performed on a footage-based rate, with leases and gathering pipelines b eing contributed at Company cost. The Company may also purchase a working interest in the subject properties.

The level of the Company's drilling and development activity is dependent upon the amount of subscriptions in its public drilling partnerships and investments from other partnerships or other joint venture partners. The use of partnerships and similar financing structures enables the Company to diversify its holdings, thereby reducing the risks of its development investments. Additionally, the Company benefits through such arrangements by its receipt of fees for its management services and/or through an increased share in the revenues produced by the developed properties. The Company believes that investments in drilling activities, whether through Company-sponsored partnerships or other sources, are influenced in part by the favorable treatment that such investments enjoy under the federal income tax laws. No assurance can be given that the Company will continue to have access to funds generated through these financing vehicles.

Governmental Regulation

The Company's business and the natural gas industry in general are heavily regulated. The availability of a ready market for natural gas production depends on several factors beyond the Company's control. These factors include regulation of natural gas production, federal and state regulations governing environmental quality and pollution control, the amount of natural gas available for sale, the availability of adequate pipeline and other transportation and processing facilities and the marketing of competitive fuels. State and federal regulations generally are intended to prevent waste of natural gas, protect rights to produce natural gas between owners in a common reservoir and control contamination of the environment. Pipelines are subject to the jurisdiction of various federal, state and local agencies. The Company takes the steps necessary to comply with applicable regulations both on its own behalf and as part of the services it provides to its investor partnerships. The Company believes that it is in substantial compliance with such statutes, rules, regulations and governmental orders, although there can be no assurance that this is or will remain the case. The following discussion of the regulation of the United States natural gas industry is not intended to constitute a complete discussion of the various statutes, rules, regulations and environmental orders to which the Company's operations may be subject.

Regulation of Oil and Natural Gas Exploration and Production

The Company's oil and natural gas operations are subject to various types of regulation at the federal, state and local levels. Prior to commencing drilling activities for a well, the Company must procure permits and/or approvals for the various stages of the drilling process from the applicable state and local agencies in the state in which the area to be drilled is located. Such permits and approvals include those for the drilling of wells, and such regulation includes maintaining bonding requirements in order to drill or operate wells and regulating the location of wells, the method of drilling and casing wells, the surface use and restoration of properties on which wells are drilled, the plugging and abandoning of wells and the disposal of fluids used in connection with operations. The Company's operations are also subject to various conservation laws and regulations. These include the regulation of the size of drilling and spacing units or proration units and the density of wells which may be drilled and the unitization or pooling of natural gas properties. In this regard, some states allow the forced pooling or integration of tracts to facilitate exploration while other states rely primarily or exclusively on voluntary pooling of lands and leases. In areas where pooling is voluntary, it may be more difficult to form units, and therefore, more difficult to develop a project if the operator owns less than 100% of the leasehold. In addition, state conservation laws may establish maximum rates of production from oil and natural gas wells, generally prohibit the venting or flaring of natural gas and impose certain requirements regarding the ratability of production. The effect of these regulations may limit the amount of oil and natural gas the Company can produce from its wells and may limit the number of wells or the locations at which the Company can drill. The regulatory burden on the oil and natural gas industry increases the Company's costs of doing busine ss and, consequently, affects its profitability. In as much as such laws and regulations are frequently expanded, amended and reinterpreted, the Company is unable to predict the future cost or impact of complying with such regulations.

Regulation of Sales and Transportation of Natural Gas

Historically, the transportation and sale for resale of natural gas in interstate commerce have been regulated pursuant to the Natural Gas Act of 1938, the Natural Gas Policy Act of 1978 (the "NGPA") and the regulations promulgated thereunder by the Federal Energy Regulatory Commission(FERC). Maximum selling prices of certain categories of natural gas sold in "first sales," whether sold in interstate or intrastate commerce, were regulated pursuant to the NGPA. The Natural Gas Wellhead Decontrol Act (the "Decontrol Act") removed, as of January 1, 1993, all remaining federal price controls from natural gas sold in "first sales" on or after that date. FERC's jurisdiction over natural gas transportation was unaffected by the Decontrol Act. While sales by producers of natural gas and all sales of crude oil, condensate and natural gas liquids can currently be made at market prices, Congress could reenact price controls in the future.

The Company's sales of natural gas are affected by the availability, terms and cost of transportation. The price and terms for access to pipeline transportation are subject to extensive regulation. In recent years, FERC has undertaken various initiatives to increase competition within the natural gas industry. As a result of initiatives like FERC Order No.636, issued in April 1992, the interstate natural gas transportation and marketing system has been substantially restructured to remove various barriers and practices that historically limited non-pipeline natural gas sellers, including producers, from effectively competing with interstate pipelines for sales to local distribution companies and large industrial and commercial customers. The most significant provisions of Order No.636 require that interstate pipelines provide transportation separate or "unbundled" from their sales service, and require that pipelines provide firm and interruptible transportatio n service on an open access basis that is equal for all natural gas suppliers. In many instances, the result of Order No.636 and related initiatives have been to substantially reduce or eliminate the interstate pipelines' traditional role as wholesalers of natural gas in favor of providing only storage and transportation services. Another effect of regulatory restructuring is the greater transportation access available on interstate pipelines. In some cases, producers and marketers have benefited from this availability. However, competition among suppliers has greatly increased and traditional long-term producer-pipeline contracts are rare. Furthermore, gathering facilities of interstate pipelines are no longer regulated by FERC, thus allowing gatherers to charge higher gathering rates.

Additional proposals and proceedings that might affect the natural gas industry are pending before Congress, FERC, state commissions and the courts. The natural gas industry historically has been very heavily regulated; therefore, there is no assurance that the less stringent regulatory approach recently pursued by FERC and Congress will continue. The Company cannot determine to what extent future operations and earnings of the Company will be affected by new legislation, new regulations, or changes in existing regulation, at federal, state or local levels.

Environmental Regulations

The Company's operations are subject to numerous laws and regulations governing the discharge of materials into the environment or otherwise relating to environmental protection. Public interest in the protection of the environment has increased dramatically in recent years. The trend of more expansive and stricter environmental legislation and regulations could continue. To the extent laws are enacted or other governmental action is taken that restricts drilling or imposes environmental protection requirements that result in increased costs to the natural gas industry in general, the business and prospects of the Company could be adversely affected.

The Company generates wastes that may be subject to the Federal Resource Conservation and Recovery Act ("RCRA") and comparable state statutes. The U.S. Environmental Protection Agency ("EPA") and various state agencies have limited the approved methods of disposal for certain hazardous and nonhazardous wastes. Furthermore, certain wastes generated by the Company's operations that are currently exempt from treatment as "hazardous wastes" may in the future be designated as "hazardous wastes," and therefore be subject to more rigorous and costly operating and disposal requirements.

The Company currently owns or leases numerous properties that for many years have been used for the exploration and production of oil and natural gas. Although the Company believes that it has utilized good operating and waste disposal practices, prior owners and operators of these properties may not have utilized similar practices, and hydrocarbons or other wastes may have been disposed of or released on or under the properties owned or leased by the Company or on or under locations where such wastes have been taken for disposal. These properties and the wastes disposed thereon may be subject to the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), RCRA and analogous state laws as well as state laws governing the management of oil and natural gas wastes. Under such laws, the Company could be required to remove or remediate previously disposed wastes (including wastes disposed of or released by prior owners or operators) or prope rty contamination (including groundwater contamination) or to perform remedial plugging operations to prevent future contamination.

CERCLA and similar state laws impose liability, without regard to fault or the legality of the original conduct, on certain classes of persons that are considered to have contributed to the release of a "hazardous substance" into the environment. These persons include the owner or operator of the disposal site or sites where the release occurred and companies that disposed of or arranged for the disposal of the hazardous substances found at the site. Persons who are or were responsible for release of hazardous substances under CERCLA may be subject to joint and several liability for the costs of cleaning up the hazardous substances that have been released into the environment and for damages to natural resources, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by the hazardous substances released into the environment.

The Company's operations may be subject to the Clean Air Act ("CAA") and comparable state and local requirements. Amendments to the CAA were adopted in 1990 and contain provisions that may result in the gradual imposition of certain pollution control requirements with respect to air emissions from the operations of the Company. The EPA and states have been developing regulations to implement these requirements. The Company may be required to incur certain capital expenditures in the next several years for air pollution control equipment in connection with maintaining or obtaining operating permits and approvals addressing other air emission-related issues.

The Company's expenses relating to preserving the environment during 2002 were not significant in relation to operating costs and the Company expects no material change in 2003. Environmental regulations have had no materially adverse effect on the Company's operations to date, but no assurance can be given that environmental regulations will not, in the future, result in a curtailment of production or otherwise have a materially adverse effect on the Company's business, financial condition or results of operations.

As a matter of corporate policy and commitment, the Company attempts to minimize the adverse environmental impact of all its operations. During the 1990's, the Company was a nine-time recipient of the West Virginia Department of Environmental Protection's top award in recognition of the quality of the Company's environmental and reclamation work in its drilling activities.

Operating Hazards and Insurance

The Company's exploration and production operations include a variety of operating risks, including the risk of fire, explosions, blowouts, craterings, pipe failure, casing collapse, abnormally pressured formations, and environmental hazards such as gas leaks, ruptures and discharges of toxic gas, the occurrence of any of which could result in substantial losses to the Company due to injury and loss of life, severe damage to and destruction of property, natural resources and equipment, pollution and other environmental damage, clean-up responsibilities, regulatory investigation and penalties and suspension of operations. The Company's pipeline, gathering and distribution operations are subject to the many hazards inherent in the natural gas industry. These hazards include damage to wells, pipelines and other related equipment, and surrounding properties caused by hurricanes, floods, fires and other acts of God, inadvertent damage from construction equipment, l eakage of natural gas and other hydrocarbons, fires and explosions and other hazards that could also result in personal injury and loss of life, pollution and suspension of operations.

Any significant problems related to its facilities could adversely affect the Company's ability to conduct its operations. In accordance with customary industry practice, the Company maintains insurance against some, but not all, potential risks; however, there can be no assurance that such insurance will be adequate to cover any losses or exposure for liability. The occurrence of a significant event not fully insured against could materially adversely affect the Company's operations and financial condition. The Company cannot predict whether insurance will continue to be available at premium levels that justify its purchase or whether insurance will be available at all.

Competition

The Company believes that its exploration, drilling and production capabilities and the experience of its management and professional staff generally enable it to compete effectively. The Company encounters competition from numerous other oil and natural gas companies, drilling and income programs and partnerships in all areas of its operations, including drilling and marketing natural gas and obtaining desirable natural gas leases. Many of these competitors possess larger staffs and greater financial resources than the Company, which may enable them to identify and acquire desirable producing properties and drilling prospects more economically. The Company's ability to explore for oil and natural gas prospects and to acquire additional properties in the future depends upon its ability to conduct its operations, to evaluate and select suitable properties and to consummate transactions in this highly competitive environment. The Company competes with a number o f other companies, which offer interests in drilling partnerships with a wide range of investment objectives and program structures. Competition for investment capital for both public and private drilling programs is intense. The Company also faces intense competition in the marketing of natural gas from competitors including other producers as well as marketing companies. Also, international developments and the possible improved economics of domestic natural gas exploration may influence other companies to increase their domestic oil and natural gas exploration. Furthermore, competition among companies for favorable prospects can be expected to continue, and it is anticipated that the cost of acquiring properties may increase in the future. Factors affecting competition in the natural gas industry include price, location, availability, quality and volume of natural gas. The Company believes that it can compete effectively in the oil and natural gas industry on each of the foregoing factors. Nevertheless, t he Company's business, financial condition or results of operations could be materially adversely affected by competition.

Employees

As of December 31, 2002, the Company had 94 employees, including 16 in finance and data processing, 6 in administration, 15 in exploration and development, 52 in production and 5 in natural gas marketing. The Company's engineers, supervisors and well tenders are generally responsible for the day-to-day operation of wells and pipeline systems. In addition, the Company retains subcontractors to perform drilling, fracturing, logging, and pipeline construction functions at drilling sites. The Company's employees act as supervisors of the subcontractors.

The Company's employees are not covered by a collective bargaining agreement. The Company considers relations with its employees to be excellent.

Facilities

The Company owns and occupies three buildings in Bridgeport, West Virginia, two of which serve as the Company's headquarters and one which serves as a field operating site. The Company also owns a field operating building in Gilmer County, West Virginia. The Company leases field operating offices in Colorado,

Michigan and Pennsylvania under operating leases. The Company believes that its current facilities are sufficient for its current and anticipated operations.

Item 3. Legal Proceedings

From time to time the Company is a party to various legal proceedings in the ordinary course of business. The Company is not currently a party to any litigation that it believes would materially affect the Company's business, financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the fiscal year covered by this report.

PART II

Item 5. Market for the Company's Common Stock and Related Stockholders Matters

The common stock of the Company is traded in the Nasdaq National Market under the symbol PETD. The following table sets forth, for the periods indicated, the high and low bid quotations per share of the Company's common stock in the over-the-counter market, as reported by Nasdaq. These quotations represent inter-dealer prices without retail markups, markdowns, commissions or other adjustments and may not represent actual transactions.

	High	Low
2002		
First Quarter	6.65	5.70
Second Quarter	6.66	5.86
Third Quarter	5.95	4.60
Fourth Quarter	5.70	4.75
2001		
First Quarter	7.94	5.72
Second Quarter	8.84	5.94
Third Quarter	6.47	4.38
Fourth Quarter	6.30	4.72

As of December 31, 2002, there were approximately 1,170 record holders of the Company's common stock.

The Company has not paid any dividends on its common stock and currently intends to retain earnings for use in its business. Therefore, it does not expect to declare cash dividends in the foreseeable future. Further, the Company's Credit Agreement restricts the payment of dividends.

Item 6. Selected Financial Data (1)

	Year Ended December 31,				
	2002	2001	2000	1999	1998
Revenues					
Oil and gas well drilling operations	$57,149,100	$76,291,200	$43,194,700	$42,115,600	$40,447,100

Oil and gas sales	69,223,000	92,095,300	90,419,700	46,988,100	35,560,300
Well operations income	6,116,200	5,604,200	5,061,600	5,314,500	4,581,000
Other income	2,853,600	3,132,400	2,540,500	2,392,400	2,385,200
Total	$135,341,900	$177,123,100	$141,216,500	$96,810,600	$82,973,600
Costs and Expenses (excluding interest and depreciation, depletion and amortization)	$108,816,600	$144,468,600	$118,813,300	$82,496,500	$71,094,900
Interest Expense	$ 1,339,800	$ 993,400	$1,186,000	$ 182,400	$ -
Depreciation, depletion and Amortization	$12,103,300	$10,578,300	$6,943,500	$ 4,031,200	$ 3,253,600
Net Income	$ 9,284,800	$14,967,800	$10,681,000	$ 7,824,300	$ 6,658,000
Basic earnings per common share	$.59	$.92	$.66	$.50	$.43
Diluted earnings per share	$.58	$.90	$.65	$.48	$.41
Average Common and Common Equivalent Shares Outstanding During the Year	16,143,414	16,639,634	16,437,488	16,286,852	16,338,298

	December 31,				
	2002	2001	2000	1999	1998
Total Assets	$212,251,600	$199,852,100	$187,684,500	$132,083,600	$111,409,000
Working Capital	$ 1,770,500	$ 3,419,600	$ 780,700	$ (2,503,900)	$ 1,633,400
Long-Term Debt, excluding current maturities	$ 25,000,000	$ 28,000,000	$ 17,350,000	$ 9,300,000	$ -
Stockholders' Equity	$101,122,200	$ 96,772,800	$ 82,256,900	$70,724,900	$ 62,746,700

1. See Consolidated Financial Statements elsewhere herein.

Item 7. Management's Discussion and Analysis of Financial Condition and

Results of Operations

Safe Harbor Statement Under the Private Securities

Litigation Reform Act of 1995

Statements, other than historical facts, contained in this Annual Report on Form 10-K, including statements of estimated oil and gas production and reserves, drilling plans, future cash flows, anticipated capital expenditures and Management's strategies, plans and objectives, are "forward looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Although the Company believes that its forward looking statements are based on reasonable assumptions, it cautions that such statements are subject to a wide range of risks and uncertainties incidental to the exploration for, acquisition, development and marketing of oil and gas, and it can give no assurance that its estimates and expectations will be realized. Important factors that could cause actual results to differ materially from the forward looking statements include, but are not limited to, changes in production volumes, worldwide demand, and commodity prices for petroleum natural resources; the timing and extent of the Company's success in discovering, acquiring, developing and producing oil and gas reserves; risks incident to the drilling and operation of oil and gas wells; future production and development costs; the effect of existing and future laws, governmental regulations and the political and economic climate of the United States; the effect of hedging activities; and conditions in the capital markets. Other risk factors are discussed elsewhere in this Form 10-K.

Results of Operations

Year Ended December 31, 2002 Compared with December 31, 2001

Revenues. Total revenues for the year ended December 31, 2002 were $135.3 million compared to $177.1 million for the year ended December 31, 2001, a decrease of approximately $41.8 million or 23.6%. Such decrease was primarily a result of reduced drilling revenues, gas marketing activities and oil and gas sales. Drilling revenues for the year ended December 31, 2002 were $57.1 million compared to $76.3 million for the year ended December 31, 2001, a decrease of approximately $19.2 million or 25.2%. The decrease was a result of higher drilling activity carried over from the Company's public drilling programs at the end of 2000. The wells were drilled and completed during the first three quarters of 2001. The carryover resulted from a shortage of drilling rigs and field services during the second half of 2000 which delayed the drilling and completion of the wells which normally would have been drilled during the second half of 2000. Natural gas sales from th e marketing activities of Riley Natural Gas (RNG), the Company's natural gas marketing subsidiary for the year ended December 31, 2002 was $46.4 million compared to $66.2 million for the year ended December 31, 2001, a decrease of approximately $19.8 million or 29.9%. Such decrease was due to natural gas sold at significantly lower average sales prices along with slightly lower volumes sold. Oil and gas sales from the Company's producing properties for the year ended December 31, 2002 were $22.9 million compared to $25.9 million for the year ended December 31, 2001, a decrease of approximately $3.0 million or 11.6%. Such decrease was due to lower average sales prices of natural gas offset in part by an increase in volumes produced and sold of natural gas and oil from the Company's producing properties. Financial results depend upon many factors, particularly the price of natural gas and our ability to market our production on economically attractive terms. Price volatility in the natural gas market has remai ned prevalent in the last few years. Natural gas prices declined dramatically at the end of the fourth quarter of 2001 and during the entire first quarter of 2002. However, in the second quarter of 2002, the Company saw a significant strengthening of natural gas prices in its Appalachian and Michigan producing areas. Natural gas prices in Colorado remained low for most of 2002. In the fourth quarter, Colorado prices began to increase, although they continue to trail prices in other areas by a greater than normal margin. The Company believes the low prices in the Rocky Mountain Region, including Colorado, result from increasing local supplies that exceed the local demand and pipeline capacity available to move gas from the region. In May of 2003, the Kern River Pipeline is scheduled to complete a capacity addition that will add about 900 million cubic feet of capacity for deliveries to Utah and southern California. This represents almost 30% of the current pipeline capacity from the region to the West Coast a nd other markets outside the region. The Company believes that the completion and start-up of the pipeline will eliminate or reduce the local supply surplus, leading to improved prices in the region compared to other producing areas.

If the pipeline is not completed on schedule, the price of natural gas in the Rocky Mountains is likely to continue to be discounted compared to other areas. If this occurs, the Company's oil and gas sales in 2003 will be lower than they might otherwise be, and the sales of the Company's drilling programs, which focus on Colorado development, could be adversely impacted. Beginning in the second quarter and continuing later in the year, the Company entered into some commodity price hedging contracts for production from May 2002 through October 2003 to protect ourselves against possible short-term price weaknesses. Well operations and pipeline income for the year ended December 31, 2002 was $6.1 million compared to $5.6 million for the year ended December 31, 2001, an increase of approximately $500,000 or 8.9%. Such increase was due to an increase in the number of wells and pipelines operated by the Company. Other income for the year ended December 31, 2002 was $2.9 million compared to $3.1 million for the year ended December 31, 2001, a decrease of approximately $200,000 or 6.5%.

Costs and expenses. Costs and expenses for the year ended December 31, 2002 were $122.3 million compared to $156.0 million for the year ended December 31, 2001, a decrease of approximately $33.7 million, or 21.6%. Oil and gas well drilling operations costs for the year ended December 31, 2002 were $49.2 million compared to $66.0 million for the year ended December 31, 2001, a decrease of approximately $16.8 million or 25.5%. Such decrease was due to the reduced drilling activity referred to above. The costs of gas marketing activities of RNG for the year ended December 31, 2002 were $46.2 million compared to $65.7 million for the year ended December 31, 2001, a decrease of $19.5 million or 29.7%. Such decrease was due to lower average prices of natural gas purchased for resale and slightly lower volumes purchased. Based on the nature of RNG's gas marketing activities, hedging did not have a significant impact on RNG's net margins from marketing activities duri ng either period. Oil and gas production costs from the Company's producing properties for the year ended December 31, 2002 were $9.1 million compared to $8.6 million for the year ended December 31, 2001 an increase of approximately $500,000 or 5.8%. Such increase was due to the increased sales volumes from the Company's oil and gas producing properties and increased number of wells operated by the Company. General and administrative expenses for the year ended December 31, 2002 were $4.4 million compared to $4.1 million for the year ended December 31, 2001, an increase of approximately $300,000. Depreciation, depletion and amortization costs for the year ended December 31, 2002 were $12.1 million compared to

$10.6 million for the year ended December 31, 2001, an increase of approximately $1.5 million or 14.2%. Such increase was due to the increased amount of production and investment in oil and gas properties owned by the Company. Interest costs for the year ended December 31, 2002 were $1.3 million compare d to $1.0 million for the year ended December 31, 2001 an increase of approximately $300,000. Such increase was due to higher average debt balances offset in part by lower average interest rates.

Net income. Net income for the year ended December 31, 2002 was $9.3 million compared to $15.0 million for the year ended December 31, 2001, a decrease of approximately $5.7 million or 38.0%.

Year Ended December 31, 2001 Compared with December 31, 2000

Revenues. Total revenues for the year ended December 31, 2001 were $177.1 million compared to $141.2 million for the year ended December 31, 2000, an increase of approximately $35.9 million, or 25.4%. Drilling revenues for the year ended December 31, 2001 were $76.3 million compared to $43.2 for the year ended December 31, 2000, an increase of approximately $33.1 million, or 76.6%. Such increase was due to an increase in drilling and completion activities, which was a direct result of an increase in the availability of drilling rigs which allowed us to reduce the drilling backlog from $43.8 million as of December 31, 2000 to $31.6 million as of December 31, 2001. Natural gas sales from the marketing activities of RNG for the year ended December 31, 2001 were $66.2 million compared to $71.4 million for the year ended December 31, 2000, a decrease of approximately $5.2 million or 7.3%. Such decrease was due to decreased volumes of natural gas sold. Oil and g as sales from the Company's producing properties for the year ended December 31, 2001 were $25.9 million compared to $19.0 million for the year ended December 31, 2000, an increase of approximately $6.9 million or 36.3%. Such increase was due to increased production of producing properties along with new wells drilled and higher average sales prices of natural gas offset in part by lower average oil sales prices from the Company's producing properties. Financial results depend upon many factors, particularly the price of natural gas and our ability to market our production on economically attractive terms. Price volatility in the natural gas market has remained prevalent in the last few years. From late 1998 through the first quarter of 1999, we experienced a decline in energy commodity prices. However, in the summer of 2000 and continuing into 2001, prices improved. For the months of April, 2000 through October, 2001, we had certain natural gas hedges in place that prevented us from realizing the full impac t of this price environment. Despite this limitation, our realized natural gas sales price for the year ended December 31, 2001 was $3.53 per Mcf compared to $2.74 for the year ended December

31, 2000. In the final months of 2000 and the first quarter of 2001, the NYMEX futures market reported unprecedented natural gas contract prices. During the year ended December 31, 2001, the hedging activities resulted in oil and gas sales being $3.4 million lower than if the Company had not hedged. As of December 31, 2001, the Company had no hedges or option contracts in place for its oil and gas production. RNG in its normal course of business had natural gas hedges and option contracts as of December 31, 2001. However, based on its gas marketing activities, hedging and option contracts did not have a significant impact on RNG's net margins from gas marketing activities in 2001. Well operations and pipeline income for the year ended December 31, 2001 was $5.6 million compared to $5.1 million for the year ended December 31, 2000, an increase of approximately $500,000 or 9.8%. Such increase resulted from an increase in the number of wells operated by the Company. Other income for the year ended December 31, 2001 was $3.1 million compared to $2.5 million for the year ended December 31, 2000, an increase of approximately $600,000 or 24.0%. Such increase resulted from interest earned on higher average cash balances.

Costs and expenses. Costs and expenses for the year ended December 31, 2001 were $156.0 million compared to $126.9 million for the year ended December 31, 2000, an increase of approximately $29.1 million, or 22.9%. Oil and gas well drilling operations costs for the year ended December 31, 2001 were $66.0 million compared to $35.2 million for the year ended December 31, 2000, an increase of approximately $30.8 million or 87.5%. Such increase was due to the increased drilling activity referred to above. The costs of gas marketing activities of RNG for the year ended December 31, 2001 were $65.7 million compared to $71.6 million for the year ended December 31, 2000, a decrease of $4.9 million or 6.8%. Such decrease was due to lower volumes of natural gas purchased for resale. Based on the nature of RNG's gas marketing activities, hedging and option contracts did not have a significant impact on RNG's net margins from marketing activities during 2001. Oil an d gas production costs from the Company's producing properties for the year ended December 31, 2001 were $8.6 million compared to $8.3 million for the year ended December 31, 2000 an increase of approximately $300,000 or 3.6%. General and administrative expenses for the year ended December 31, 2001 were $4.1 million compared to $3.6 million for the year ended December 31, 2000, an increase of approximately $500,000. Depreciation, depletion and amortization costs for the year ended December 31, 2001 were $10.6 million compared to $6.9 million for the year ended December 31, 2000, an increase of approximately $3.7 million or 53.6%. Such increase was due to the increased amount of production and investment in oil and gas properties owned by the Company. Interest costs for the year ended December 31, 2001 were $1.0 million compared to $1.2 million for the year ended December 31, 2000 a decrease of approximately $200,000. Such decrease was due to lower average debt balances along with lower average interest rates .

Net income. Net income for the year ended December 31, 2001 was $15.0 million compared to $10.7 million for the year ended December 31, 2000, an increase of approximately $4.3 million or 40.2%.

Liquidity and Capital Resources

The Company funds its operations through a combination of cash flow from operations, capital raised through drilling partnerships, and use of the Company's credit facility. Operational cash flow is generated by sales of natural gas from the Company's well interests, well drilling and operating activities for the Company's investor partners, natural gas gathering and transportation, and natural gas marketing. Cash payments from Company-sponsored partnerships are used to drill and complete wells for the partnerships, with operating cash flow accruing to the Company to the extent payments exceed drilling costs. The Company utilizes its revolving credit arrangement to meet the cash flow requirements of its operating and investment activities.

Natural gas and oil prices have been unusually volatile for the past 24 months, and the Company anticipates continued volatility in the future. Currently, the NYMEX futures reflect a market expectation of gas prices at Henry Hub close to or above record prices per million Btu's (mmbtu). These prices look strong for the remainder of the year with natural gas storage levels at five-year low levels. The Company believes this situation creates the possibility of both periods of low prices and continued high prices.

Earlier this year, our Colorado gas prices had been adversely effected by an increase in the negative "basis" between NYMEX and Colorado prices. Pipeline capacity from the area to major markets in California and the Midwest is not adequate to move the new supplies developed over the past several years by oil and gas companies when local demand is at low summer levels. The result has been lower prices and some limited curtailment of production during the summer months. This situation has corrected itself some this winter. Several major pipeline projects are underway and in planning stages that will improve capacity over the next several years. There remains a possibility of greater seasonal volatility in Colorado than some other producing areas, but we expect the situation to improve over the coming year.

Because of the uncertainty surrounding gas prices we used hedging instruments to manage some of the impact of fluctuations in prices. Through October of 2003 we have in place a series of asymmetric costless collars. Under the collar arrangements, if the applicable index rises above the ceiling price, we pay the counterparty, however if the index drops below the floor the counterparty pays us. These floor and ceiling prices were set at levels which allowed us to set floors on two units of production for each unit of production with a ceiling. The positions in effect as of December 31, 2002 on the Company's share of production are shown in the following table:

	Floors		Ceilings	
	Monthly Quantity MMBtu	Contract Price	Monthly Quantity MMBtu	Contract Price
Month				
NYMEX Based Hedges				
Jan 2003	114,000	$3.70	57,000	$4.10
Jan 2003	114,000	$3.80	57,000	$4.40
Feb 2003	114,000	$3.50	57,000	$4.20
Feb 2003	114,000	$3.60	57,000	$4.30
Mar 2003	114,000	$3.50	57,000	$3.75
Mar 2003	114,000	$3.45	57,000	$4.20
Apr 2003	114,000	$3.50	57,000	$3.80
May 2003 - Oct 2003	114,000	$3.40	57,000	$3.80
Colorado Interstate Gas (CIG) Based Hedges				
Jan 2003-Mar 2003	20,000	$2.75	10,000	$4.45
Jan 2003-Mar 2003	29,000	$2.75	6,500	$3.28
Apr 2003-Oct 2003	32,000	$2.50	8,000	$3.13

The Company hedges prices for its partners' share of production as well as its own production. Actual wellhead prices will vary based on local contract conditions, gathering and other costs and factors.

Oil prices have strengthened from earlier in the year. While oil prices are influenced by supply and demand, global geopolitics may be the single most important determinant. Since the percentage of company production reflected by oil sales has increased to almost 18% for 2002, variations in oil prices will have a greater impact on the Company than in the past.

The Company plans to conduct most, if not all, of its 2003 drilling operations in Colorado. If the planned pipeline capacity increases do not occur, it could reduce the Company's results from its producing activities. It could also make the company's drilling programs less attractive to potential investors. However, the Rocky Mountain region is the only onshore area of the U.S. with increasing production. The Company believes the necessary pipelines will be constructed, so increasing Rocky Mountain gas can move to the markets where it will be needed.

The Company closed four public drilling partnerships during 2002. The total amount received during 2002 was $56.9 million compared to $57.1 million for 2001. The Company closed its fourth program of 2002 on December 31, 2002 in the amount of $29.1 million and will drill the wells during the first quarter 2003. The Company invests, as its equity contribution to each drilling partnership, an additional sum approximating 20% of the aggregate subscriptions received for that particular drilling partnership. As a result, the Company is subject to substantial cash commitments at the closing of each drilling partnership. The funds received from these programs are restricted to use in future drilling operations. No assurance can be made that the Company will continue to receive this level of funding from these or future programs.

Substantially all of the Company's drilling programs contain a repurchase provision where Investors may tender their partnership units for repurchase at any time beginning with the third anniversary of the first cash distribution. The provision provides that the Company is obligated to purchase an aggregate of 10% of the initial subscriptions per calendar year (at a minimum price of four times the most recent 12 months' cash distributions), only if such units are tendered, subject to the Company's financial ability to do so. The maximum annual 10% repurchase obligation, if tendered by the investors, is currently approximately $1,878,200. The Company has adequate liquidity to meet this obligation.

The Company has a credit facility with Bank One, NA and BNP Paribas of $100 million subject to adequate oil and natural gas reserves. The current borrowing base is $58.0 million, of which the Company has activated $40.0 million of the facility. As of December 31, 2002, the outstanding balance on the line

of credit was $25.0 million of which $10 million was subject to an interest rate swap at a rate of 8.39%, $6.0 million subject to a 90-day LIBOR (London Interbank Market Rate) of 3.27% and the remaining $9.0 million was subject to prime rate of 4.25%. The line of credit is at prime, with LIBOR alternatives available at the discretion of the Company. No principal payments are required until the credit agreement expires on July 3, 2005.

The Company continues to pursue capital investment opportunities in producing natural gas properties as well as its plan to participate in its sponsored natural gas drilling partnerships, while pursuing opportunities for operating improvements and costs efficiencies. Management believes that the Company has adequate capital to meet its operating requirements.

A summary of Company's contractual obligations and due dates are as follows:

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Long-Term Debt	$25,000,000	-	$25,000,000	-	-
Operating Leases	$1,547,600	$979,300	$518,100	$50,200	-
Other Liabilities	$4,137,200	-	917,700	120,000	$3,099,500
Total	$30,684,800	$979,300	$26,435,800	$170,200	$3,099,500

Critical Accounting Policies

Certain accounting policies are very important to the portrayal of Company's financial condition and results of operations and require management's most subjective or complex judgments. The policies are as follows:

Revenue Recognition

Oil and gas wells are drilled primarily on a contract basis. The Company follows the percentage-of-completion method of income recognition for drilling operations in progress.

Sales of natural gas are recognized when sold, oil revenues are recognized when produced into a stock tank.

Well operations income consists of operation charges for well upkeep, maintenance and operating lease income on tangible well equipment.

Valuation of Accounts Receivable

Management reviews accounts receivable to determine which are doubtful of collection. In making the determination of the appropriate allowance for doubtful accounts, management considers Company's history of write-offs, relationships and overall credit worthiness of its customers, and well production data for receivables related to well operations.

Impairment of Long-Lived Assets

Exploration and development costs are accounted for by the successful efforts method.

The Company assesses impairment of capitalized costs of proved oil and gas properties by comparing net capitalized costs to undiscounted future net cash flows on a field-by-field basis using expected prices. Prices utilized in each year's calculation for measurement purposes and expected costs are held constant throughout the estimated life of the properties. If net capitalized costs exceed undiscounted future net cash flow, the measurement of impairment is based on estimated fair value which would consider future discounted cash flows.

Unproved properties are assessed on a property-by-property basis and properties considered to be impaired are charged to expense when such impairment is deemed to have occurred.

Deferred Tax Asset Valuation Allowance

Deferred tax assets are recognized for deductible temporary differences, net operating loss carryforwards, and credit carryforwards if it is more likely than not that the tax benefits will be realized. To the extent a deferred tax asset cannot be recognized under the preceding criteria, a valuation allowance has been established.

The judgments used in applying the above policies are based on management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from those estimates. See additional discussions in this Management's Discussion and Analysis.

New Accounting Standards

In June 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations (SFAS No. 143). SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on January 1, 2003. At this time the Company does not believe that the adoption of this statement will have a material effect on its financial position, results or operation, cash f lows or disclosures.

In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending December 31, 2002 and are included in the notes to these financial statements.

Item 7A. Quantitative and Qualitative Disclosure About Market Risk.

Market-Sensitive Instruments and Risk Management

The Company's primary market risk exposures are interest rate risk and commodity price risk. These exposures are discussed in detail below:

Interest Rate Risk

The Company's exposure to market risk for changes in interest rates relates primarily to the Company's interest-bearing cash and cash equivalents and long-term debt. Interest-bearing cash and cash equivalents includes money market funds, certificates of deposit and checking and savings accounts with various banks. The amount of interest-bearing cash and cash equivalents as of December 31, 2002 is $59,241,500 with an average interest rate of 0.78%. As of December 31, 2002, the Company has long-term debt of $25,000,000 of which $10,000,000 is subject to an interest rate swap at a rate of 8.39%, $6,000,000 subject to a 90-day LIBOR rate of 3.27% and $9,000,000 was subject to a prime rate of 4.25%.

Commodity Price Risk

The Company utilizes commodity-based derivative instruments as hedges to manage a portion of its exposure to price risk from its natural gas sales and marketing activities. These instruments consist of NYMEX-traded natural gas futures contracts and option contracts for Appalachian and Michigan production and CIG-based contracts traded by Bank One for Colorado production. These hedging arrangements have the effect of locking in for specified periods (at predetermined prices or ranges of prices) the prices the Company will receive for the volume to which the hedge relates and, in the case of RNG, the cost of gas supplies purchased for marketing activities. As a result, while these hedging arrangements are structured to reduce the Company's exposure to changes in price associated with the hedged commodity, they also limit the benefit the Company might otherwise have received from price changes associated with the hedged commodity. The Company's policy prohibits t he use of natural gas future and option contracts for speculative purposes.

As of December 31, 2002 RNG had entered into a series of natural gas future contracts stemming from its marketing activities. Open future contracts maturing in 2003 are for the sale of 3,210,000 mmbtu of natural gas with a weighted average price of $3.97 mmbtu resulting in a total contract amount of $12,728,100 and a fair market value of $(1,912,200) and for the purchase of 740,000 mmbtu of natural gas with a weighted average price of $4.15 mmbtu resulting in a total contract amount of $3,073,200 and a fair market value of $480,800. There were no open option contracts stemming from RNG's marketing activities as of December 31, 2002. As of December 31, 2001, RNG had entered into a series of natural gas future contracts and option contracts stemming from its marketing activities. Open future contracts matured in 2002 were for the sale of 1,680,000 mmbtu of natural gas with a weighted average price of $3.18 mmbtu resulting in a total contract amount of $5,343,500 and a fair market value of $479,300. Open option contracts matured in 2002 were for the sale of 20,000 mmbtu with a weighted average floor price of $2.85 mmbtu and a fair value of $9,000.

As of December 31, 2002, PDC had entered into a series of natural gas future contracts and option contracts stemming from its natural gas production. Open future contracts maturing in 2003 are for the sale of 280,000 mmbtu of natural gas with a weighted average price of $4.25 mmbtu resulting in a total contract amount of $1,190,000 and a fair market value of $(209,700). Open option contracts maturing in 2003 are for the sale of 2,155,600 mmbtu with a weighted average floor price of $3.15 mmbtu and a fair value of $105,600 and 794,800 mmbtu with a weighted average ceiling price of $3.80 mmbtu and a fair value of $(442,800). As of December 31, 2001, PDC had no natural gas future contracts or option contracts stemming from its natural gas production.

The average NYMEX closing price for natural gas for the years 2002, 2001 and 2000 was $3.22 mmbtu, $4.27 mmbtu, and $3.88 mmbtu. The average NYMEX closing price for oil for the years 2002, 2001 and 2000 was $26.98 bbl, $26.60 bbl and $30.95 bbl. Future near-term gas prices will be affected by various supply and demand factors such as weather, government and environmental regulation and new drilling activities within the industry.

Disclosure of Limitations

As the information above incorporates only those exposures that exist at December 31, 2002, it does not consider those exposures or positions which could arise after that date. As a result, the Company's ultimate realized gain or loss with respect to interest rate and commodity price fluctuations will depend on the exposures that arise during the period, the Company's hedging strategies at the time, and interest rates and commodity prices at the time.

PART III

Item 8. Financial Statements and Supplementary Data:

The response to this Item is set forth herein in a separate section of this Report, beginning on Page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 10. Directors and Executive Officers of the Company

Directors and Executive Officers of the Company

The executive officers and directors of the Company, their principal occupations for the past five years and additional information are set forth below:

Name	Age	Positions and Offices Held	Held Current Position Since
James N. Ryan	71	Chairman, Chief Executive Officer and Director	November 1983
Steven R. Williams	51	President and Director	March 1983
Dale G. Rettinger	58	Chief Financial Officer, Executive Vice President, Treasurer and Director	July 1980
Roger J. Morgan	75	Secretary	November 1969
Vincent F. D'Annunzio	50	Director	February 1989
Jeffrey C. Swoveland	47	Director	March 1991
Donald B. Nestor	54	Director	March 2000
Kimberly Luff Wakim	44	Director	January 2003

James N. Ryan has served as President and Director of PDC from 1969 to 1983 and was elected Chairman and Chief Executive Officer in March 1983.

Steven R. Williams has served as President and Director of PDC since March 1983. Prior to joining PDC, Mr. Williams was employed by Exxon until 1979 and attended Stanford Graduate School of Business, graduating in 1981. He then worked with Texas Oil and Gas until July 1982, when he joined Exco Enterprises, an oil and gas investment company as manager of operations.

Dale G. Rettinger has served as Vice President and Treasurer of PDC since July 1980, and was appointed Chief Financial Officer in September 1997. Mr. Rettinger was elected Director in 1985. Previously Mr. Rettinger was a partner with Main Hurdman, Certified Public Accountants, having served in that capacity since 1976.

Roger J. Morgan has been a member of the law firm of Young, Morgan & Cann, Clarksburg, West Virginia since 1955. Mr. Morgan is not active in the day-to-day business of PDC, but his law firm provides legal services to PDC.

Vincent F. D'Annunzio has served as president of Beverage Distributors, Inc. located in Clarksburg, West Virginia since 1985.

Jeffrey C. Swoveland has served as Chief Financial Officer of Body Media since September, 2000. Prior thereto, Mr. Swoveland was Vice President-Finance and Treasurer of Equitable Resources Inc since 1994.

Donald B. Nestor, elected as a director in March, 2000, is a Certified Public Accountant and a Partner in the CPA firm of Toothman Rice, P.L.L.C. and is in charge of the firm's Buckhannon, West Virginia office. Mr. Nestor has served in that capacity since 1975.

Kimberly Luff Wakim, elected director in January 2003, an Attorney and Certified Public Accountant, is a Partner with the law firm Thorp, Reed & Armstrong LLP. Ms. Wakim joined Thorp Reed & Armstrong LLP in 1990.

The Company's By-Laws provide that the directors of the Company shall be divided into three classes and that, at each annual meeting of stockholders of the Company, successors to the class of directors whose term expires at the annual meeting will be elected for a three-year term. The classes are staggered so that the term of one class expires each year. Mr. Williams, Mr. Nestor and Ms. Wakim are members of the class whose term expires in 2003; Mr. Ryan and Mr. D'Annunzio are members of the class whose term expires in 2004; and Mr. Rettinger and Mr. Swoveland are members of the class whose term expires in 2005. There is no family relationship between any director or executive officer and any other director or executive officer of the Company. There are no arrangements or understandings between any director or officer and any other person pursuant to which such person was selected as an officer.

On January 24, 2003, the Company adopted a Code of Business Conduct and Ethics Policy meeting the specified standards applicable to the Chief Executive Officer and Chief Financial Officer. The policy also covers all the corporate officers.

The Audit Committee of the Board of Directors is comprised entirely of independent outside directors. Donald B. Nestor, CPA, a partner in the certified public accounting firm of Toothman Rice PLLC, chairs the committee. Mr. Nestor and the other audit committee members, qualify as audit committee financial experts and are independent of management.

Item 11. Executive Compensation

There is incorporated by reference herein in response to this Item the material under the heading "Election of Directors - Remuneration of Directors and Officers", "Election of Directors - Stock Options" and "Election of Directors - Interest of Management in Certain Transactions" in the Company's definitive proxy statement for its 2003 annual meeting of stockholders filed or to be filed with the Commission on or before April 30, 2003.

Item 12. Security Ownership of Certain Beneficial Owners, Management and Related Stockholder Matters

There is incorporated by reference herein in response to this Item, the material under the heading "Election of Directors", in the Company's definitive proxy statement for its 2003 annual meeting of stockholders filed or to be filed with the Commission on or before April 30, 2003.

The Company has the following common stock options outstanding under the stock option plans approved by the stockholders:

Equity Compensation Plan Information December 31, 2002			
Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	1,160,000 shares	$4.48	-
Equity compensation plans not approved by security holders	-	-	-
Total	1,160,000 shares	$4.48	-

Item 13. Certain Relationships and Related Transactions

The response to this item is set forth herein in Note 8 in the Notes to Consolidated Financial Statements and under "Election of Directors - Interest of Management in Certain Transactions," in the Company's definitive proxy statement for its 2003 annual meeting of stockholders filed or to be filed with the Commission on or before April 30, 2003.

Item 14. Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Exchange Act Rule 13a-14(c)) within 90 days of the filing date of this annual report, and, based on their evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that

these disclosure controls and procedures are effective in all material respects, including those to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act is recorded, processed, summarized, and reported, within the time periods specified in the Commission's rules and forms, and is accumulated and communicated to management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow for ti mely disclosure. There have been no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) (1) Financial Statements:

See Index to Financial Statements and Schedules on page F-1.

(2) Financial Statement Schedules:

See Index to Financial Statements and Schedules on page F-1.

Schedules and Financial Statements Omitted

All other financial statement schedules are omitted because they are not required, inapplicable, or the information is included in the Financial Statements or Notes thereto.

(3) Exhibits:

See Exhibits Index on page E-1.

CONFORMED COPY

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PETROLEUM DEVELOPMENT CORPORATION

By /s/ James N. Ryan

James N. Ryan, Chairman

March 7, 2003

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/s/James N. Ryan James N. Ryan	Chairman, Chief Executive Officer and Director	March 7, 2003
/s/ Steven R. Williams Steven R. Williams	President and Director	March 7, 2003
/s/ Dale G. Rettinger Dale G. Rettinger	Chief Financial Officer Executive Vice President, Treasurer and Director (principal financial and accounting officer	March 7, 2003

/s/ Vincent F. D'Annunzio Director March 7, 2003

Vincent F. D'Annunzio

FORM 10-K CERTIFICATION

I, James N. Ryan, certify that:

1 I have reviewed this annual report on Form 10-K of Petroleum Development Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to

the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 7, 2003

/s/ James N. Ryan

James N. Ryan

Chief Executive Officer

of Petroleum Development Corporation

FORM 10-K CERTIFICATION

I, Dale G. Rettinger, certify that:

1. I have reviewed this annual report on Form 10-K of Petroleum Development Corporation;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

(c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 7, 2003

/s/ Dale G. Rettinger

Dale G. Rettinger

Chief Financial Officer

of Petroleum Development Corporation

Exhibits Index

Exhibit Name	Exhibit Number	
Articles of Incorporation	3.1	Incorporated by reference to Form S-2 filed September 25, 1997
By Laws	3.2	Incorporated by reference to Form 8-K filed on January 24, 2003
Credit Agreement	10.1	
Employment Agreement -Steven R. Williams	10.2	
Employment Agreement - Dale G. Rettinger	10.3	
Code of Business Conduct and Ethics	14	
Certification by Chief Executive Officer	99.1	
Certification by Chief Financial Officer	99.2	

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Index to Financial Statements and Financial Statement Schedules

Independent Auditors' Report

The Stockholders and Board of Directors

Petroleum Development Corporation:

We have audited the consolidated financial statements of Petroleum Development Corporation and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in the accompanying index. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Petroleum Development Corporation and subsidiaries as of December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 13 to the consolidated financial statements, the Company changed its method of accounting for derivative instruments and hedging activities in 2001.

KPMG LLP

Pittsburgh, Pennsylvania

February 25, 2003

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2002 and 2001

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents	$ 48,263,000	47,892,300
Restricted cash	2,760,500	283,300
Notes and accounts receivable	15,336,500	10,752,600

Inventories	1,174,100	1,117,900
Prepaid expenses	4,125,300	4,659,300
Total current assets	71,659,400	64,705,400
Properties and equipment:		
Oil and gas properties (successful efforts accounting method)	183,614,200	167,244,600
Pipelines	7,015,000	6,501,500
Transportation and other equipment	3,174,200	3,201,500
Land and buildings	1,455,400	1,402,400
	195,258,800	178,350,000
Less accumulated depreciation, depletion and amortization	57,143,700	45,809,500
	138,115,100	132,540,500
Other assets	2,477,100	2,606,200
	$212,251,600	199,852,100

(Continued)

December 31, 2002 and 2001

	2002	2001
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 17,425,500	17,118,600
Other accrued expenses	11,261,700	7,924,200
Advances for future drilling contracts	37,283,800	31,592,200
Funds held for future distribution	3,917,900	4,650,800
Total current liabilities	69,888,900	61,285,800
Long-term debt	25,000,000	28,000,000
Other liabilities	4,137,200	4,082,700
Deferred income taxes	12,103,300	9,710,800
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value $.01 per share; authorized 50,000,000 shares; issued and outstanding 15,734,767 and 16,245,752 shares	157,300	162,400
Additional paid-in capital	29,316,800	32,922,500
Retained earnings	73,430,100	64,145,300
Accumulated other comprehensive loss, net of tax	(1,782,000)	(457,400)
Total stockholders' equity	101,122,200	96,772,800
	$212,251,600	199,852,100

See accompanying notes to consolidated financial statements.

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Income

Years Ended December 31, 2002, 2001 and 2000

	2002	2001	2000
Revenues:			
Oil and gas well drilling operations	$57,149,100	76,291,200	43,194,700
Gas sales from marketing activities	46,365,900	66,207,400	71,402,400
Oil and gas sales	22,857,100	25,887,900	19,017,300
Well operations and pipeline income	6,116,200	5,604,200	5,061,600
Other income	2,853,600	3,132,400	2,540,500
	135,341,900	177,123,100	141,216,500
Costs and expenses:			
Cost of oil and gas well drilling operations	49,166,200	65,999,900	35,244,300
Cost of gas marketing activities	46,184,300	65,740,300	71,648,500
Oil and gas production costs	9,074,200	8,582,700	8,303,600
General and administrative expenses	4,391,900	4,145,700	3,616,900
Depreciation, depletion and amortization	12,103,300	10,578,300	6,943,500
Interest	1,339,800	993,400	1,186,000
	122,259,700	156,040,300	126,942,800
Income before income taxes	13,082,200	21,082,800	14,273,700
Income taxes	3,797,400	6,115,000	3,592,700
Net income	$ 9,284,800	14,967,800	10,681,000
Basic earnings per common share	$.59	.92	.66
Diluted earnings per commonand common equivalent share	$.58	.90	.65

See accompanying notes to consolidated financial statements.

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2002, 2001 and 2000

	Common stock issued					
	Number Of Shares	Amount	Additional Paid-in-capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance, December 31, 1999	15,737,795	$157,400	32,071,000	38,496,500	-	70,724,900
Issuance of common stock:						
Exercise of employee stock options	511,584	5,100	511,700	-	-	516,800
Purchase of properties	100,000	1,000	549,000	-	-	550,000
Amortization of stock award	-	-	5,500	-	-	5,500
Repurchase and cancellation of treasury stock	(105,335)	(1,100)	(420,100)	-	-	(421,200)
Income tax benefit from the exercise of stock options	-	-	199,900	-	-	199,900
Net income	-	-	-	10,681,000	-	10,681,000
Balance, December 31, 2000	16,244,044	$162,400	32,917,000	49,177,500	-	82,256,900
Issuance of common stock	1,708	-	-	-	-	-
Amortization of stock award	-	-	5,500	-	-	5,500
Net income				14,967,800		14,967,800
Comprehensive income:						
Cumulative effect of change in accounting principle -	-	-	-	-	(12,079,100)	-
January 1, 2001 (net of tax of $8,052,700)						
Reclassification adjustment for settlement of contracts	-	-	-	-	4,971,200	-
Included in net income (net of tax of $3,046,900)						
Changes in fair value of outstanding hedging positions	-	-	-	-	6,650,500	-
(net of tax of $4,076,100)						
Other comprehensive loss					(457,400)	(457,400)
Comprehensive income						14,510,400
Balance, December 31, 2001	16,245,752	$ 162,400	32,922,500	64,145,300	(457,400)	96,772,800
Issuance of common stock:						
Exercise of employee stock options	70,000	700	78,100	-	-	78,800
Amortization of stock award		-	5,500	-	-	5,500
Repurchase and cancellation of treasury stock	(580,985)	(5,800)	(3,689,300)			(3,695,100)

Net income	-	-	-	9,284,800	-	9,284,800
Comprehensive income:						
Reclassification adjustment for settlement of contracts	-	-	-	-	14,800	-
Included in net income (net of tax of $9,100)						
Changes in fair value of outstanding hedging positions and interest rate swap (net of tax of $820,900)	- -	- -	- -	- -	(1,339,400)	- -
Other comprehensive loss					(1,324,600)	(1,324,600)
Comprehensive income						7,960,200
Balance, December 31, 2002	15,734,767	$ 157,300	29,316,800	73,430,100	(1,782,000)	101,122,200

See accompanying notes to consolidated financial statements.

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows

Years Ended December 31, 2002, 2001 and 2000

	2002	2001	2000
Cash flows from operating activities:			
Net income	$9,284,800	14,967,800	10,681,000
Adjustment to net income to reconcile			
to cash provided by operating activities:			
Deferred income taxes	2,986,400	4,002,300	1,838,300
Depreciation, depletion and amortization	12,103,300	10,578,300	6,943,500
Gain from sale of assets	(25,800)	(132,400)	(199,200)
Expired and abandoned leases	1,129,400	919,200	672,700
Amortization of stock award	5,500	5,500	5,500
(Increase) decrease in notes and accounts receivable	(4,583,900)	12,895,400	(13,384,800)
Increase in inventories	(56,200)	(20,000)	(520,300)
Decrease (increase) in prepaid expenses	369,200	3,243,900	(4,774,700)
Decrease (increase) in other assets	56,300	336,700	(375,700)
Increase (decrease) in accounts payable and accrued expenses	1,945,200	(8,219,900)	15,359,700
Increase (decrease) in advances for future drilling contracts	5,691,600	(12,217,200)	18,672,000
(Decrease) increase funds held for future distribution	(732,900)	2,210,700	412,500
Total adjustments	18,888,100	13,602,500	24,649,500
Net cash provided by operating activities	28,172,900	28,570,300	35,330,500
Cash flows from investing activities:			
Capital expenditures	(19,777,000)	(42,661,100)	(27,932,100)
Proceeds from sale of leases	1,042,500	4,732,200	1,588,700
Proceeds from sale of fixed assets	25,800	12,200	680,100

(Increase) decrease in restricted cash	(2,477,200)	2,655,000	(2,324,000)
Net cash used in investing activities	(21,185,900)	(35,261,700)	(27,987,300)
Cash flows from financing activities:			
Proceeds from/(retirement of) debt, net	(3,000,000)	10,650,000	8,050,000
Proceeds from issuance of stock	78,800	-	95,600
Repurchase and cancellation of treasury stock	(3,695,100)	-	-
Net cash (used in) provided by financing activities	(6,616,300)	10,650,000	8,145,600
Net increase in cash and cash equivalents	370,700	3,958,600	15,488,800
Cash and cash equivalents, beginning of year	47,892,300	43,933,700	28,444,900
Cash and cash equivalents, end of year	$48,263,000	47,892,300	43,933,700

See accompanying notes to consolidated financial statements.

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

Years Ended December 31, 2002, 2001 and 2000

(1) Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Petroleum Development Corporation and its wholly owned subsidiaries. All material intercompany accounts and transactions have been eliminated in consolidation. The Company accounts for its investment in limited partnerships under the proportionate consolidation method. Under this method, the Company's financial statements include its prorata share of assets and liabilities and revenues and expenses, respectively, of the limited partnerships in which it participates.

The Company is involved in three business segments. The segments are drilling and development, natural gas sales and well operations. (See Note 19)

The Company grants credit to purchasers of oil and gas and the owners of managed properties, substantially all of whom are located in West Virginia, Tennessee, Pennsylvania, Ohio, Michigan, North Dakota and Colorado.

Cash Equivalents

For purposes of the statement of cash flows, the Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

Inventories

Inventories of well equipment, parts and supplies are valued at the lower of average cost or market. An inventory of natural gas is recorded when gas is purchased in excess of deliveries to customers and is recorded at the lower of cost or market. An inventory of oil located in stock tanks on well locations, is carried at market at the end of each period.

Oil and Gas Properties

Exploration and development costs are accounted for by the successful efforts method.

The Company assesses impairment of capitalized costs of proved oil and gas properties by comparing net capitalized costs to undiscounted future net cash flows on a field-by-field basis using expected prices. Prices utilized in each year's calculation for measurement purposes and expected costs are held constant throughout the estimated life of the properties. If net capitalized costs exceed undiscounted future net cash flow, the measurement of impairment is based on estimated fair value which would consider future discounted cash flows.

Property acquisition costs are capitalized when incurred. Geological and geophysical costs and delay rentals are expensed as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether the wells have discovered economically producible reserves. If reserves are not discovered, such costs are expensed as dry holes. Development costs, including equipment and intangible drilling costs related to both producing wells and developmental dry holes, are capitalized.

(Continued)

Unproved properties are assessed on a property-by-property basis and properties considered to be impaired are charged to expense when such impairment is deemed to have occurred.

Costs of proved properties, including leasehold acquisition, exploration and development costs and equipment, are depreciated or depleted by the unit-of-production method based on estimated proved developed oil and gas reserves.

Upon sale or retirement of complete units of depreciable or depletable property, the net cost thereof, less proceeds or salvage value, is credited or charged to income. Upon retirement of a partial unit of property, the cost thereof is charged to accumulated depreciation and depletion.

Based on the Company's experience, management believes site restoration, dismantlement and abandonment costs net of salvage to be immaterial in relation to operating costs. These costs are being expensed when incurred.

Transportation Equipment, Pipelines and Other Equipment

Transportation equipment, pipelines and other equipment are carried at cost. Depreciation is provided principally on the straight-line method over useful lives of 3 to 17 years. SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of. The Company adopted SFAS No. 144 on January 1, 2002. The adoption of SFAS No. 144 did not affect the Company's financial statements.

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

Prior to the adoption of SFAS No. 144, the Company accounted for long-lived assets in accordance with SFAS No. 121, *Accounting for Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of.*

Maintenance and repairs are charged to expense as incurred. Major renewals and betterments are capitalized. Upon the sale or other disposition of assets, the cost and related accumulated depreciation, depletion and amortization are removed from the accounts, the proceeds applied thereto and any resulting gain or loss is reflected in income.

Buildings

Buildings are carried at cost and depreciated on the straight-line method over estimated useful lives of 30 years.

Advances for Future Drilling Contracts

Represents funds received from Partnerships and other joint ventures for drilling activities which have not been completed and accordingly have not yet been recognized as income in accordance with the Company's income recognition policies.

Retirement Plans

The Company has a 401-K contributory retirement plan (401-K Plan) covering full-time employees. The Company provides a discretionary matching of employee contributions to the plan.

The Company also has a profit sharing plan covering full-time employees. The Company's contributions to this plan are discretionary.

(Continued)

The Company has a deferred compensation arrangement covering executive officers of the Company as a supplemental retirement benefit.

The Company has established split-dollar life insurance arrangements with certain executive officers. Under these arrangements, advances are made to these officers equal to the premiums due. The advances are collateralized by the cash surrender value of the policies. The Company records as other assets its share of the cash surrender value of the policies.

Revenue Recognition

Oil and gas wells are drilled primarily on a contract basis. The Company follows the percentage-of-completion method of income recognition for drilling operations in progress.

Sales of natural gas are recognized when sold, oil revenues are recognized when produced into a stock tank.

Well operations income consists of operation charges for well upkeep, maintenance and operating lease income on tangible well equipment.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Derivative Financial Instruments

All derivatives are recognized on the consolidated balance sheet at their fair value. On the date the derivative contract is entered into, the Company designates the derivative as either a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("Cash flow" hedge), or a non-hedging derivative. The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash-flow hedges to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items. When it is determined that a derivative is not highly effective a s a hedge or that it has ceased to be a highly effective hedge, the Company discontinues hedge accounting prospectively. No hedging activities were discontinued during 2002 or 2001.

Changes in fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of non-hedging derivatives are reported in current-period earnings. The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised. Additionally, if the derivative is dedesignated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate, hedge accounting will discontinue.

(Continued)

For the year ended December 31, 2000, prior to adoption of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities" and SFAS No. 138, "Accounting for Certain Hedging Activities", gains and losses related to qualifying hedges of firm commitments or anticipated transactions through the use of natural gas futures and option contracts were deferred and recognized in income or as adjustments of carrying amounts when the underlying hedged transaction occurred. In order for futures contracts to qualify as a hedge, there must be sufficient correlation to the underlying hedged transaction. The change in the fair value of derivative instruments which do not qualify for hedging were recognized into income in 2000

During 2000, the Company entered into an interest rate swap agreement which expires October 11, 2004 to reduce its exposure to market risks from changing interest rates. The interest rate differential to be paid or received was accrued and recognized as interest expense in the period incurred.

Stock Compensation

The Company has adopted SFAS No. 123, "Accounting for Stock-Based Compensation," which permits entities to recognize as expense over the vesting period the fair value of all stock-based awards on the date of grant. Alternatively, SFAS 123 allows entities to continue to measure compensation cost for stock-based awards using the intrinsic value based method of accounting prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees," and to provide pro forma net income and pro forma earnings per share disclosures as if the fair value based method defined in SFAS 123 had been applied. The Company has elected to continue to apply the provisions of APB 25 and provide the pro forma disclosure provisions of SFAS 123. For stock options granted, the option price was not less than the market value of shares on the grant date, therefore, no compensation cost has been recognized. Had compensation cost been determined under the provisions of SFAS 123, the Company's net income and earn ings per share would have been the following on a pro forma basis:

	2002		2001		2000
Net income, as reported	$9,284,800		$14,967,800		$10,681,000
Deduct total stock-based employee compensation expense determined under fair-value-based method for all rewards, net of tax	-		(486,100)		(334,300)
Pro forma net income	$9,284,800		$14,481,700		$10,346,700
	========		==========		==========
Pro forma basic earnings per share	$0.59		$0.89		$0.64
	====		====		====
Pro forma diluted earnings per share	$0.58		$0.87		$0.63
	====		====		====

Use of Estimates

Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and revenues and expenses and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates. Estimates which are particularly significant to the consolidated financial statements include estimates of oil and gas reserves and future cash flows from oil and gas properties.

Fair Value of Financial Instruments

The carrying values of the Company's receivables, payables and debt obligations are estimated to be substantially the same as the fair values as of December 31, 2002, 2001 and 2000.

New Accounting Standards

In June 2001, the FASB issued SFAS 143, Accounting for Asset Retirement Obligations (SFAS No. 143). SFAS No. 143 requires the Company to record the fair value of an asset retirement obligation as a liability in the period in which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from the acquisition, construction, development and/or normal use of the assets. The Company also records a corresponding asset which is depreciated over the life of the asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation will be adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The Company is required to adopt SFAS No. 143 on January 1, 2003. At this time, the Company cannot reasonably estimate the effect of the adoption of this Statement on either its financial position, results of operations, or cash flows.

In December 2002, the FASB issued SFAS 148, Accounting for Stock-Based Compensation - Transition and Disclosure, an amendment of FASB Statement No. 123. This statement amends SFAS No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS 123 to require prominent disclosures in both annual and interim financial statements. Certain of the disclosure modifications are required for fiscal years ending December 31, 2002 and are included in the notes to these financial statements.

(2) Notes and Accounts Receivable

Included in other assets are noncurrent accounts receivable as of December 31, 2002 and 2001, in the amounts of $445,600 and $173,600 net of an allowance for doubtful accounts of $445,600 and $174,600, respectively.

The allowance for doubtful current accounts receivable as of December 31, 2002 and 2001 was $49,400 and $349,900, respectively.

(3) Long-Term Debt

On July 3, 2002 the Company executed a $100 million credit facility with Bank One, NA and BNP Paribas. The agreement provides for borrowing up to $100 million subject to and secured by adequate levels of oil and gas reserves. The current total borrowing base is $58.0 million of which the Company has activated $40 million of the facility. The Company is required to pay a commitment fee of 1/4 percent on the unused portion of the activated credit facility. Interest accrues at prime, with LIBOR (London Interbank Market Rate) alternatives available at the discretion of the Company. No principal payments are required until the credit agreement expires on July 3, 2005.

As of December 31, 2002 and 2001 the outstanding balance was $25,000,000 and $28,000,000, respectively. Any amounts outstanding under the credit facility are secured by substantially all properties of the Company. The credit agreement requires, among other things, the existence of satisfactory levels of natural gas reserves, maintenance of certain working capital and tangible net worth ratios along with a restriction on the payment of dividends. As of December 31, 2002 and 2001 the Company was in compliance with all financial covenants in the credit agreement.

At December 31, 2002, $10,000,000 of the outstanding balance was subject to an interest rate swap at a rate of 8.39%, $6,000,000 was subject to a 90-day LIBOR rate of 3.27% and $9,000,000 was subject to a prime rate of 4.25%.

(Continued)

(4) Income Taxes

The Company's provision for income taxes consisted of the following:

	2002	2001	2000
Current:			
Federal	$604,200	1,639,300	1,182,000
State	206,800	473,300	572,400
Total current income taxes	811,000	2,112,600	1,754,400
Deferred:			
Federal	2,461,200	3,898,600	1,415,600
State	525,200	103,800	422,700
Total deferred income taxes	2,986,400	4,002,400	1,838,300
Total income taxes	$3,797,400	6,115,000	3,592,700

Income tax expense differed from the amounts computed by applying the U.S. federal income tax rate of 34 percent to pretax income as a result of the following:

	2002	2001	2000
Computed "expected" tax	$4,447,900	7,168,200	4,853,100
State income tax	483,100	380,900	656,800
Percentage depletion	(680,000)	(935,000)	(758,300)
Nonconventional source fuel credit	(491,500)	(1,184,700)	(1,067,500)
Effect of state rate change	-	556,500	-
Other	37,900	129,100	(91,400)
	$3,797,400	6,115,000	3,592,700

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2002 and 2001 are presented below:

	2002	2001
Deferred tax assets:		
Allowance for doubtful accounts	$ 199,300	199,300
Drilling notes	84,500	88,100
Alternative minimum tax credit carryforwards (Section 29)	2,055,500	1,715,800
Future abandonment	505,900	409,300
Deferred compensation	2,000,400	2,100,500
Other	40,600	48,900
Total gross deferred tax assets	4,886,200	4,561,900
Less valuation allowance	-	-
Deferred tax assets	4,886,200	4,561,900
Less current deferred tax assets (included in prepaid expenses)	(1,351,200)	(1,133,400)
Net non-current deferred tax assets	3,535,000	3,428,500
Deferred tax liabilities:		
Properties and equipment, principally due to differences in		
Depreciation and amortization	(16,730,500)	(13,419,800)
Total gross deferred tax liabilities	(16,730,500)	(13,419,800)
Net deferred tax liability	(13,195,500)	(9,991,300)
	==========	=========
Deferred income tax assets related to AOCI	1,092,200	280,500
Net deferred tax liability after AOCI	$(12,103,300)	(9,710,800)
	==========	=========

(Continued)

At December 31, 2002, the Company has alternative minimum tax credit carryforwards (Section 29) of approximately $2,055,500 which are available to reduce future federal regular income taxes over an indefinite period.

Accumulated other comprehensive loss is net of tax of $1,092,200, $280,500 and $0 as of December 31, 2002, 2001 and 2000, respectively. The income tax benefit from the exercise of stock options recorded in additional paid-in capital was $0 in 2002 and 2001 and $199,900 in 2000.

(5) Common Stock

Options

Options amounting to 185,000 and 180,000 shares were granted during 2001 and 2000, respectively, to certain employees and directors under the Company's Stock Option Plans. These options were granted with an exercise price equal to market value as of the date of grant and vest over a six month period. The outstanding options expire from 2005 to 2011.

The estimated fair value of the options granted during 2001 and 2000 was $3.70 and $2.48 per option, respectively. The fair value was estimated using the Black-Scholes option pricing model with the following assumptions for the 2001 and 2000 grant, respectively: risk-free interest rate of 5.88% and 6.13%, expected dividend yield of 0%, expected volatility of 50.23% and 57.31% and expected life of 7 years.

	Number of Shares	Average Exercise Price	Range of Exercise Prices

Outstanding December 31, 1999	1,388,984	$2.87	.94 - 6.13
		=====	=========
Granted	180,000	$3.875	3.875 - 3.875
		=====	=========
Exercised	(511,584)	$1.01	.94 - 1.625
		=====	=========
Expired	(12,400)	$3.31	1.50 - 3.75
		=====	=========
Outstanding December 31, 2000	1,045,000	$3.95	1.125 - 6.125
Granted	185,000	$6.25	6.25 - 6.25
		=====	=========
Outstanding December 31, 2001	1,230,000	$4.29	1.125 - 6.25
Exercised	(70,000)	$1.125	1.125 - 1.125
Outstanding December 31, 2002	1,160,000	$4.48	1.125 - 6.25
	=======	=====	=========

As of December 31, 2002, there were 140,000 options outstanding and exercisable at the $1.125 exercise price which have a weighted average remaining contractual life of 2.9 years. Also as of December 31, 2002 there were 1,020,000 options outstanding and exercisable at a $3.75 to $6.25 exercise price range having a weighted average remaining contractual life of 5.9 years and weighted average exercise price of $4.95.

(Continued)

Stock Redemption Agreement

The Company has stock redemption agreements with three officers of the Company. The agreements require the Company to maintain life insurance on each executive in the amount of $1,000,000. The agreements provide that the Company shall utilize the proceeds from such insurance to purchase from such executives' estates or heirs, at their option, shares of the Company's stock. The purchase price for the outstanding common stock is to be based upon the average closing asked price for the Company's stock as quoted by NASDAQ during a specified period. The Company is not required to purchase any shares in excess of the amount provided for by such insurance.

(6) Employee Benefit Plans

The Company made 401-K Plan contributions of $288,000, $260,800 and $252,600 for 2002, 2001 and 2000, respectively.

The Company has a profit sharing plan (the Plan) covering full-time employees. The Company contributed $200,000, $200,000 and $1,000, to the plan in cash during 2002, 2001 and 2000, respectively.

During 2002, 2001 and 2000 the Company expensed and established a liability for $90,000 each year under a deferred compensation arrangement with the executive officers of the Company.

At December 31, 2002 and 2001, the Company has recorded as other assets $501,000 and $402,100, respectively related to the cash surrender value of the life insurance on certain executive officers.

(7) Earnings Per Share

Basic earnings per share is based on the weighted average number of common shares outstanding of 15,866,363 for 2002, 16,244,931 for 2001 and 16,157,532 for 2000.

Diluted earnings per share is based on the weighted average number of common and common equivalent shares outstanding of 16,143,414 for 2002, 16,639,634 for 2001 and 16,437,488 for 2000. Stock options are considered to be common stock equivalents and to the extent appropriate, have been added to the weighted average common shares outstanding.

(Continued)

(8) Transactions with Affiliates

As part of its duties as well operator, the Company received $60,620,222 in 2002, $71,802,700 in 2001 and $44,899,200 in 2000 representing proceeds from the sale of oil and gas and made distributions to investor groups according to their working interests in the related oil and gas properties. Funds held for future distribution on the consolidated balance sheet of $3,917,900 and $4,650,800 includes amounts owed to affiliated partnerships as of December 31, 2002 and 2001, respectively.

The Company provided oil and gas well drilling services to affiliated partnerships. Substantially all of the Company's oil and gas well drilling operations was for such partnerships. The Company also provided related services of operation of wells, reimbursement of syndication costs, management fees, tax return preparation and other services relating to the operation of the partnerships. The Company received $20,008,900 in 2002, $16,072,500 in 2001 and $15,713,300 in 2000 for those services. Amounts due from the partnerships as of December 31, 2002 and 2001 were $1,028,000 and $1,246,200, and are included in notes and accounts receivable.

During 2002, 2001 and 2000, the Company paid $51,800, $30,100 and $40,400, respectively to the Corporate Secretary's law firm for various legal services.

(9) Commitments and Contingencies

The nature of the independent oil and gas industry involves a dependence on outside investor drilling capital and involves a concentration of gas sales to a few customers. The Company sells natural gas to various public utilities and industrial customers. One customer, Cinnabar Energy

Services, accounted for 10.8%, 13.1% and 11.3% of total revenues in 2002, 2001 and 2000, respectively.

The Company would be exposed to natural gas price fluctuations on underlying purchase and sale contracts should the counterparties to the Company's hedging instruments or the counterparties to the Company's gas marketing contracts not perform. Such nonperformance is not anticipated. There were no counterparty default losses in 2002, 2001 or 2000.

Substantially all of the Company's drilling programs contain a repurchase provision where Investors may tender their partnership units for repurchase at any time beginning with the third anniversary of the first cash distribution. The provision provides that the Company is obligated to purchase an aggregate of 10% of the initial subscriptions per calendar year (at a minimum price of four times the most recent 12 months' cash distributions), only if such units are tendered, subject to the Company's financial ability to do so. The maximum annual 10% repurchase obligation, if tendered by the investors, is currently approximately $1,878,200. The Company has adequate liquidity to meet this obligation.

The Company is not party to any legal action that would materially affect the Company's results of operations or financial condition.

(10) Lease Obligations

The Company has entered into certain operating leases on behalf of itself and its Partnerships principally for the leasing of natural gas compressors on its Michigan operating facilities. The future minimum lease payments under these non-cancellable operating leases as of December 31, 2002 are as follows:

Year	Lease Amount
2003	$ 979,300
2004	397,800
2005	120,400
2006	50,200
	$1,547,700

(Continued)

The Company's share of this lease expense for operating leases for the years ended December 31, 2002, 2001 and 2000 was $660,700, $693,000 and $629,800, respectively.

(11) Supplemental Disclosure of Cash Flows

The Company paid $1,290,400, $1,173,100 and $875,800 for interest in 2002, 2001 and 2000, respectively. The Company paid income taxes in 2002, 2001 and 2000 in the amounts of $175,000, $2,830,000 and $2,256,800, respectively.

The Company exchanged common stock in the amount of $550,000 and paid cash in the amount of $5,100,000 for the purchase of oil and gas properties in Colorado during 2000.

(12) Acquisitions and Divestitures

On June 6, 2000, the Company purchased all of the working interest in 168 producing wells in Colorado for $5,650,000. The transaction was effective April 1, 2000. At the date of acquisition, the wells had net remaining reserves of 560,000 barrels of oil and 4.9 billion cubic feet of natural gas. The Company utilized its bank credit agreement to finance this purchase.

On December 31, 2000, the Company sold its Ohio gas gathering and sales systems. The result was a net gain of $109,600.

(13) Derivative Financial Instruments

The Company utilizes commodity based derivative instruments as hedges to manage a portion of its exposure to price volatility stemming from its integrated natural gas production and marketing activities. These instruments consist of natural gas futures and option contracts traded on the New York Mercantile Exchange for Appalachian and Michigan production and CIG (Colorado Interest Gas Index)-based hedges traded by Bank One for Colorado production. The futures and option contracts hedge committed and anticipated natural gas purchases and sales, generally forecasted to occur within a 12 month period. The Company does not hold or issue derivatives for trading or speculative purposes. In addition, interest rate swap agreements are used to reduce the potential impact of increases in interest rates on variable rate long-term debt.

Statement of Accounting Standards No. 133 and No. 138, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133/138), was issued by the Financial Accounting Standards Board. SFAS No. 133/138 standardized the accounting for derivative instruments, including certain derivative instruments embedded in other contracts. The Company adopted the provisions of the SFAS 133/138 effective January 1, 2001. The natural gas futures and options and the interest rate swap are derivatives pursuant to SFAS 133/138. The Company's derivatives are treated as

hedges of committed and/or anticipated transactions and had a total estimated fair value of $(1,782,000) (net of tax) on December 31, 2002 and a total estimated fair value of $(457,400) (net of tax) on December 31, 2001.

(Continued)

Natural gas futures and option contracts for the sale or purchase of natural gas are as follows:

December 31, 2002	Amount (mmbtu)	Fair Value	Fair Value net of tax
Futures contracts			
Marketing activities	3,950,000	$(1,431,400)	$(887,400)
Production activities	280,000	(209,700)	(130,000)
	4,230,000	$(1,641,100)	$(1,017,400)
Option contracts			
Marketing activities	-	-	-
Production activities	2,950,400	$(337,200)	(209,100)
	2,950,400	$(337,200)	$(209,100)
December 31, 2001			
Futures contracts			
Marketing activities	1,680,000	$479,300	$297,200
Production activities	-	-	-
	1,680,000	$479,300	$297,200
Option contracts			
Marketing activities	20,000	$9,000	$ 5,600
Production activities	-	-	-
	20,000	$9,000	$ 5,600

	=========	=========	=========

The Company is required to maintain margin deposits with brokers for outstanding futures contracts. As of December 31, 2002 and 2001, cash in the amount of $2,760,500 and $283,300 was on deposit.

Interest rate swap agreements are used to reduce the potential impact of increases in interest rates on variable rate long-term debt. At December 31, 2002 and 2001, the Company was a party to an interest rate swap agreement expiring on October 11, 2004. The agreement entitles the Company, on a quarterly basis, to a fixed-rate interest payment of 6.89% plus its current LIBOR rate margin (+1.50% At December 31, 2002) on a $10,000,000 notional amount related to its outstanding line of credit.

The fair value of the interest rate swap agreement was $(896,000), $(555,000) net of tax at December 31, 2002 and $(1,226,200), $(760,200) net of tax at December 31, 2001. Current market pricing models were used to estimate fair value.

By using derivative financial instruments to hedge exposures to changes in interest rates and commodity prices, the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates repayment risk. The Company minimizes the credit or repayment risk in derivative instruments by entering into transactions with high-quality counterparties.

(Continued)

(14) Costs Incurred in Oil and Gas Property Acquisition, Exploration and Development Activities

Costs incurred by the Company in oil and gas property acquisition, exploration and development are presented below:

	Years Ended December 31,		
	2002	2001	2000
Property acquisition cost:			
Proved undeveloped properties	$ 1,892,700	3,670,500	3,397,500
Producing properties	240,000	75,700	8,361,400
Development costs	16,429,400	35,411,900	15,556,200
	$18,562,100	39,158,100	27,315,100
	=========	=========	=========

The proved reserves attributable to the development costs in the above table were 19,607,000 Mcf and 130,000 bbls for 2002, 23,896,000 Mcf and 715,000 bbls for 2001 and 29,060,000 Mcf and 800,000 bbls for 2000 (amounts unaudited). Of the above development costs incurred for the years ended December 31, 2002, 2001 and 2000 the amounts of $2,699,500, $7,026,900 and $2,379,300, respectively were incurred to develop proved undeveloped properties from the prior year end.

Property acquisition costs include costs incurred to purchase, lease or otherwise acquire a property. Development costs include costs incurred to gain access to and prepare development well locations for drilling, to drill and equip development wells and to provide facilities to extract, treat, gather and store oil and gas.

(15) Oil and Gas Capitalized Costs

Aggregate capitalized costs for the Company related to oil and gas exploration and production activities with applicable accumulated depreciation, depletion and amortization are presented below:

	December 31,

	2002	2001
Proved properties:		
Tangible well equipment	$114,431,800	100,805,800
Intangible drilling costs	64,973,600	61,930,200
Undeveloped properties	4,208,800	4,508,600
	183,614,200	167,244,600
Less accumulated depreciation, depletion and amortization	50,664,600	39,503,200
	$132,949,600	127,741,400

(Continued)

(16) Results of Operations for Oil and Gas Producing Activities

The results of operations for oil and gas producing activities (excluding marketing) are presented below:

	Years Ended December 31,		
	2002	2001	2000
Revenue:			
Oil and gas sales	$22,857,100	25,887,900	19,017,300
Expenses:			
Production costs	6,407,900	6,012,400	4,201,400
Depreciation, depletion and amortization	11,149,000	9,665,300	6,031,200
	17,556,900	15,677,700	10,232,600
Results of operations for oil and gas Producing activities before provision For income taxes	5,300,200	10,210,200	8,874,700
Provision for income taxes	1,538,400	2,834,900	2,713,900

Results of operations for oil and gas producing activities (excluding corporate overhead and interest costs)	$ 3,761,800	7,375,300	6,070,800

Production costs include those costs incurred to operate and maintain productive wells and related equipment, including such costs as labor, repairs, maintenance, materials, supplies, fuel consumed, insurance and other production taxes. In addition, production costs include administrative expenses and depreciation applicable to support equipment associated with these activities.

Depreciation, depletion and amortization expense includes those costs associated with capitalized acquisition, exploration and development costs, but does not include the depreciation applicable to support equipment.

The provision for income taxes is computed at the statutory federal income tax rate and is reduced to the extent of permanent differences, such as investment tax and non-conventional source fuel tax credits and statutory depletion allowed for income tax purposes.

(17) Net Proved Oil and Gas Reserves (Unaudited)

The proved reserves of oil and gas of the Company have been estimated by an independent petroleum engineer, Wright & Company, Inc. at December 31, 2002, 2001 and 2000. These reserves have been prepared in compliance with the Securities and Exchange Commission rules based on year end prices. An analysis of the change in estimated quantities of oil and gas reserves, all of which are located within the United States, is shown below:

(Continued)

	Oil (BBLS)		
	2002	2001	2000
Proved developed and Undeveloped reserves:			
Beginning of year	2,126,000	2,166,000	1,154,000
Revisions of previous estimates	124,000	(176,000)	10,000
Beginning of year as revised	2,250,000	1,990,000	1,164,000
New discoveries and extensions			
Michigan basin	-	-	265,000
Rocky Mountain region	130,000	715,000	535,000

Dispositions to partnerships	(80,000)	(384,000)	(262,000)
Acquisitions			
Rocky Mountain region	-	-	573,000
Production	(227,000)	(195,000)	(109,000)
End of year	2,073,000	2,126,000	2,166,000
Proved developed reserves:			
Beginning of year	1,801,000	1,527,000	798,000
End of year	1,849,000	1,801,000	1,527,000

	Gas (MCF)		
	2002	2001	2000
Proved developed and undeveloped reserves:			
Beginning of year	118,608,000	118,640,000	101,245,000
Revisions of previous estimates	1,469,000	(8,694,000)	(3,859,000)
Beginning of year as revised	120,077,000	109,946,000	97,386,000
New discoveries and extensions			
Michigan basin	-	-	14,191,000
Rocky Mountain region	19,607,000	23,896,000	14,603,000
Other	-	-	266,000
Dispositions to partnerships	(4,792,000)	(9,263,000)	(8,498,000)
Acquisitions			
Michigan Basin	4,000	-	-
Rocky Mountain region	75,000	2,000	5,761,000
Appalachian basin	342,000	112,000	668,000
Production	(6,462,000)	(6,085,000)	(5,737,000)
End of year	128,851,000	118,608,000	118,640,000
Proved developed reserves:			
Beginning of year	88,477,000	92,131,000	82,628,000
End of year	94,847,000	88,477,000	92,131,000

(18) Standardized Measure of Discounted Future Net Cash Flows and Changes Therein Relating to Proved Oil and Gas Reserves (Unaudited)

Summarized in the following table is information for the Company with respect to the standardized measure of discounted future net cash flows relating to proved oil and gas reserves. Future cash inflows are computed by applying year-end prices, adjusted for hedging contracts, of oil and gas relating to the Company's proved reserves to the year-end quantities of those reserves. Future production, development, site restoration and abandonment costs are derived based on current costs assuming continuation of existing economic conditions. Future income tax expenses are

computed by applying the statutory rate in effect at the end of each year to the future pretax net cash flows, less the tax basis of the properties and gives effect to permanent differences, tax credits and allowances related to the properties.

(Continued)

	As of December 31,		
	2002	2001	2000
Future estimated revenues	$548,949,000	317,515,000	520,010,000
Future estimated production costs	(143,878,000)	(98,538,000)	(144,505,000)
Future estimated development costs	(50,971,000)	(45,323,000)	(50,278,000)
Future estimated income tax expense	(105,876,000)	(50,360,000)	(80,982,000)
Future net cash flows	248,224,000	123,294,000	244,245,000
10% annual discount for estimated timing of cash flows	(149,755,000)	(76,855,000)	(139,606,000)
Standardized measure of discounted future estimated net cash flows	$98,469,000	46,439,000	104,639,000
	=========	=========	=========

The following table summarizes the principal sources of change in the standardized measure of discounted future estimated net cash flows:

	Years Ended December 31,		
	2002	2001	2000
Sales of oil and gas production, net of production costs	$(16,449,000)	(19,876,000)	(14,816,000)
Net changes in prices and production costs	143,574,000	(140,487,000)	67,460,000
Extensions, discoveries and improved recovery, less related cost	39,347,000	25,942,000	73,636,000
Dispositions to partnerships	(6,940,000)	(28,935,000)	(16,850,000)
Acquisitions	1,167,000	189,000	27,907,000
Development costs incurred during the period	16,429,000	35,412,000	15,556,000
Revisions of previous quantity estimates	3,318,000	(23,818,000)	(5,925,000)
Changes in estimated income taxes	(55,516,000)	30,622,000	(41,052,000)
Accretion of discount	(72,900,000)	62,751,000	(59,731,000)
	$ 52,030,000	(58,200,000)	46,185,000
	==========	=========	========

It is necessary to emphasize that the data presented should not be viewed as representing the expected cash flow from, or current value of, existing proved reserves since the computations are based on a large number of estimates and arbitrary assumptions. Reserve quantities cannot be measured with precision and their estimation requires many judgmental determinations and frequent revisions. The required projection of

production and related expenditures over time requires further estimates with respect to pipeline availability, rates of demand and governmental control. Actual future prices and costs are likely to be substantially different from the current prices and costs utilized in the computation of reported amounts. Any analysis or evaluation of the reported amounts should give specific recognition to the computational methods utilized and the limitations inherent therein.

(Continued)

(19) Business Segments (Thousands)

PDC's operating activities can be divided into three major segments: drilling and development, natural gas sales, and well operations. The Company drills natural gas wells for Company-sponsored drilling partnerships and retains an interest in each well. The Company also engages in oil and gas sales to commercial and industrial end-users. The Company charges Company-sponsored partnerships and other third parties competitive industry rates for well operations and gas gathering. Segment information for the years ended December 31, 2002, 2001 and 2000 is as follows:

	2002	2001	2000
REVENUES			
Drilling and Development	$57,149	76,291	43,195
Oil and Natural Gas Sales	69,223	92,095	90,420
Well Operations	6,116	5,604	5,061
Unallocated amounts (1)	2,854	3,133	2,540
Total	$135,342	177,123	141,216

	2002	2001	2000
SEGMENT INCOME BEFORE INCOME TAXES			
Drilling and Development	$7,983	10,291	7,950
Oil and Natural Gas Sales	5,474	10,570	7,364
Well Operations	2,788	2,415	1,385
Unallocated amounts (2)			
General and Administrative expenses	(4,392)	(4,146)	(3,617)
Interest expense	(1,340)	(993)	(1,186)
Other (1)	2,569	2,946	2,378
Total	$ 13,082	21,083	14,274

	2002	2001	2000

SEGMENT ASSETS			
Drilling and Development	$31,279	36,202	31,592
Oil and Natural Gas Sales	162,232	142,865	139,116
Well Operations	10,706	11,975	8,490
Unallocated amounts			
Cash	1,736	422	1,567
Other	6,299	8,388	6,920
Total	$212,252	199,852	187,685
	2002	2001	2000
EXPENDITURES FOR SEGMENT			
LONG-LIVED ASSETS			
Drilling and Development	$ 1,800	5,963	3,217
Oil and Natural Gas Sales	16,674	35,488	23,958
Well Operations	1,221	839	650
Unallocated amounts	82	371	107
Total	$ 19,777	42,661	27,932

(1) Includes interest on investments and partnership management fees in 2002, 2001 and 2000 and gain on sale of assets in 2002, 2001 and 2000 which are not allocated in assessing segment performance.

(2) Items which are not allocated in assessing segment performance.

(Continued)

(20) Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for the years ended December 31, 2002 and 2001, are as follows:

	2002				
	Quarter				Year
	First	Second	Third	Fourth	
Revenues	$36,085,900	$33,468,900	$28,148,600	$37,638,500	$135,341,900
Cost of operations	30,644,300	28,590,800	25,557,500	31,735,400	116,528,000
Gross profit	5,441,600	4,878,100	2,591,100	5,903,100	18,813,900
General and administrative expenses	975,700	1,027,400	1,069,900	1,318,900	4,391,900
Interest expense	239,300	355,900	399,800	344,800	1,339,800
	1,215,000	1,383,300	1,469,700	1,663,700	5,731,700
Income before income taxes	4,226,600	3,494,800	1,121,400	4,239,400	13,082,200
Income taxes	1,297,600	1,072,900	232,400	1,194,500	3,797,400
Net income	$2,929,000	$ 2,421,900	$ 889,000	$ 3,044,900	$ 9,284,800

Basic earnings per share	$ .18	$ .15	$ .06	$ .20	$ .59
Diluted earnings per share	$ .18	$ .15	$ .05	$ .20	$ .58

2001

	Quarter				Year
	First	Second	Third	Fourth	
Revenues	$59,541,400	$47,129,000	$33,336,600	$37,116,100	$177,123,100
Cost of operations	50,330,400	40,465,600	27,546,300	32,558,900	150,901,200
Gross profit	9,211,000	6,663,400	5,790,300	4,557,200	26,221,900
General and administrative expenses	961,400	998,400	1,143,200	1,042,700	4,145,700
Interest expense	213,900	213,700	249,400	316,400	993,400
	1,175,300	1,212,100	1,392,600	1,359,100	5,139,100
Income before					
Income taxes	8,035,700	5,451,300	4,397,700	3,198,100	21,082,800
Income taxes	2,410,700	1,635,400	1,220,200	848,700	6,115,000
Net income	$5,625,000	$ 3,815,900	$ 3,177,500	$ 2,349,400	$14,967,800
Basic earnings per share	$ .35	$ .23	$ .20	$ .14	$ .92
Diluted earnings per share	$ .34	$ .23	$ .19	$ .14	$ .90

Cost of operations include cost of oil and gas well drilling operations, cost of gas marketing activities, oil and gas production costs and depreciation, depletion and amortization.

PETROLEUM DEVELOPMENT CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS

AND RESERVES

Years Ended December 31, 2002, 2001 and 2000

Column A	Column B	Column C	Column D	Column E
Description	Balance at Beginning of Period	Additions, Charged to Costs and Expenses	Deductions	Balance at End of Period
Allowance for doubtful accounts deducted From accounts and notes receivable in the Balance sheet				
2002	$524,500	$ -	$ 29,500	$495,000
2001	$524,500	$ -	$ -	$524,500
2000	$438,400	$573,000	$486,900	$524,500

Execution Copy

CREDIT AGREEMENT

THIS CREDIT AGREEMENT, dated as of July 3, 2002 (this "Agreement"), is by and between Petroleum Development Corporation, a Nevada corporation (the "Company"), the Lenders, Bank One, NA, a national banking association with its main office in Chicago, Illinois, as Agent, Syndication Agent and LC Issuer, and BNP Paribas, as managing agent for the Lenders (in such capacity, the "Managing Agent").

RECITALS

A. The Company and Bank One, Michigan, a Michigan banking corporation formerly known as NBD Bank, N.A. and NBD Bank ("Bank One-Michigan") have heretofore entered into a Credit Agreement dated as of November 17, 1993, as amended by a First Amendment to Credit Agreement dated as of September 30, 1994, by a Second Amendment to Credit Agreement dated as of December 4, 1995, and by a Third Amendment to Credit Agreement dated as of October 16, 1996, and as assigned by Bank One-Michigan to Bank One, NA, a national banking association with its office in Chicago, Illinois, formerly known as The First National Bank of Chicago, pursuant to the Assignment of Credit Agreement, Note and Collateral dated as of November 1, 1996 (such Credit Agreement, as amended and assigned, the "1993 Credit Agreement").

B. The Company and Bank One, NA amended and restated the 1993 Credit Agreement, pursuant to a Credit Agreement dated as of March 13, 1997, as amended by a First Amendment to Credit Agreement dated as of June 22, 1999, a Second Amendment to Credit Agreement dated April 27, 2000, a Third Amendment to Credit Agreement dated August 29, 2000 and a Fourth Amendment to Credit Agreement dated February 22, 2002 (such Credit Agreement, as amended, the "1997 Credit Agreement").

C. The parties hereto wish to continue the credit relationship by amending and restating the 1997 Credit Agreement rather than entering into a new and unrelated loan agreement

D. The Company desires to obtain a secured credit facility providing for revolving credit loans in the aggregate principal amount of up to $100,000,000 (subject to limitations imposed by Borrowing Base and other limitations), which credit facility may include standby letters of credit of up to $3,000,000, to provide funds for its working capital needs, and the Agent, the LC Issuer and the Lenders are willing to establish such a credit facility in favor of the Company on the terms and conditions herein set forth.

AGREEMENT

In consideration of the premises and of the mutual agreements herein contained, the parties hereto agree as follows:

SECTION 1. Definitions.

1.1 Certain Definitions. As used herein, the following terms shall have the following respective meanings:

"Advance" shall mean any Loan and any Letter of Credit Advance.

"Advance Date" shall mean each date for the making of an Advance as specified in the notice delivered by the Company under Section 3.1(a) and permitted by this Agreement.

"Affiliate", when used with respect to any person, shall mean any other person which, directly or indirectly, controls or is controlled by or is under common control with such person or any other person which is owned 5% or more by such person or any Subsidiary or other Affiliate of such person. For purposes of this definition "control" (including the correlative meanings of the terms "controlled by" and "under common control with"), with respect to any person, shall mean possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person, whether through the ownership of voting securities or otherwise.

"Agent" means Bank One in its capacity as contractual representative of the Lenders pursuant to Section 10, and not in its individual capacity as a Lender, and any successor Agent appointed pursuant to Section 10.

"Aggregate Commitment" means the aggregate of the Commitments of all the Lenders, as reduced from time to time pursuant to the terms hereof.

"Aggregate Outstanding Credit Exposure" means, at any time, the aggregate of the Outstanding Credit Exposure of all the Lenders.

"Alternate Base Rate" means, for any day, a rate of interest per annum equal to the higher of (i) the Prime Rate for such day and (ii) the sum of the Federal Funds Effective Rate for such day plus 1/2% per annum.

"Applicable Fee Rate" means, at any time, the percentage rate per annum at which commitment fees are accruing on the unborrowed portion of the Aggregate Commitment at such time as set forth in the Pricing Schedule.

"Applicable Margin" means, with respect to Advances of any Type at any time, the percentage rate per annum which is applicable at such time with respect to Advances of such Type, and the percentage rate per annum applicable to Letters of Credit, all as set forth in the Pricing Schedule.

"Approved Fund" means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

"Arranger" shall mean Banc One Capital Markets, Inc., a Delaware corporation, and its successors, in its capacity as Lead Arranger and Sole Book Runner.

"Available Aggregate Commitment" means, at any time, the Aggregate Commitment then in effect minus the Aggregate Outstanding Credit Exposure.

"Bank One" means Bank One, NA, a national banking association having its principal office in Chicago, Illinois, in its individual capacity, and its successors.

"Borrowing Base" shall mean the maximum principal amount of Advances that can be made, and thereafter remain outstanding, as shall be determined by the Agent and the Lenders as of the Effective Date and adjusted by the Agent and the Required Lenders from time to time in accordance with Section 2.6 of this Agreement. As of the Effective Date and until the initial adjustment pursuant to Section 2.6 of this Agreement, the Borrowing Base shall be $58,000,000.

"Borrowing Base Properties" means Oil and Gas Interest which are given value in the Borrowing Base determination and which must be either (i) properties in which the Company or any wholly-owned Subsidiary own direct working or royalty interests, or (ii) properties in which a Partnership owns a direct working or royalty interest provided that all interests of the Company or any of its Subsidiaries in such Partnership have been pledged to the Agent to secure the Secured Obligations. "Borrowing Base Properties" owned by a Partnership will be included in the Borrowing Base determination only to the extent (determined from time to time in a manner satisfactory to the Agent and the Lenders) of the aggregate interest of the Company and its wholly-owned Subsidiaries in distributions from such Partnership.

"Business Day" means (i) with respect to any borrowing, payment or rate selection of Eurodollar Advances, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago and New York City for the conduct of substantially all of their commercial lending activities and on which dealings in United States dollars are carried on in the London interbank market and (ii) for all other purposes, a day (other than a Saturday or Sunday) on which banks generally are open in Chicago for the conduct of substantially all of their commercial lending activities.

"Cash Flow" of any person shall mean, for any period, the Net Income of such person for such period plus, to the extent deducted in determining such Net Income, (i) depreciation, depletion and amortization of such person for such period, minus, to the extent included in such Net Income, (ii) any extraordinary or non-recurring or other gain or income item not from the normal operations of such person, all as determined in accordance with GAAP.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time, and the regulations thereunder.

"Collateral" shall have the meaning ascribed thereto in Section 5.1(a) hereof.

"Commitment" means, for each Lender, the obligation of such Lender to make Loans to, and participate in Letters of Credit issued upon the application of, the Company up to but not exceeding the amount set forth opposite its signature below, as it may be modified as a result of any assignment that has become effective pursuant to Section 11.3(c) or as otherwise modified from time to time pursuant to the terms hereof.

"Consolidated" or "consolidated" shall mean, when used with reference to any financial term in this Agreement, the aggregate for two or more Persons of the amount signified by such term for all such Persons determined on a consolidated basis and in accordance with GAAP.

"Contingent Liabilities" of any person shall mean, as of any date, all obligations of such person or of others for which such person is contingently liable, as obligor, guarantor, surety or in any other capacity, or in respect of which obligations such person assures a creditor against loss or agrees to take any action to prevent any such loss (other than endorsements of negotiable instruments for collection in the ordinary course of business), including without limitation all reimbursement obligations of such person in respect of any letters of credit, surety bonds or similar obligations and all obligations of such person to advance funds to, or to purchase assets, property or services from, any other person in order to maintain the financial condition of such other person.

"Current Ratio" of the Company shall mean, as of any date, the ratio of

(a) (i) all assets of the Company and its Subsidiaries which, in accordance with GAAP, should be classified as current assets on the consolidated balance sheet of the Company and its Subsidiaries, plus (ii) the amount of the Available Aggregate Commitment, minus (iii) all current assets, if any, resulting from application of FAS 133, all calculated on a consolidated basis for the Company and its Subsidiaries, to

(b) (i) all liabilities of the Company and its Subsidiaries which, in accordance with GAAP, should be classified as current liabilities on a consolidated balance sheet of the Company and its Subsidiaries, minus (ii) all current maturities of long term debt, minus (iii) all current liabilities, if any, resulting from application of FAS 133, all calculated on a consolidated basis for the Company and its Subsidiaries.

"Deeds of Trust" shall mean the Deeds of Trust and Security Agreement made by the Company in favor of the Agent from time to time, including without limitation those dated as of November 17, 1993 and assigned by Bank One to the Agent for the benefit of the Agent, the LC Issuer and the Lenders, all as amended or modified from time to time.

"Default" shall mean any Event of Default or any event or condition which might become an Event of Default with notice or lapse of time or both.

"Dollars" and "$" shall mean the lawful money of the United States of America.

"EBITDA" means Net Income plus, to the extent deducted from revenues in determining Net Income, (i) interest expense, (ii) expense for taxes paid or accrued, (iii) depreciation, (iv) amortization and (v) extraordinary losses incurred other than in the ordinary course of business, minus, to the extent included in Net Income, extraordinary gains realized other than in the ordinary course of business, all calculated for the Company and its Subsidiaries on a consolidated basis.

"Effective Date" shall mean the effective date specified in the final paragraph of this Agreement.

"Environmental Laws" at any date shall mean all provisions of law, statute, ordinances, rules, regulations, judgments, writs, injunctions, decrees, orders, awards and standards promulgated by the government of the United States of America or any foreign government or by any state, province, municipality or other political subdivision thereof or therein or by any court, agency, instrumentality, regulatory authority or commission of any of the foregoing concerning the protection of, or regulating the discharge of substances into, the environment.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, together with any successor statute thereto and the regulations thereunder.

"ERISA Affiliate" shall mean any trade or business (whether or not incorporated) which (i) together with the Company or any Subsidiary, would be treated as a single employer under Section 414(b) or (c) of the Code or (ii) for purposes of liability under Section 412(C)(11) of the Code, the lien created under Section 412(n) of the Code or for a tax imposed for failure to meet minimum funding standards under Section 4971 of the Code, a member of the same affiliated service group (within the meaning of Section 401(m) of the Code) as the Company or any Subsidiary, or any other trade or business described in clause (i) above.

"Eurodollar Advance" means an Advance which bears interest at the applicable Eurodollar Rate.

"Eurodollar Base Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the applicable British Bankers' Association LIBOR rate for deposits in U.S. dollars as reported by any generally recognized financial information service as of 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, and having a maturity equal to such Interest Period, *provided* that, if no such British Bankers' Association LIBOR rate is available to the Agent, the applicable Eurodollar Base Rate for the relevant Interest Period shall instead be the rate determined by the Agent to be the rate at which Bank One or one of its Affiliate banks offers to place deposits in U.S. dollars with first-class banks in the London interbank market at approximately 11:00 a.m. (London time) two Business Days prior to the first day of such Interest Period, in the approximate amount of Bank One's relevant Eurodollar Loan and having a maturity equal to such In terest Period.

"Eurodollar Loan" means a Loan which bears interest at the applicable Eurodollar Rate.

"Eurodollar Rate" means, with respect to a Eurodollar Advance for the relevant Interest Period, the sum of (i) the quotient of (a) the Eurodollar Base Rate applicable to such Interest Period, divided by (b) one minus the Reserve Requirement (expressed as a decimal) applicable to such Interest Period, plus (ii) the Applicable Margin.

"Event of Default" shall mean any of the events or conditions described in Section 8.1.

"Excluded Taxes" means, in the case of each lender or applicable Lending Installation and the Agent, taxes imposed on its overall net income, and franchise taxes imposed on it, by (i) the jurisdiction under the laws of which such Lender or the Agent is incorporated or organized or (ii) the jurisdiction in which the Agent's or such Lender's principal executive office or such lender's applicable Lending Installation is located.

"Federal Funds Effective Rate" means, for any day, an interest rate per annum equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published for such day (or, if such day is not a Business Day, for the immediately preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations at approximately 10:00 a.m. (Chicago time) on such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent in its sole discretion.

"Financial Contract" means (i) any exchange-traded or over-the-counter hedging, futures, forward, swap or option contract or other financial instrument with similar characteristics, or (ii) any Rate Management Transaction.

"Floating Rate" means, for any day, a rate per annum equal to (i) the Alternate Base Rate for such day plus (ii) the Applicable Margin, in each case changing when and as the Alternate Base Rate changes.

"Floating Rate Advance" means an Advance which bears interest at the Floating Rate.

"Floating Rate Loan" means a Loan which bears interest at the Floating Rate.

"Fund" means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

"Funded Indebtedness" means at any time the aggregate dollar amount of Indebtedness which has actually been funded and is outstanding at such time, whether or not such amount is due or payable at such time.

"GAAP" shall mean generally accepted accounting principles applied on a basis consistent with that reflected in the financial statements referred to in Section 6.7 hereof.

"Guaranties" shall mean the guaranties entered into by each of the Guarantors for the benefit of the Agent, the LC Issuer and the Lenders pursuant to Section 9 of this Agreement, as amended or modified from time to time.

"Guarantor" shall mean each Subsidiary of the Company and each person otherwise becoming a Subsidiary of the Company, or otherwise entering into a Guaranty, from time to time.

"Hazardous Materials" includes, without limitation, any flammable explosives, radioactive materials, hazardous materials, hazardous waste, hazardous or toxic substances or related materials defined in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (42 USC 9601 et seq.), the Hazardous Materials Transportation Act, as amended (49 USC 1801 et seq.), the Resource Conservation and Recovery Act, as amended (42 USC 6901 et seq.) and in the regulations adopted and publication promulgated pursuant thereto, or any other federal, state or local governmental law, ordinance, rule, regulation or policy.

"Hydrocarbons" shall mean oil, gas, casinghead gas, drip gasoline, natural gas and condensates and all other liquid or gaseous hydrocarbons.

"Indebtedness" of any person shall mean, as of any date, (a) all obligations of such Person for borrowed money, (b) all obligations which are secured by any lien or encumbrance existing on property owned by such Person whether or not the obligation secured thereby shall have been assumed by such Person, (c) all obligations as lessee under any lease which, in accordance with GAAP, is or should be capitalized on the books of the lessee, (d) the deferred purchase price for goods, property or services acquired by such Person, and all obligations of such Person to purchase such goods, property or services where payment therefore is required regardless of whether or not delivery of such goods or property or the performance of such services is ever made or tendered, other than unsecured trade payables incurred in the ordinary course of business, (e) all obligations of such Person to advance funds to, or to purchase property or services from, any other Person in order to maintain the fi nancial condition of such Person, (f) all Rate Management Obligations of such person, and (g) all obligations of such person or of others for which such person is contingently liable, as guarantor, surety or in any other similar capacity, or in respect of which obligations such person assures a creditor against loss or agrees to take any action to prevent any such loss (other than endorsements of negotiable instruments for collection in the ordinary course of business), including without limitation all reimbursement obligations of such person in respect of any letters of credit, surety bonds or similar obligations and all obligations of such person to advance funds to, or to purchase assets, property or services from, any other person in order to maintain the condition, financial or otherwise, of such other person.

"Interest Payment Date" shall mean (a) with respect to any Eurodollar Loan, the last day of each Interest Period with respect to such Eurodollar Loan and, in the case of any Interest Period exceeding three months, those days that occur during such Interest Period at intervals of three months after the first day of such Interest Period, and (b) in all other cases, the last Business Day of each month, commencing with the first such Business Day after a Loan is made, and ending with the Termination Date.

"Interest Period" means, with respect to a Eurodollar Loan, a period of one, two, three or six months commencing on a Business Day selected by the Company pursuant to this Agreement. Such Interest Period shall end on the day which corresponds numerically to such date one, two, three or six months thereafter, *provided, however,* that if there is no such numerically corresponding day in such next, second, third or sixth succeeding month, such Interest Period shall end on the last Business Day of such next, second, third or sixth succeeding month. If an Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end on the next succeeding Business Day, *provided, however,* that if said next succeeding Business Day falls in a new calendar month, such Interest Period shall end on the immediately preceding Business Day.

"Lenders" means the lending institutions listed as lenders on the signature pages of this Agreement and their respective successors and assigns.

"Lending Installation" means, with respect to a Lender, the LC Issuer or the Agent, the office, branch, subsidiary or affiliate of such Lender, the LC Issuer or the Agent listed on the signature pages hereof or on a Schedule or otherwise selected by such Lender, the LC Issuer or the Agent pursuant to Section 2.5.

"LC Issuer" means Bank One (or any subsidiary or affiliate of Bank One designated by Bank One) in its capacity as issuer of Letters of Credit hereunder.

"LC Obligations" means, at any time, the sum, without duplication, of (i) the aggregate undrawn stated amount under all Letters of Credit outstanding at such time plus (ii) the aggregate unpaid amount at such time of all Reimbursement Obligations.

"LC Obligations" means, at any time, the sum, without duplication, of (i) the aggregate undrawn stated amount under all Letters of Credit outstanding at such time plus (ii) the aggregate unpaid amount at such time of all Reimbursement Obligations.

"Letter of Credit" shall mean a standby letter of credit having a stated expiry date or a date upon which the draft must be reimbursed not later than twelve months after the date of issuance and not later than the fifth Business Day before the Termination Date issued by the LC Issuer for the account of the Company under an application and related documentation acceptable to the LC Issuer requiring, among other things, immediate reimbursement by the Company to the LC Issuer in respect of all drafts or other demand for payment honored thereunder and all expenses paid or incurred by the LC Issuer relative thereto.

"Letter of Credit Advance" shall mean any issuance of a Letter of Credit under Section 3.1 made pursuant to Section 2.1(b) and any extension or renewal of a Letter of Credit.

"Letter of Credit Documents" shall have the meaning ascribed thereto in Section 4.3(b).

"Lien" shall mean any pledge, assignment, hypothecation, mortgage, security interest, deposit arrangement, option, conditional sale or title retaining contract, sale and leaseback transaction, financing statement filing, lessor's or lessee's interest under any lease, subordination of any claim or right, or any other type of lien, charge, encumbrance, preferential arrangement or other claim or right.

"Loan" shall mean, with respect to each Lender, such Lender's loan made pursuant to Section 2 (or any conversion or continuation thereof).

"Loan Documents" means this Agreement, the Notes, the Security Documents, the Letter of Credit Documents and all other agreements, instruments and documents executed pursuant thereto at any time.

"Major Sales Contract" shall mean, at any time, any agreement between the Company, any Guarantor or any Partnership and any Person for the sale of Hydrocarbons if the aggregate sales of Hydrocarbons to such Person during the twelve months immediately preceding such time equals or exceeds 10% of the aggregate sales of Hydrocarbons by the Company, the Guarantors and the Partnerships, on a consolidated basis, during the twelve months immediately preceding such time.

"Material Adverse Effect" means a material adverse effect on (i) the business, property, condition (financial or otherwise), results of operations, or prospects of the Company and its Subsidiaries taken as a whole, (ii) the ability of the Company to perform its obligations under the Loan Documents, or (iii) the validity or enforceability of any of the Loan Documents or the rights or remedies of the Agent or the Lenders thereunder.

"Mortgages" shall have the meaning ascribed thereto in Section 5.1(a).

"Multiemployer Plan" shall mean any "multiemployer plan" as defined in Section 4001(a)(3) of ERISA or Section 414(f) of the Code.

"Net Income" of any Person shall mean, for any period, the net income (or loss) of such Person for such period taken as a single accounting period, determined in accordance with GAAP; minus to the extent included in determining such Net Income, without duplication: (a) the income of any other person in which any other person other than the Person has a joint interest or partnership interest, except to the extent of the amount of dividends or other distributions actually paid to the Person by such other person during such period, (b) the income of any other person accrued prior to the date such other person's assets are acquired by the Person, (c) the proceeds of any insurance policy, (d) gains from the sale, exchange, transfer or other disposition of property or assets not in the ordinary course of business of the Person and related tax effects in accordance with GAAP, (e) any extraordinary or non-recurring gains or any other gains not from the normal operations of the P erson and related tax effects in accordance with GAAP, and (f) the aggregate amount of any non-cash write-ups under FASB 19, 144 and 133; plus to the extent deducted in determining such Net Income, the aggregate amount of any non-cash write-downs under FASB 19, 144 and 133.

"Note" shall mean each promissory note of the Company issued to a Lender in the form annexed hereto as Exhibit A, evidencing borrowings under Section 2.1 hereof, as amended or modified from time to time and together with any promissory note or notes issued in exchange or replacement therefor.

"Obligations" means all unpaid principal of and accrued and unpaid interest on the Advances, all Reimbursement Obligations, all accrued and unpaid fees and all expenses, reimbursements, indemnities and other obligations of the Company to Agent, the LC Issuer, any Lenders, or any indemnified party arising under the Loan Documents, including, without limitation, all reasonable costs of collection and enforcement of any and all thereof, including reasonable attorneys' fees.

"Outstanding Credit Exposure" means, as to any Lender at any time, the sum of (i) the aggregate principal amount of its Loans outstanding at such time, plus (ii) an amount equal to its Pro Rata Share of the LC Obligations at such time.

"Oil and Gas Interests" shall mean all leasehold interests, mineral fee interests, overriding royalty and royalty interests, net revenue and net working interests and all other rights and interests relating to Hydrocarbons, including any reserves thereof.

"Other Taxes" is defined in Section 4.6(ii).

"Overdue Rate" shall mean (a) in respect of principal of Floating Rate Loans, a rate per annum that is equal to the sum of three percent (3%) per annum plus the Floating Rate, (b) in respect of principal of Eurodollar Loans, a rate per annum that is equal to the sum of three percent (3%) per annum plus the Eurodollar Rate in effect thereon until the end of the then current Interest Period for such Loan and, thereafter, a rate per annum that is equal to the sum of three percent (3%) per annum plus the Floating Rate, (c) in respect of Letter of Credit Fees payable pursuant to Section 4.4(c), the Applicable Margin for Eurodollar Loans plus two percent (2%) per annum, and (d) in respect of other amounts payable by the Company hereunder (other than interest), a per annum rate that is equal to the sum of three percent (3%) per annum plus the Floating Rate.

"Partnership Agreements" shall mean all present and future partnership agreements, operating agreements and similar documents of each Partnership and all agreements and documents executed or delivered in connection therewith.

"Partnership Debt" shall mean the aggregate amount of all Indebtedness of the Partnerships.

"Partnerships" shall mean any each partnership or limited liability company meeting each of the following requirements: (a) the Company or a Guarantor is the general partner or manager thereof, (b) such partnership or limited liability company is organized pursuant to a partnership or operating agreement reasonably satisfactory to the Agent and the Required Lenders and is otherwise approved by the Agent in its sole discretion, (c) such partnership or limited liability company is primarily involved in oil and gas exploration, development, acquisition or production, and owns no other material assets other than oil and gas properties, and (d) such partnership or limited liability company is not liable for any Indebtedness which is not permitted by the terms of this agreement.

"PBGC" shall mean the Pension Benefit Guaranty Corporation and any entity succeeding to any or all of its functions under ERISA.

"Permitted Liens" shall mean the Liens permitted by Section 7.2(f) hereof.

"Person" shall include an individual, a corporation, an association, a partnership, a trust or estate, a joint stock company, an unincorporated organization, a joint venture, a government (foreign or domestic), and any agency or political subdivision thereof, or any other entity.

"Plan" shall mean, with respect to any Person, any employee benefit or other plan (other than a Multiemployer Plan) maintained by such Person for its employees and covered by Title IV of ERISA or to which Section 412 of the Code applies.

"Pledge of Partnership Interests" shall mean the Pledge of Partnership Interests dated as of November 17, 1993, made by the Company in favor of Bank One, as assigned by Bank One to the Agent for the benefit of the Agent, the LC Issuer and the Lenders, as amended from time to time (including without limitation as amended and restated by the Pledge and Security Agreement dated as of the date hereof), and any other pledge agreement executed by the Company or any Subsidiary pursuant to this Agreement pursuant to which the Company or any subsidiary pledges its ownership interests in each Partnership all as amended or modified from time to time.

"Pricing Schedule" means the Schedule attached hereto and identified as such.

"Prime Rate" means a rate per annum equal to the prime rate of interest announced from time to time by Bank One or its parent (which is not necessarily the lowest rate charged to any customer), changing when and as said prime rate changes.

"Pro Rata Share" means, with respect to a Lender, a portion equal to a fraction the numerator of which is such Lender's Commitment and the denominator of which is the Aggregate Commitment.

"Rate Management Transaction" means any transaction (including an agreement with respect thereto) now existing or hereafter entered by the Company, or any Subsidiary or any Partnership which is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, forward transaction, currency swap transaction, cross-currency rate swap transaction, currency option or any other similar transaction (including any option with respect to any of these transactions) or any combination thereof, whether linked to one or more interest rates, foreign currencies, commodity prices, equity prices or other financial measures.

"Rate Management Obligations" of a Person means any and all obligations of such Person, whether absolute or contingent and howsoever and whensoever created, arising, evidenced or acquired (including all renewals, extensions and modifications thereof and substitutions therefor), under (i) any and all Rate Management Transactions, and (ii) any and all cancellations, buy backs, reversals, terminations or assignments of any Rate Management Transactions.

"Release Price" means the price determined by the Required Lenders in their sole discretion based upon the loan value of oil and gas properties being sold by the Company, any Subsidiary or any Partnership that the Required Lenders in their sole discretion (using such methodology, assumptions and discount rates as such Lender's customarily use in assigning loan value to oil and gas properties) assign to such oil and gas properties as of the time in question.

"Reimbursement Obligations" means, at any time, the aggregate of all obligations of the Company then outstanding under Section 4.3 to reimburse the LC Issuer for amounts paid by the LC Issuer in respect of any one or more drawings under Letters of Credit.

"Reserve Requirement" means, with respect to an Interest Period, the maximum aggregate reserve requirement (including all basic, supplemental, marginal and other reserves) which is imposed under Regulation D on Eurocurrency liabilities.

"Required Lenders" means Lenders in the aggregate having 66-2/3% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, Lenders in the aggregate holding 66-23% of the aggregate unpaid principal amount of the outstanding Advances; provided, however, until after the first date after the Effective Date on which at least three Lenders are party hereto, "Required Lenders" means Lenders in the aggregate having 100% of the Aggregate Commitment or, if the Aggregate Commitment has been terminated, Lenders in the aggregate holding 100% of the aggregate unpaid principal amount of the outstanding Advances.

"Reportable Event" shall mean a reportable event as described in Section 4043(b) of ERISA including those events as to which the thirty (30) day notice period is waived under Part 2615 of the regulations promulgated by the PBGC under ERISA.

"Secured Obligations" means, collectively, (i) the Obligations and (ii) all Rate Management Obligations owing to one or more Lenders or their Affiliates.

"Security Agreement" shall mean the Security Agreement dated as of November 17, 1993 made by the Company in favor of Bank One and assigned by Bank One to the Agent for the benefit of the Agent, the LC Issuer and the Lenders, as amended from time to time (including without limitation as amended and restated by the Pledge and Security Agreement dated as of the date hereof), and any other security agreement, pledge and security agreement or similar agreement executed by the Company or any Guarantor pursuant to this Agreement, all as amended or modified from time to time.

"Security Documents" shall have the meaning ascribed thereto in Section 5.1(c).

"Subordinated Debt" shall mean, as of any date, the aggregate outstanding principal balance of all debt of the Company which is subordinate and junior in right and priority of payment to the Obligations, on terms and by written agreement satisfactory to the Agent, the LC Issuer and the Lenders.

"Subsidiary" of any person shall mean any other person (whether now existing or hereafter organized or acquired) in which (other than directors qualifying shares required by law) at least a majority of the securities or other ownership interests of each class having ordinary voting power or analogous right (other than securities or other ownership interests which have such power or right only by reason of the happening of a contingency), at the time as of which any determination is being made, are owned, beneficially and of record, by such person or by one or more of the other Subsidiaries of such person or by any combination thereof. Unless otherwise specified, reference to "Subsidiary" shall mean a Subsidiary of the Company.

"Tangible Net Worth" of any person shall mean, as of any date, (a) the amount of any capital stock, paid in capital and similar equity accounts plus (or minus in the case of a deficit) the capital surplus and retained earnings of such person and the amount of any foreign currency translation adjustment account shown as a capital account of such person, less (b) the net book value of all items of the following character which are included in the assets of such person: (i) goodwill, including without limitation, the excess of cost over book value of any asset, (ii) organization or experimental expenses, (iii) unamortized debt discount and expense, (iv) patents, trademarks, tradenames and copyrights, (v) treasury stock, (vi) franchises, licenses and permits, and (vii) other assets which are deemed intangible assets under GAAP.

"Taxes" means any and all present or future taxes, duties, levies, imposts, deductions, charges or withholdings, and any and all liabilities with respect to the foregoing, but *excluding* Excluded Taxes and Other Taxes.

"Termination Date" shall mean the earlier to occur of (a) July 3, 2005 and (b) the date on which the Aggregate Commitment shall be reduced to zero or otherwise terminated pursuant to the terms hereof.

"Total Debt" of any person shall mean, as of any date as of which the amount thereof is to be determined, the total Funded Debt of such person, in accordance with GAAP.

"Type" means, with respect to any Advance, its nature as a Floating Rate Advance or a Eurodollar Advance and with respect to any Loan, its nature as a Floating Rate Loan or a Eurodollar Loan.

1.2 Other Definitions; Rules of Construction. As used herein, the terms "Company," and "this Agreement" shall have the respective meanings ascribed thereto in the introductory paragraph of this Agreement. Such terms, together with the other terms defined in Section 1.1, shall include both the singular and the plural forms thereof and shall be construed accordingly. All computations required hereunder and all financial terms used herein shall be made or construed in accordance with GAAP unless such principles are inconsistent with the express requirements of this Agreement.

SECTION 2. The Commitment.

2.1 Advances. Each Lender severally agrees, subject to the terms and conditions herein set forth, (a) to make Loans to the Company at any time and from time to time from the Effective Date hereof until the Termination Date, and (b) to participate in Letters of Credit issued upon the request of the Company, provided that, after giving effect to the making of each such Loan and the issuance of each such Letter of Credit (i) each such Lender's Outstanding Credit Exposure shall not exceed its Commitment, and (ii) the

Aggregate Outstanding Credit Exposure shall not exceed the lesser of (A) the Aggregate Commitment and (B) the Borrowing Base in effect on such date. On the Effective Date, the Company shall issue and deliver to each Lender a Note in the principal amount of its Commitment. Each Loan shall be in a minimum amount of $500,000 and integral multiples of $250,000. The aggregate amount of Letter of Credit Advances outstanding at any time may not exceed $3,000,000. Each Advance hereunder shall consist of Loans made from the several Lenders ratably in proportion to the ratio that their respective Commitments bear to the Aggregate Commitment. The LC Issuer will issue the Letters of Credit hereunder on the terms and conditions set forth in this Section 2.1 and Section 4.3.

2.2 Termination or Reduction of Commitment. (a) The Company shall have the right to terminate or reduce the Aggregate Commitment in whole or in part ratably among the Lenders at any time and from time to time, provided that (i) the Company shall give notice of such termination or reduction to the Agent specifying the amount and effective date thereof, (ii) each partial reduction of the Commitment shall be in a minimum amount of $10,000,000 and in integral multiples of thereof, (iii) no such termination or reduction, either in whole or part and including without limitation any termination, shall be permitted with respect to any portion of the Commitments as to which a request for an Advance is then pending, and (iv) the Commitments may not be terminated if any Advance is then outstanding and may not be reduced below the Aggregate Outstanding Credit Exposure. The Commitments or any portion thereof so terminated or reduced may not be reinstated.

(b) For purposes of this Agreement, a Letter of Credit Advance (i) shall be deemed outstanding in an amount equal to the LC Obligations and (ii) shall be deemed outstanding at all times on and before such stated expiry date or such earlier date on which all amounts available to be drawn under such Letter of Credit have been fully drawn, and thereafter until all related Reimbursement Obligations have been paid pursuant to Section 4.3. As provided in Section 4.3, upon each payment made by the LC Issuer in respect of any draft or other demand for payment under any Letter of Credit, the amount of any Letter of Credit Advance outstanding immediately prior to such payment shall be automatically reduced by the amount of each Loan deemed advanced in respect of the related reimbursement obligation of the Company.

2.3 Increase in Commitment. Subject to Section 2.4 and with the prior consent of the Agent, the Company may request to increase the Aggregate Commitment in increments of $5,000,000, provided that (i) the Aggregate Commitment may not exceed $100,000,000 at any time and (ii) the Aggregate Commitment may not be increased to an amount in excess of the then current Borrowing Base. Any such request to increase the Aggregate Commitment shall be deemed to be a certification by the Company that at the time of such request, there exists no Default or Event of Default and the representations and warranties contained in Section 6 are true and correct as of such date or, if applicable only to a prior date, as of such prior date. Any request from the Company to increase the Aggregate Commitment shall be delivered to each Lender and shall be implemented by one or more existing Lenders agreeing to increase their Commitments (provided that no Lender shall have any obligation to increase it s Commitment but each Lender shall have the right to elect to increase its Commitment in its sole discretion pro rata with any other Lenders increasing their Commitments prior to any new Lender or Lenders becoming party hereto) or by one or more new lenders agreeing to become a Lender hereunder or by any combination of the foregoing, as determined by the Agent and the Arranger in consultation with the Company. Prior to any such increase in the Aggregate Commitment becoming effective, the Agent shall have received, unless waived by the Agent and the Required Lenders:

(a) copies, certified by the secretary of the Company and each Guarantor of their respective Board of Directors' resolutions and of resolutions or actions of any other body authorizing the increase in the Aggregate Commitment and the confirmation and ratification of the Guaranties and all other Loan Documents;

(b) a certificate, signed by the chief financial officer of the Company, showing that after giving effect to the increase in the Aggregate Commitment, no Default of Event of Default shall occur and the Company shall be in compliance with all covenants in this Agreement;

(c) copies of all governmental and nongovernmental consents, approvals, authorizations, declarations, registrations or filings required on the part of the Company or any Guarantor in connection with the increase in the Aggregate Commitment, certified as true and correct in full force and effect as of the date of the increase by a duly authorized officer of the Company, or if none are required, a certificate of such officer to that effect;

(d) a confirmation and ratification of all Loan Documents signed by the Company and all Guarantors and in form and substance satisfactory to the Agent;

(e) evidence satisfactory to the Agent that no Material Adverse Effect shall have occurred with respect to the Company and its Subsidiaries since the most recent financial statements provided to the Lenders hereunder; and

(f) such other documents and conditions as the Agent or its counsel may have reasonably requested.

2.4 Discretionary Increase of Commitment. Notwithstanding any other provisions of this Agreement, it is understood and agreed that no Lender shall at any time be obligated to increase its Commitment, despite compliance with any express conditions precedent thereto, and despite the fact that there may not then exist an Event of Default.

2.5 Lending Installations. Each Lender may book its Loans at any Lending Installation selected by such Lender and may change its Lending Installation from time to time. All terms of this Agreement shall apply to any such Lending Installation and the Loans and any Notes issued hereunder shall be deemed held by each Lender for the benefit of any such Lending Installation. Each Lender may, by written notice to the Agent and the Company designate replacement or additional Lending Installations through which Loans will be made by it and for whose account Loan payments are to be made.

2.6 Borrowing Base. On the basis of reports furnished to the Agent (including without limitation the reports furnished pursuant to Section 7.1(d)(viii) and (ix)) with respect to the Borrowing Base Properties, using such reasonable assumptions as the Agent shall specify (including without limitation discount rates and projected hydrocarbon price assumptions) and such other or additional information as may be requested from time to time, the Agent shall determine, with the approval of the Required Lenders, a Borrowing Base at least semi-annually as of May 15 and November 15 of each year (scheduled), or at such other or additional times as the Required Lenders in their sole discretion may elect (unscheduled). In addition, the Company shall have the right to request one unscheduled Borrowing Base determination between each scheduled Borrowing Base determination. The Borrowing Base will be determined by the Agent and each of the Lenders in its sole discretion based upon the loa n collateral value that it in its sole discretion assigns to the Borrowing Base Properties based upon such credit factors (including, without limitation, any diversification, hold limits or other internal credit policies of the Agent or any Lender in effect from time to time, the assets, senior and subordinate liabilities, cash flow, hedged and unhedged exposure to oil and gas prices, foreign exchange rates and interests rates, businesses, properties, prospects, management and ownership of the Company and its subsidiaries and the Partnerships) as it in its sole discretion deems significant. The Agent and the Lenders will have no obligation to agree upon or determine the Borrowing Base at any particular amount, whether in relation to the Aggregate Commitments or otherwise. If the Required Lenders cannot agree on the Borrowing Base, the Borrowing Base shall be set on the basis of the weighted arithmetic average of the Borrowing Bases determined by the individual Lenders. Notwithstanding anything to the cont rary set forth above, the amount of the Borrowing Base may not be increased at any time without the consent of 100% of the Lenders.

2.7 Amendment and Restatement. This Agreement amends and restates the 1997 Credit Agreement as of the Effective Date, provided that the Company may give notice of a request for an Advance as of June 27, 2002 for purposes of satisfying the notice requirements for requests for Advances and Section 4.10 shall be effective as of June 27, 2002. All Advances and Letters of Credit outstanding under the 1997 Credit Agreement shall constitute Advances and Letters of Credit under this Agreement and all fees and other obligations accrued under the 1997 Credit Agreement will continue to accrue and be paid under this Agreement under the terms of this Agreement. The Advances and other obligations pursuant hereto are issued in exchange and replacement for the Advances and other obligations under the 1997 Credit Agreement, shall not be a novation or satisfaction thereof and shall be entitled to the same collateral with the same priority. The Lenders acknowledge and agree that such tran sfers of rights and interests under the Loan Documents shall take place among the Lenders as of the Effective Date to give effect to Commitments set forth on the signature pages hereof.

SECTION 3. The Advances.

3.1 Disbursement of Advances.

(a) The Company shall give the Agent notice of its request for each Advance in substantially the form of Exhibit B hereto not later than 11:00 a.m. Chicago time (i) four Business Days prior to the date such Advance is requested to be made if such Advance is to be made as a Eurodollar Loan, (ii) five Business Days prior to the date any Letter of Credit Advance is requested to be made, and (iii) on the date such Advance is requested to be made in all other cases, which notice shall specify whether a Eurodollar Loan or Floating Rate Loan or a Letter of Credit Advance is requested and, in the case of each requested Eurodollar Loan, the Interest Period to be initially applicable to such Loan and, in the case of each Letter of Credit Advance, such information as may be necessary for the issuance thereof by the LC Issuer. The Agent, on or before 1:00 Chicago time on the same Business Day such notice is given, shall provide notice of such requested Advance to each Lender Subjec t to the terms and conditions of this Agreement, the proceeds of each such requested Loan shall be made available to the Company by depositing the proceeds thereof, in immediately available funds, on the Advance Date for such Loan in an account maintained and designated by the Company at the principal office of the Agent. Subject to the terms and conditions of this Agreement, the LC Issuer shall, on the date any Letter of Credit Advance is requested to be made, issue the related Letter of Credit for the account of the Company. Notwithstanding anything herein to the contrary, the LC Issuer may decline to issue any requested Letter of Credit on the basis that the beneficiary, the purpose of issuance or the terms or the conditions of drawing are unacceptable to the LC Issuer in its discretion.

(b) Each Lender, on the date any Advance in the form of a Loan is requested to be made, shall make its Pro Rata Share of such Advance available in immediately available, freely transferable, cleared funds for disbursement to the Company pursuant to the terms and conditions of this Agreement at the principal office of the Agent. Unless the Agent shall have received notice from any Lender prior to the date such Advance is requested to be made under this Section 3.1 that such Lender will not make available to the Agent such Lender's Pro Rata Share of such Advance, the Agent may assume that such Lender has made such portion available to the Agent on the date such Advance is requested to be made in accordance with this Section 3.1. If and to the extent such Lender shall not have so made such Pro Rata Share available to the Agent, the Agent may (but shall not be obligated to) make such amount available to the Company, and such Lender and the Company severally agree to pay to the Ag ent forthwith on demand such amount together with interest thereon, for each day from the date such amount is made available to the Company by the Agent until the date such amount is repaid to the Agent, at the Federal Funds Effective Rate. If such Lender shall pay such amount to the Agent together with interest, such amount so paid shall constitute a Loan by such Lender as a part of such the related Advance for purposes of this Agreement. The failure of any Lender to make its Pro Rata Share of any such Advance available to the Agent shall not relieve any other Lender of its obligations to make available its pro rata portion of such Advance on the date such Advance is requested to be made, but no Lender shall be responsible for failure of any other Lender to make such Pro Rata Share available to the Agent on the date of any such Advance.

(c) All Loans made under this Section 3.1 shall be evidenced by the Notes and all such Loans shall be due and payable and bear interest as provided in Section 4.2. Each Lender is hereby authorized by the Company to record on the schedule attached to its

Note, or in its books and records, the date, amount and type of each Loan and the duration of the related Interest Period (if applicable), the amount of each payment or prepayment of principal thereon, and the other information provided for on such schedule, which schedule or books and records, as the case may be, shall constitute prima facie evidence of the information so recorded, provided, however, that failure of any Lender to record, or any error in recording, any such information shall not relieve the Company of its obligation to repay the outstanding principal amount of the Loans, all accrued interest thereon and other amounts payable with respect thereto in accordance with the terms of the Notes and this Ag reement. Subject to the terms and conditions of this Agreement, the Company may borrow Loans under this Section 3.1, prepay Loans pursuant to Section 4.1(b) and reborrow Loans under this Section 3.1.

(d) Nothing in this Agreement shall be construed to require or authorize any Lender to issue any Letter of Credit, it being recognized that the LC Issuer has the sole obligation under this Agreement to issue Letters of Credit on behalf of the Lenders, and the Commitment of each Lender with respect to Letter of Credit Advances is expressly conditioned upon the LC Issuer's performance of such obligations. Upon such issuance by the LC Issuer, each Lender shall automatically acquire a pro rata risk participation interest in such Letter of Credit Advance based on the amount of its Pro Rata Share. If the LC Issuer shall honor a draft or other demand for payment presented or made under any Letter of Credit, the LC Issuer shall provide notice thereof to each Lender on the date such draft or demand is honored unless the Company shall have satisfied its Reimbursement Obligation under Section 4.3 by payment to the LC Issuer on such date. Each Lender, on such date, shall make its Pro Ra ta Share of the amount paid by the LC Issuer available in immediately available funds at the principal office of the Agent for the account of the LC Issuer. If and to the extent such Lender shall not have made such Pro Rata Share available to the Agent, such Lender and the Company severally agree to pay to the LC Issuer forthwith on demand such amount together with interest thereon, for each day from the date such amount was paid by the LC Issuer until such amount is so made available to the Agent at a per annum rate equal to the Federal Funds Effective Rate. If such Lender shall pay such amount to the Agent together with such interest, such amount so paid shall constitute a Loan by such Lender as part of the Advance disbursed in respect of the Reimbursement Obligation of the Company under Section 4.3 for purposes of this Agreement. The failure of any Lender to make its Pro Rata Share of any such amount paid by the LC Issuer available to the Agent shall not relieve any other Lender of its obligation to make available its Pro Rata Share of such amount, but no Lender shall be responsible for failure of any other Lender to make such Pro Rata Share available to the Agent.

3.2. Conditions of Advances. The obligation of the Lenders to make any Advance (including the first Advance), or any continuation or conversion under Section 3.4 is subject to the satisfaction of the following conditions precedent:

(a) Prior to or simultaneously with the first Advance hereunder, there shall have been delivered to the Agent the following documents, in form and substance satisfactory to the Agent and the Required Lenders:

(i) the favorable opinion of such counsel for the Company, as shall be approved by the Agent, with respect to the matters set forth in Sections 6.1, 6.2, 6.3, 6.4, 6.5, 6.6, 6.8, 6.9, 6.10 and 6.12 hereof and such other matters as the Agent shall reasonably request, all in form and substance satisfactory to the Agent;

(ii) certified copies of such corporate documents of the Company and each Guarantor including the Company's and each Guarantor's articles of incorporation, by-laws and good standing certificates, and such documents evidencing necessary corporate action with respect to this Agreement, the Advances, the Notes and the other Loan Documents, and certifying to the incumbency of, and attesting to the genuineness of the signatures of, those officers authorized to act on behalf of the Company or such Guarantor, as the case may be, as the Agent shall request;

(iii) the Security Documents required as of the Effective Date under Section 5.1, duly executed on behalf of the Company or any Guarantor, together with evidence of the recordation, filing and other action in such jurisdictions as the Agent may deem necessary or appropriate with respect to the Security Documents;

(iv) the Notes duly executed on behalf of the Company;

(v) payment of the fees required by Section 4.4 as of the Effective Date;

(vi) environmental investigations and documents requested by the Agent, all in form and substance satisfactory to the Agent;

(vii) the Agent and the Required Lenders shall have determined the initial Borrowing Base;

(viii) evidence that the Partnerships have been properly formed and that the Company is a general partner or manager of each Partnership that owns Oil and Gas Interests included in the Company's consolidated financial statements;

(ix) duly executed copies of the Partnership Agreements, each in form and substance satisfactory to the Agent and duly certified as a true and complete copy thereof by the Company, together with evidence satisfactory to the Agent that all transactions contemplated by, and conditions precedent to, any of the foregoing agreements have been satisfied and satisfactory evidence that the Partnerships do not have aggregate outstanding Indebtedness in excess of $500,000;

(x) a reserve report with respect to all Oil and Gas Interests of the Company, each Subsidiary and each Partnership prepared by an independent engineering firm of recognized standing acceptable to the Agent using such reasonable assumptions as the Agent shall specify (including discount rates and projected hydrocarbon price assumptions) and such other reserve, geological and title information as may be requested by the Agent;

(xi) copies of all agreements relating to any material Indebtedness for borrowed money, any preferred stock, any joint ventures or partnerships, any Major Sales Contracts or any other material documents requested by the Agent;

(xii) in the case of any Letter of Credit Advance, an application for the related Letter of Credit and other related documentation requested by and acceptable to the LC Issuer appropriately completed and duly executed on behalf of the Company; and

(xiii) such other agreements, documents, conditions and certificates as reasonably requested by the Agent.

(b) The Aggregate Outstanding Credit Exposure, after giving effect to each proposed Advance does not exceed the lesser of the Aggregate Commitments or the Borrowing Base.

(c) On and as of the date of each such Advance, the representations and warranties contained in Section 6 hereof shall be true and correct as if made on such date; provided, however, that for purposes of this Section 3.2(c) the representations and warranties contained in Section 6.7 hereof shall be deemed made with respect to both the financial statements referred to therein and the most recent financial statements delivered pursuant to Section 7.1(d)(ii) and (iii).

(d) No Default has occurred and is continuing or will exist upon the disbursement of such Advance.

3.3 Certification. Acceptance of the proceeds of any Advance hereunder by the Company shall be deemed to be a certification by the Company at such time with respect to the matters set forth in subparagraphs (b), (c) and (d) of Section 3.2.

3.4 Subsequent Elections as to Loans. The Company may elect (a) to continue a Eurodollar Loan, or a portion thereof, as a Eurodollar Loan or (b) may elect to convert a Eurodollar Loan, or a portion thereof, to a Floating Rate Loan or (c) elect to convert a Floating Rate Loan, or a portion thereof, to a Eurodollar Loan in each case by giving notice thereof to the Agent in substantially the form of Exhibit C hereto not later than 11:00 a.m. Chicago time four Business Days prior to the date any such continuation of or conversion to a Eurodollar Loan is to be effective and not later than 11:00 a.m. Chicago time one Business Day prior to the date such continuation or conversion is to be effective in all other cases, provided that an outstanding Eurodollar Loan may only be converted on the last day of the then current Interest Period with respect to such Loan, and provided, further, if a continuation of a Loan as, or a conversion of a Loan to, a Eurodol lar Loan is requested, such notice shall also specify the Interest Period to be applicable thereto upon such continuation or conversion. The Agent, not later than 1:00 p.m. Chicago time on the same Business Day such notice is given, shall provide notice of such requested election to each Lender. If the Company shall not timely deliver such a notice with respect to any outstanding Eurodollar Loan, the Company shall be deemed to have elected to convert such Eurodollar Loan to a Floating Rate Loan on the last day of the then current Interest Period with respect to such Loan.

3.5 Limitation of Requests and Elections. Notwithstanding any other provision of this Agreement to the contrary, if, upon receiving a request for a Eurodollar Loan pursuant to Section 3.1, or a request for a continuation of a Eurodollar Loan as a Eurodollar Loan or a request for a conversion of a Floating Rate Loan to a Eurodollar Loan pursuant to Section 3.4, (a) in the case of any Eurodollar Loan, deposits in Dollars for periods comparable to the Interest Period elected by the Company are not available to any Lender in the London interbank market, or (b) the Eurodollar Rate will not adequately and fairly reflect the cost to any Lender of making, funding or maintaining the related Eurodollar Loan, or (c) by reason of national or international financial, political or economic conditions or by reason of any applicable law, treaty or other international agreement, rule or regulation (whether domestic or foreign) now or hereafter in effect, or the interpretation or administrat ion thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any Lender with any guideline, request or directive of such authority (whether or not having the force of law), including without limitation exchange controls, it is impracticable, unlawful or impossible for, or shall limit or impair the ability of, (i) any Lender to make or fund the relevant Loan or to continue such Loan as a Loan of the then existing type or to convert a Loan to such a Loan or (ii) the Company to make or any Lender to receive any payment under this Agreement at the place specified for payment hereunder or to freely convert any amount paid into Dollars at market rates of exchange or to transfer any amount paid or so converted to the address of its principal office specified in Section 12.2, then the Company shall not be entitled, so long as such circumstances continue, to request a Loan of the affected type pursuant to Section 3.1 or a continuation of or conversion to a Loan of the affected type pursuant to Section 3.4. In the event that such circumstances no longer exist, the Lenders shall again consider requests for Loans of the affected type pursuant to Section 3.1, and requests for continuations of and conversions to Loans of the affected type pursuant to Section 3.4.

3.6 Minimum Amounts; Limitation on Number of Loans; Etc. Except for (a) Advances which exhaust the entire remaining amount of the Commitments, and (b) payments required pursuant to Section 4.1(c) or Section 4.8, each Advance and each continuation or conversion pursuant to Section 3.4 and each prepayment thereof shall be (i) with respect to Floating Rate Loans, in integral multiples of $100,000 and (ii) with respect to Eurodollar Loans, integral multiples of $1,000,000.

SECTION 4. Payments and Prepayments; Fees.

4.1 Principal Payments.

(a) The Advances. Unless earlier payment is required under this Agreement, the Company shall pay to the Lenders the Aggregate Outstanding Credit Exposure on the Termination Date.

(b) Prepayments. The Company may from time to time prepay all or a portion of the Loans without premium or penalty, provided, however, that (i) the Company shall have given not less than one Business Day's prior written notice thereof to the Agent with respect to Floating Rate Loans and three Business Days prior written notice thereof to the Agent with respect to Eurodollar Loans, (ii) each such prepayment shall be in the minimum amount required pursuant to Section 3.6, (iii) the Company may not prepay any

portion of any Loan as to which an election for a continuation of or a conversion to a Eurodollar Loan is pending pursuant to Section 3.4, and (iv) unless earlier payment is required under this Agreement, any Eurodollar Loan may only be prepaid on the last day of the then current Interest Period with respect to such Loan. Upon the giving of such notice, the aggregate principal amount of such Loan or portion thereof so specified in such notice, together w ith such accrued interest and other amounts, shall become due and payable on the specified prepayment date.

(c) Borrowing Base Exceeded. If it should be determined by the Agent at any time and from time to time that the principal amount of the Aggregate Outstanding Credit Exposure exceeds the Borrowing Base, the Company shall either (i) promptly provide additional collateral to the Agent, for the benefit of the Lenders, having a value and quality satisfactory to the Lenders in their sole discretion, or (ii) in addition to all payments of principal and interest required to be paid on the Notes, prepay the Notes in an amount by which, in the determination of the Agent, such aggregate principal amount outstanding exceeds the Borrowing Base, which payment shall be made either (A) in full within thirty (30) days after demand by the Agent, or (B) in three (3) equal monthly installments, commencing on the date of demand for payment by the Agent, provided, that, the entire amount of such excess must be repaid prior to the next scheduled determination date of the Borrowin g Base pursuant to Section 2.6. If any such prepayment would be in excess of the outstanding amount of the Loans, the Company shall deliver cash collateral to the Agent to secure the outstanding Letters of Credit in the amount of such excess which is greater than the outstanding Loans and the Company hereby grants to the Agent a first priority lien and security interest in such collateral, and all such cash collateral shall be under the sole and exclusive control of the Agent. All determinations made pursuant to this Section 4.1(c) shall be made by the Agent and shall be conclusively binding on the parties.

(d) In addition to all other payments required hereunder, the Company shall prepay the Aggregate Outstanding Credit Exposure by an amount equal to 100% of the Release Price from any sale or other disposition of any Borrowing Base Properties with the prior consent of the Required Lenders. Upon the sale of any Borrowing Base Properties, the Borrowing Base shall be automatically and immediately reduced in an amount equal to the Release Price for such Borrowing Base Properties.

4.2 Interest Payments. The Company shall pay interest to the Lenders on the unpaid principal amount of each Loan, on each Interest Payment Date and at maturity (whether at stated maturity, by acceleration or otherwise), and thereafter on demand, at the following rates per annum:

(a) During such periods that such Loan is a Floating Rate Loan, the Floating Rate.

(b) During such periods that such Loan is a Eurodollar Loan, the Eurodollar Rate applicable to such Loan for each related Interest Period.

Notwithstanding the foregoing paragraphs (a) and (b), the Company hereby agrees to pay interest on demand by the Agent at the Overdue Rate on the outstanding principal amount of any Loan and any other amount payable by the Company hereunder (other than interest) upon and during the continuance of any Default, if required in writing by the Required Lenders.

4.3 Letter of Credit Reimbursement Payments.

(a) (i) The Company agrees to pay to the LC Issuer, on the day on which the LC Issuer shall honor a draft or other demand for payment presented or made under any Letter of Credit, an amount equal to the amount paid by the LC Issuer in respect of such draft or other demand under such Letter of Credit and all expenses paid or incurred by the LC Issuer relative thereto. Unless the Company shall have made such payment to the LC Issuer on such day, upon each such payment by the LC Issuer, the Agent shall be deemed to have disbursed to the Company, and the Company shall be deemed to have elected to satisfy its reimbursement obligation by, a Loan bearing interest at the Floating Rate for the account of the Lenders in an amount equal to the amount so paid by the LC Issuer in respect of such draft or other demand under such Letter of Credit. Such Loan shall be disbursed notwithstanding any failure to satisfy any conditions for disbursement of any Loan set forth in Section 3 hereof an d, to the extent of the Loan so disbursed, the reimbursement obligation of the Company under this Section 4.3 shall be deemed satisfied; provided, however, that nothing in this Section 4.3 shall be deemed to constitute a waiver of any Default or Event of Default caused by the failure to the conditions for disbursement or otherwise.

(ii) If, for any reason (including without limitation as a result of the occurrence of an Event of Default with respect to the Company pursuant to Section 8.1(g)), Floating Rate Loans may not be made by the Lenders as described in Section 4.3(a)(i), then (A) the Company agrees that each reimbursement amount not paid pursuant to the first sentence of Section 4.3(a)(i) shall bear interest, payable on demand by the Agent, at the interest rate then applicable to Floating Rate Loans and (B) effective on the date each such Floating Rate Loan would otherwise have been made, each Lender severally agrees that it shall unconditionally and irrevocably, without regard to the occurrence of any Default or Event of Default, in lieu of deemed disbursement of loans, to the extent of such Lender's Commitment, purchase a participating interest in each reimbursement amount. Each Lender will immediately transfer to the Agent, in same day funds, the amount of its participation. Each Lender shal l share on a pro rata basis (calculated by reference to its Commitment) in any interest which accrues thereon and in all repayments thereof. If and to the extent that any Lender shall not have so made the amount of such participating interest available to the Agent, such Lender and the Company severally agree to pay to the Agent forthwith on demand such amount together with interest thereon, for each day from the date of demand by the Agent until the date such amount is paid to the Agent, at (x) in the case of the Company, the interest rate then applicable to Floating Rate Loans and (y) in the case of such Lender, the Federal Funds Effective Rate.

(b) The reimbursement obligation of the Company under this Section 4.3 shall be absolute, unconditional and irrevocable and shall remain in full force and effect until the Aggregate Outstanding Credit Exposure hereunder shall have been satisfied, and such

obligations of the Company shall not be affected, modified or impaired upon the happening of any event, including without limitation, any of the following, whether or not with notice to, or the consent of, the Company:

(i) Any lack of validity or enforceability of any Letter of Credit or any documentation relating to any Letter of Credit or to any transaction related in any way to such Letter of Credit (the "Letter of Credit Documents");

(ii) Any amendment, modification, waiver, consent, or any substitution, exchange or release of or failure to perfect any interest in collateral or security, with respect to any of the Letter of Credit Documents;

(iii) The existence of any claim, setoff, defense or other right which the Company may have at any time against any beneficiary or any transferee of any Letter of Credit (or any persons or entities for whom any such beneficiary or any such transferee may be acting), the LC Issuer, the Agent, any Lender or any other person or entity, whether in connection with any of the Letter of Credit Documents, the transactions contemplated herein or therein or any unrelated transactions;

(iv) Any draft or other statement or document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

(v) Payment by the LC Issuer to the beneficiary under any Letter of Credit against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear any reference or adequate reference to such Letter of Credit;

(vi) Any failure, omission, delay or lack on the part of the LC Issuer, the Agent or any Lender or any party to any of the Letter of Credit Documents to enforce, assert or exercise any right, power or remedy conferred upon the LC Issuer, the Agent or any Lender or any such party under this Agreement or any of the Letter of Credit Documents, or any other acts or omissions on the part of the LC Issuer, the Agent or any Lender or any such party;

(vii) Any other event or circumstance that would, in the absence of this clause, result in the release or discharge by operation of law or otherwise of the Company from the performance or observance of any obligation, covenant or agreement contained in this Section 4.3.

No setoff, counterclaim, reduction or diminution of any obligation or any defense of any kind or nature which the Company has or may have against the beneficiary of any Letter of Credit shall be available hereunder to the Company against the LC Issuer, the Agent or any Lender.

4.4 Fees. (a) The Company agrees to pay to the Agent for the account of each Lender according to its Pro Rata Share a commitment fee computed at the Applicable Fee Rate on the daily average Available Aggregate Commitment, for the period from the Effective Date until the Termination Date. This fee shall be paid quarterly in arrears, on the last Business Day of each January, April, July, and October and on the Termination Date, commencing on such date after the Effective Date.

(b) The Company agrees to pay to the Agent for the account of each Lender according to its Pro Rata Share a facility fee each time the Lenders increase the amount of the Borrowing Base pursuant to Section 2.6 of this Agreement, which facility fee shall be computed at the rate of one-quarter of one percent (0.25%) of the amount by which the Lenders increase the amount of the Borrowing Base and shall be due and payable on the effective date of such increase.

(c) On or before the date of issuance of any Letter of Credit, the Company agrees to pay to the Agent for the account of the Lenders ratably in accordance with their respective Pro Rata Shares a fee computed at the rate per annum equal to the Applicable Margin for Eurodollar Loans in effect from time to time of the maximum amount available to be drawn from time to time under such Letter of Credit for the period from and including the date of issuance of such Letter of Credit to and including the stated expiry date of such Letter of Credit. Notwithstanding the foregoing, the Company hereby agrees to pay such Letter of Credit fees on demand by the Agent at the Overdue Rate upon and during the continuance of any Default, if required in writing by the Required Lenders. Such fees are nonrefundable and the Company shall not be entitled to any rebate of any portion thereof if such Letter of Credit does not remain outstanding through its stated expiry date or for any other reason. The Company further agrees to pay to the LC Issuer for its own account (x) at the time of issuance of each Letter of Credit, a fronting fee of 0.125% per annum on the maximum amount available to be drawn from time to time under such Letter of Credit, and (y) on demand, such other customary administrative fees, charges and expenses of the LC Issuer in respect of the issuance, negotiation, acceptance, amendment, transfer and payment of such Letter of Credit or otherwise payable pursuant to the application and related documentation under which such Letter of Credit is issued.

(d) The Company agrees to pay to the Agent engineering fees as may be agreed from time to time between the Company and the Agent.

(e) The Company agrees to pay to the Agent and the Arranger such fees for their services as Agent and Arranger pursuant to Section 10.13.

4.5 Payment Method. (a) All payments to be made by the Company hereunder will be made in Dollars and in immediately available funds to the Agent for the account of the Lenders at the principal office of the Agent not later than 11:00 a.m. Chicago time on the date on which such payment shall become due. Payments received after 11:00 a.m. Chicago time shall be deemed to be payments made prior to 11:00 a.m. Chicago time on the next succeeding Business Day. At the time of making each such payment, the Company shall specify to the Agent that obligation of the Company hereunder to which such payment is to be applied, or, in the

event that the Company fails to so specify or if an Event of Default shall have occurred and be continuing, the Agent may apply such payments as it may determine in its sole discretion.

(b) On the day such payments are deemed received, the Agent shall remit to the Lenders their Pro Rata Shares of such payments in immediately available funds to the Lenders at their respective address in the United States specified for notices pursuant to Section 12.2.

4.6 Taxes. (i) All payments by the Company to or for the account of any Lender or the Agent hereunder or under any Note shall be made free and clear of and without deduction for any and all Taxes. If the Company shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to any Lender or the Agent, (a) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 4.6) such Lender or the Agent (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (b) the Company shall make such deductions, (c) the Company shall pay the full amount deducted to the relevant authority in accordance with applicable law and (d) the Company shall furnish to the Agent the original copy of a receipt evidencing payment thereof within 30 days after such payment is made.

(ii) In addition, the Company hereby agrees to pay any present or future stamp or documentary taxes and any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under any Note or from the execution or delivery of, or otherwise with respect to, this Agreement or any Note ("Other Taxes").

(iii) The Company hereby agrees to indemnify the Agent and each Lender for the full amount of Taxes or Other Taxes (including, without limitation, any Taxes or Other Taxes imposed on amounts payable under this Section 4.6) paid by the Agent or such Lender as a result of its Commitment, any Loans made by it hereunder, or otherwise in connection with its participation in this Agreement and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto. Payments due under this indemnification shall be made within 30 days of the date the Agent or such Lender makes demand therefor pursuant to Section 4.11.

(iv) Each Lender that is not incorporated under the laws of the United States of America or a state thereof (each a "Non-U.S. Lender") agrees that it will, not more than ten Business Days after the date of this Agreement, (i) deliver to the Agent two duly completed copies of United States Internal Revenue Service Form W-8BEN or W-8ECI, certifying in either case that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, and (ii) deliver to the Agent a United States Internal Revenue Form W-8 or W-9, as the case may be, and certify that it is entitled to an exemption from United States backup withholding tax. Each Non-U.S. Lender further undertakes to deliver to each of the Company and the Agent (x) renewals or additional copies of such form (or any successor form) on or before the date that such form expires or becomes obsolete, and (y) after the occurrence of any event requiring a change in the most recent forms so delivered by it, such additional forms or amendments thereto as may be reasonably requested by the Company or the Agent. All forms or amendments described in the preceding sentence shall certify that such Lender is entitled to receive payments under this Agreement without deduction or withholding of any United States federal income taxes, *unless* an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Lender from duly completing and delivering any such form or amendment with respect to it and such Lender advises the Company and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

(v) For any period during which a Non-U.S. Lender has failed to provide the Company with an appropriate form pursuant to clause (iv), above (unless such failure is due to a change in treaty, law or regulation, or any change in the interpretation or administration thereof by any governmental authority, occurring subsequent to the date on which a form originally was required to be provided), such Non-U.S. Lender shall not be entitled to indemnification under this Section 4.6 with respect to Taxes imposed by the United States; *provided* that, should a Non-U.S. Lender which is otherwise exempt from or subject to a reduced rate of withholding tax become subject to Taxes because of its failure to deliver a form required under clause (iv), above, the Company shall take such steps as such Non-U.S. Lender shall reasonably request to assist such Non-U.S. Lender to recover such Taxes.

(vi) Any Lender that is entitled to an exemption from or reduction of withholding tax with respect to payments under this Agreement or any Note pursuant to the law of any relevant jurisdiction or any treaty shall deliver to the Company (with a copy to the Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law as will permit such payments to be made without withholding or at a reduced rate.

(vii) If the U.S. Internal Revenue Service or any other governmental authority of the United States or any other country or any political subdivision thereof asserts a claim that the Agent did not properly withhold tax from amounts paid to or for the account of any Lender (because the appropriate form was not delivered or properly completed, because such Lender failed to notify the Agent of a change in circumstances which rendered its exemption from withholding ineffective, or for any other reason), such Lender shall indemnify the Agent fully for all amounts paid, directly or indirectly, by the Agent as tax, withholding therefor, or otherwise, including penalties and interest, and including taxes imposed by any jurisdiction on amounts payable to the Agent under this subsection, together with all costs and expenses related thereto (including attorneys fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent). The obligations of the Lenders un der this Section 4.6(vii) shall survive the payment of the Obligations and termination of this Agreement.

4.7 Payment on Non-Business Day; Payment Computations. Except as otherwise provided in this Agreement to the contrary, whenever any installment of principal of, or interest on, any Loan outstanding hereunder or any other amount due hereunder, becomes due and payable on a day which is not a Business Day, the maturity thereof shall be extended to the next succeeding

Business Day and, in the case of any installment of principal, interest shall be payable thereon at the rate per annum determined in accordance with this Agreement during such extension. Computations of interest and other amounts due under this Agreement shall be made on the basis of a year of 360 days for the actual number of days elapsed, including the first day but excluding the last day of the relevant period.

4.8 Additional Costs.

(a) In the event that any applicable law, treaty, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to any Lender, the Agent or the LC Issuer, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any Lender, the Agent or the LC Issuer with any guideline, request or directive of any such authority (whether or not having the force of law), affects or would affect the amount of capital required or expected to be maintained by any Lender, the Agent or the LC Issuer or any corporation controlling any Lender, the Agent or the LC Issuer and any Lender, the Agent or the LC Issuer determines that the amount of such capital is increased by or based upon the existence of such Lender's, the Agent's or the LC Issuer's obligations hereunder and such increase has the effect of reducing the rate of return on such Lender's, the Ag ent's or the LC Issuer's capital as a consequence of its obligations hereunder to a level below that which such Lender, the Agent or the LC Issuer could have achieved but for such circumstances (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Lender, the Agent or the LC Issuer to be material, then the Company shall pay to such Lender, the Agent or the LC Issuer, as the case may be, from time to time, upon request by such Lender, the Agent or the LC Issuer, additional amounts sufficient to compensate such Lender, the Agent or the LC Issuer for any increase in the amount of capital and reduced rate of return which such Lender, the agent or the LC Issuer reasonably determines to be allocable to the existence of the such Lender's, the Agent's or the LC Issuer's obligations hereunder.

(b) In the event that any applicable law, treaty or other international agreement, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to any Lender, the Agent or the LC Issuer, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any Lender, the Agent or the LC Issuer with any guideline, request or directive of any such authority (whether or not having the force of law), shall (i) affect the basis of taxation of payments to any Lender, the Agent or the LC Issuer of any amounts payable by the Company under this Agreement (other than taxes imposed on the overall net income of any Lender, the Agent or the LC Issuer, by the jurisdiction, or by any political subdivision or taxing authority of any such jurisdiction, in which any Lender, the Agent or the LC Issuer has its principal office), or (ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by any Lender, the Agent or the LC Issuer, or (iii) shall impose any other condition with respect to this Agreement, the Commitment, the Notes, the Loans, or any Letter of Credit, and the result of any of the foregoing is to increase the cost to any Lender, the Agent or the LC Issuer of making, funding or maintaining any Eurodollar Loan or any Letter of Credit or to reduce the amount of any sum receivable by any Lender, the Agent or the LC Issuer thereon, then the Company shall pay to such Lender, the Agent or the LC Issuer, as the case may be, from time to time, upon request by such Lender, the Agent or the LC Issuer additional amounts sufficient to compensate such Lender, the Agent or the LC Issuer, as the case may be, for such increased cost or reduced sum receivable to the extent, in the case of any Eurodollar Loan, such Lender or the Agent is not compensated ther efor in the computation of the interest rate applicable to such Eurodollar Loan.

4.9 Illegality and Impossibility. In the event that any applicable law, treaty or other international agreement, rule or regulation (whether domestic or foreign) now or hereafter in effect and whether or not presently applicable to any Lender, or any interpretation or administration thereof by any governmental authority charged with the interpretation or administration thereof, or compliance by any Lender with any guideline, request or directive of such authority (whether or not having the force of law), including without limitation exchange controls, (a) shall make it unlawful or impossible for any Lender to maintain any Loan under this Agreement, (b) shall make it impracticable, unlawful or impossible for, or shall in any way limit or impair ability of, the Company to make or any Lender to receive any payment under this Agreement at the place specified for payment hereunder, the Company shall upon receipt of notice thereof from such Lender, repay in full the then outstandi ng principal amount of each Loan so affected, together with all accrued interest thereon to the date of payment and all amounts owing to such Lender under Section 4.10, (i) on the last day of the then current Interest Period applicable to such Loan if such Lender may lawfully continue to maintain such Loan to such day, or (ii) immediately if such Lender may not continue to maintain such Loan to such day.

4.10 Indemnification. If the Company makes any payment of principal with respect to any Eurodollar Loan on any other date than the last day of an Interest Period applicable thereto (whether pursuant to Section 4.1(c), Section 4.9, Section 8.2 or otherwise), or if the Company fails to borrow any Eurodollar Loan after notice has been given to the Agent in accordance with Section 3.1(a), or if the Company fails to make any payment of principal or interest in respect of a Eurodollar Loan when due, the Company shall reimburse each Lender on demand for any resulting loss or expense incurred by such Lender, including without limitation any loss incurred in obtaining, liquidating or employing deposits from third parties, whether or not such Lender shall have funded or committed to fund such Loan.

4.11 Lender Statements; Survival of Indemnity. To the extent reasonably possible, each Lender shall designate an alternate Lending Installation with respect to its Eurodollar Loans to reduce any liability of the Company to such Lender under Sections 4.6 and 4.8 or to avoid the unavailability of Eurodollar Advances under Section 4.9, so long as such designation is not, in the judgment of such Lender, disadvantageous to such Lender. Each Lender shall deliver a written statement of such Lender to the Company (with a copy to the Agent) as to the amount due, if any, under Section 4.6, 4.8 or 4.10. Such written statement shall set forth in reasonable detail the calculations upon which such Lender determined such amount and shall be final, conclusive and binding on the Company in the absence of manifest error. Determination of amounts payable under such Sections in connection with a Eurodollar Loan shall be

calculated as though each Lender funded its Eurodollar Loan through the purchase of a deposit of the type and maturity corresponding to the deposit used as a reference in determining the Eurodollar Rate applicable to such Loan, whether in fact that is the case or not. Unless otherwise provided herein, the amount specified in the written statement of any Lender shall be payable on demand after receipt by the Company of such written statement. The obligations of the Company under Sections 4.6, 4.8 and 4.10 shall survive payment of the Obligations and termination of this Agreement.

SECTION 5. Security.

5.1 Security Documents. To secure all Secured Obligations, the Company shall:

(a) Execute and deliver to the Agent and the Lenders, on or before the Effective Date, such indentures of mortgage, deeds of trust, security agreements, financing statements and assignments of production and other agreements, including, without limitation, the Deeds of Trust, or assignments and amendments to any of the foregoing (as amended or modified from time to time, the "Mortgages"), in form and substance satisfactory to the Agent, granting the Agent, for the benefit of the Agent, the LC Issuer and the Lenders, a first-priority, perfected and enforceable lien and security interest, subject only to the Permitted Liens, in so much of the following (collectively, with all other assets described in Section 5.1(c), the "Collateral") as can be reasonably identified and covered by Mortgages prior to the Effective Date: all Oil and Gas Interests of the Company and each Guarantor, whether now owned or hereafter acquired, including without limitation all leasehold, royalty, fee and mineral interests and all other rights in connection therewith, and all interests in machinery, equipment, materials, improvements, hereditaments, appurtenances and other property, real, personal and/or mixed, now or hereafter a part of or obtained in or used in connection with such properties, including, without limitation, all interests of the Company and each Guarantor in and to any and all Hydrocarbons and other minerals now in storage or now or hereafter located in, under, on or produced from, such properties or otherwise and an assignment of production from such properties to the Agent, for the benefit of the Agent, the LC Issuer and the Lenders.

(b) Cause to be executed and delivered to the Agent, on or before the Effective Date, the Guaranties executed by each Guarantor, in form and substance satisfactory to the Agent.

(c) Execute and deliver to the Agent, on or before the Effective Date, the Security Agreement, Pledge of Partnership Interests, financing statements and other agreements, or assignments and amendments of any of the foregoing (all of the foregoing, together with the Mortgages, the Guaranties and any other security or other collateral documents delivered from time to time pursuant to this Agreement, as amended or modified from time to time, the "Security Documents"), in form and substance satisfactory to the Agent, granting to the Agent, for the benefit of the Agent, the LC Issuer and the Lenders, a first-priority, perfected and enforceable lien and security interest, subject only to the Permitted Liens, in all other assets, whether real, personal or mixed, and whether now owned or hereafter existing and wherever located, of the Company, including, without limitation, a pledge by the Company and each Subsidiary of 100% of their respective ownership interest in each present and fut ure Partnership.

(d) Execute and deliver to the Agent and the Lenders, on or before December 31, 2002, such additional Mortgages, in form and substance satisfactory to the Agent, granting the Agent, for the benefit of the Agent, the LC Issuer and the Lenders, a first-priority, perfected and enforceable lien and security interest, subject only to the Permitted Liens, in, and an assignment of production from such properties to the Agent, for the benefit of the Agent, the LC Issuer and the Lenders, such additional Oil and Gas Interests of the Company and each Guarantor, whether now owned or hereafter acquired, including without limitation all leasehold, royalty, fee and mineral interests and all other rights in connection therewith, and all interests in machinery, equipment, materials, improvements, hereditaments, appurtenances and other property, real, personal and/or mixed, now or hereafter a part of or obtained in or used in connection with such properties, including, without limitation, all int erests of the Company and each Guarantor in and to any and all Hydrocarbons and other minerals now in storage or now or hereafter located in, under, on or produced from, such properties or otherwise, as shall be necessary to cause the aggregate value (based on the value assigned to each Borrowing Base Property as part of the most recent determination of the Borrowing Base) of the Borrowing Base Properties owned by the Company and the Guarantors that are subject to a Mortgage to be no less than such percentage of the Borrowing Base (the "Required Mortgaged Property Percentage") as shall be specified by the Agent with the approval of the Required Lenders after the completion of a post-closing review of the Borrowing Base Properties. The Company shall also deliver to the Agent from time to time hereafter such information and reports with respect to the Borrowing Base Properties as may be requested by the Agent in connection with such post-closing review. Upon the completion of such review, the Requi red Mortgaged Property Percentage will be determined by the Agent and each of the Lenders in its sole discretion based upon such factors as it in its sole discretion deems significant.

(e) Deliver to the Agent, on or before December 31, 2002, acceptable evidence, including without limitation such opinions of counsel and such title opinions or other acceptable title information as may be required by and acceptable to the Agent ("Acceptable Evidence of Title"), of the title of the Company and the Guarantors and the first-priority of the Agent's liens and security interests under the Security Documents, subject only to Permitted Liens, with respect to such Borrowing Base Properties owned by the Company and the Guarantors as shall be sufficient to cause the aggregate value (based on the value assigned to each Borrowing Base Property as part of the most recent determination of the Borrowing Base) of the Borrowing Base Properties owned by the Company and the Guarantors for which Acceptable Evidence of Title has been delivered to the Agent to be no less than such percentage of the Borrowing Base (the "Required Title Percentage") as shall be specif ied by the Agent with the approval of the Required Lenders after the completion of the post-closing review of the Borrowing Base Properties referred to in Section 5.1(d) above. The Required Title Percentage will be determined by the Agent and each of the Lenders in its sole discretion based upon such factors as it in its sole discretion deems significant.

5.2 Additional Security Documents. If at any time requested by the Agent, the Company shall from time to time:

(i) Execute and deliver such additional documents, and shall take such other action, as the Agent may reasonably consider necessary or proper to evidence or perfect the liens and security interests described in Section 5.1 hereof.

(ii) Execute and deliver to the Agent such additional Mortgages with respect to such Borrowing Base Properties owned by the Company and the Guarantors as may from time to time be necessary to cause the aggregate value (based on the value assigned to each Borrowing Base Property as part of the most recent determination of the Borrowing Base) of the Borrowing Base Properties owned by the Company and the Guarantors that are subject to a Mortgage to be no less than the Required Mortgaged Property Percentage of the Borrowing Base from time to time in effect.

(iii) Deliver to the Agent such additional Acceptable Evidence of Title with respect to such Borrowing Base Properties owned by the Company and the Guarantors as may from time to time be necessary to cause the aggregate value (based on the value assigned to each Borrowing Base Property as part of the most recent determination of the Borrowing Base) of the Borrowing Base Properties owned by the Company and the Guarantors for which Acceptable Evidence of Title has been delivered to the Agent to be no less than the Required Title Percentage of the Borrowing Base from time to time in effect.

SECTION 6. Representations and Warranties.

The Company and the Guarantors each represents and warrants to the Lenders, the LC Issuer and the Agent that:

6.1 Corporate Existence and Power. Each of the Company and the Guarantors is a corporation duly organized, validly existing and in good standing under the laws of the state of its incorporation, and is duly qualified to do business and in good standing in each additional jurisdiction where such qualification is necessary under applicable law. Each of the Company and the Guarantors has all requisite corporate power to own its properties and to carry on its business as now being conducted and as proposed to be conducted, and to execute and deliver this Agreement and the other Loan Documents to which it is a party and to engage in the transactions contemplated by this Agreement, the Notes and the other Loan Documents.

6.2 Corporate Authority. The execution, delivery and performance by the Company and each Guarantor of this Agreement and the other Loan Documents, as applicable, are within its corporate powers, have been duly authorized by all necessary corporate action and are not in contravention of any law, rule or regulation, or any judgment, decree, writ, injunction, order or award of any arbitrator, court or governmental authority, or of the terms of the Company's or such Guarantor's charter or by-laws, or of any contract or undertaking to which it is a party or by which the Company or any Guarantor or any of their property may be bound or affected.

6.3 Binding Effect. This Agreement is, and the other Loan Documents to which the Company or any Guarantor is a party when delivered hereunder will be, legal, valid and binding obligations of the Company and the Guarantors enforceable against the Company and the Guarantors in accordance with their respective terms except as enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and by general principles of equity (whether applied in a proceeding at law or in equity).

6.4 Subsidiaries. Schedule 6.4 hereto correctly sets forth the corporate name, jurisdiction of incorporation and ownership of each Subsidiary of the Company and each Guarantor. All Subsidiaries of the Company and the Guarantors are duly organized, validly existing and in good standing under the laws of their jurisdictions of incorporation and are duly qualified to do business in each jurisdiction where such qualification is or may be necessary under applicable law. All outstanding shares of capital stock of each class of each Subsidiary of the Company and the Guarantors have been and will be validly issued and are and will be fully paid and nonassessable and are and will be owned, beneficially and of record, by the Company or a Guarantor, free and clear of any Liens.

6.5 Liens. The properties of the Company and the Guarantors (including without limitation the Collateral) are not subject to any Lien except Permitted Liens.

6.6 Litigation. There is no action, suit or proceeding pending or, to the best of its knowledge, threatened or contemplated against or affecting the Company or any Guarantor before or by any court, governmental authority, or arbitrator which if adversely decided might result, either individually or collectively, in any material adverse change in the business, property, operations or conditions, financial or otherwise, of the Company or any Guarantor or any of their Subsidiaries and, to the best of the Company's and the Guarantors' knowledge, there is no basis for any such action, suit or proceeding.

6.7 Financial Condition. The consolidated balance sheet of the Company and its Subsidiaries and the consolidated statements of income and cash flow of the Company and its Subsidiaries for the fiscal year ended December 31, 2001 and reported on by KPMG Peat Marwick LLP and the interim consolidated balance sheet and interim consolidated statements of income and cash flow of the Company and its Subsidiaries, as of or for the three-month period ended on March 31, 2002, contained in the Company's most recent Form 10-Q, copies of which have been furnished to the Lenders, fairly present, and the financial statements of the Company and its Subsidiaries delivered pursuant to Section 7.1(d) will fairly present, the consolidated financial position of the Company and its Subsidiaries and is at their respective dates thereof, the consolidated results of operations of the Company and its Subsidiaries for their respective periods indicated, all in accordance with GAAP consistentl y applied. There has been no material adverse change in the business, properties, operations or condition, financial or otherwise, of the Company or any of its Subsidiaries since December 31, 2001. There is no material Contingent Liability of the Company or any of its Subsidiaries that is not reflected in such financial statements or in the notes thereto.

6.8 Use of Advances. The Company will use the Advances to refinance and replace the obligations under the 1997 Credit Agreement, to provide funds for the exploration, development and/or acquisition of oil and gas properties and for working capital and other general corporate purposes. Neither the Company nor any Guarantor extends or maintains, in the ordinary course of business, credit for the purpose, whether immediate, incidental, or ultimate, of buying or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Advance will be used for the purpose, whether immediate, incidental, or ultimate, of buying or carrying any such margin stock or maintaining or extending credit to others for such purpose. After applying the proceeds of the Advances, such margin stock will not constitute more than 25% of the value of the assets that are subject to any provisions of this Agreeme nt or any Security Document that may cause the Advances to be secured, directly or indirectly by margin stock.

6.9 Security Documents. The Security Documents create a valid and enforceable first-priority lien on and perfected security interest in all right, title and interest of the Company and each Guarantor in and to the Collateral described therein, securing all amounts intended to be secured thereby (including without limitation all principal of and interest on the Notes) subject only to the Permitted Liens. The respective net revenue interests of the Company and each Guarantor in and to the Oil and Gas Interests as set forth in the Security Documents, are true and correct and accurately reflect the interests to which the Company and each Guarantor is legally entitled subject only to the Permitted Liens.

6.10 Consents, Etc. No consent, approval or authorization of or declaration, registration or filing with any governmental authority or any nongovernmental person or entity, including without limitation any creditor or stockholder of it, is required on the part of it in connection with the execution, delivery and performance of this Agreement the other Loan Documents or the transactions contemplated hereby or as a condition to the legality, validity or enforceability of this Agreement or any of the other Loan Documents.

6.11 Taxes. The Company and the Guarantors have each filed all tax returns (federal, state and local) required to be filed and have each paid all taxes shown thereon to be due, including interest and penalties, or have established adequate financial reserves on their books and records for payment thereof.

6.12 Title to Properties. The Company or a Guarantor has good and marketable title to, and a valid indefeasible ownership interest in, all of their properties and assets (including, without limitation, the Collateral subject to the Security Documents) free and clear of any Lien except the Permitted Liens, and the Company is the owner of all the Collateral described in the Security Documents to which it is a party. All wells on any of the mortgaged premises or of any Partnership have been drilled, operated, shut-in, abandoned or suspended in accordance with good oil and gas field practices and in compliance with all applicable laws, permits, statutes, orders, licenses, rules and regulations. None of the Oil and Gas Interests of the Company, any Guarantor or of any Partnership is burdened with any rights of first refusal or any other rights that would restrict the sale of the property or the transfer of good title to any such property. All leases with respect to any Oil and Gas Interests owned by the Company, any Guarantor or any Partnership are in good standing and are in full force and effect, all royalties, rents, taxes, assessments and other payments thereunder or with respect thereto have been properly and timely paid and all conditions necessary to keep such leases in full force have been fully performed.

6.13 ERISA. The Company, the Guarantors, their respective Subsidiaries and their Plans are in compliance in all material respects with those provisions of ERISA and of the Code which are applicable with respect to any Plan. No prohibited transaction (as defined in Section 406 of ERISA and Section 9975 of the Code) and no Reportable Event has occurred with respect to any Plan. None of the Company, any of the Guarantors, any of their Subsidiaries nor any of their ERISA Affiliates is an employer with respect to any multiemployer plan (as defined in Section 4001(a)(3) of ERISA). The Company, the Guarantors, their Subsidiaries and their ERISA Affiliates have met the minimum funding requirements under ERISA and the Code with respect to each of their respective Plans, if any, and have not incurred any liability to the PBGC or any Plan. There is no unfunded benefit liability with respect to any Plan.

6.14 Environmental and Safety Matters. The Company, the Guarantors and the Partnerships are each in substantial compliance with all federal, state and local laws, ordinances and regulations relating to safety and industrial hygiene or to the environmental condition, including without limitation all Environmental Laws in jurisdictions in which it owns any interest in or operates, a well, a facility or site, or arranges for disposal or treatment of hazardous substances, solid waste, or other wastes, accepts for transporting any hazardous substances, solid waste, or other wastes, or holds any interest in real property or otherwise. No demand, claim, notice, suit, suit in equity, action, administrative action, investigation or inquiry whether brought by any governmental authority, private person or entity or otherwise, arising under, relating to or in connection with any Environmental Law is pending or threatened against the Company, any Guarantor or any of the Partnerships, an y real property in which the Company, any Guarantor or any of the Partnerships holds or has held an interest or any past or present operation of the Company, any Guarantor or any of the Partnerships. None of the Company, any Guarantor nor any of the Partnerships (a) is the subject of any federal or state investigation evaluating whether any remedial action is needed to respond to a release of any toxic substances, radioactive materials, hazardous wastes or related materials into the environment, (b) has received any notice of any toxic substances, radioactive materials, hazardous waste or related materials in, or upon any of its properties in violation of any Environmental Law, or (c) knows of any basis for any such investigation, notice or violation. No material release, threatened release or disposal of hazardous waste, solid waste or other wastes is occurring or has occurred on, under or to any real property in which the Company, any Guarantor or any of the Partnerships holds any interest or p erforms any of its operations, in violation of any Environmental Law.

6.15 Solvency. Each of the following is true for the Company, the Guarantors and their respective Subsidiaries on a consolidated basis: (a) the fair saleable value of their property is (i) greater than the total amount of their liabilities (including contingent liabilities), and (ii) greater than the amount that would be required to pay its probable aggregate liability on their then existing debts

as they become absolute and matured; (b) their property is not unreasonable in relation to their business or any contemplated or undertaken transaction; and (c) they do not intend to incur, or believe that they will incur, debts beyond their ability to pay such debts as they become due.

6.16 Disclosure. This Agreement and all other documents, certificates, reports or statements or other information furnished to the Agent or any Lender in writing by or on behalf of the Company or any Guarantor in connection with the negotiation or administration of this Agreement or any transactions contemplated hereby when read together do not contain any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements contained herein and therein not misleading. There is no fact known to the Company or any Guarantor which materially and adversely affects, or which in the future may (so far as the Company or any Guarantor can now foresee) materially and adversely affect, the business, properties, operations or condition, financial or otherwise, of the Company, any Guarantor or any of their Subsidiaries (except for any economic conditions which affect generally the industry in which the Company, the Guarantors and their Subsidia ries conduct business), which has not been set forth in this Agreement or in the other documents, certificates, statements, reports and other information furnished in writing to the Agent and the Lenders by or on behalf of the Company or any Guarantor in connection with the transactions contemplated hereby.

6.17 Partnerships. Schedule 6.17 hereto, as updated by the Company from time to time, lists all the Partnerships and the ownership interest of the Company in each Partnership. Each Partnership is duly organized and validly existing under the jurisdiction of its organization, there is no default or other breach under any Partnership Agreement and the Company has fully complied with all of its obligations thereunder. Each Partnership meets all of the requirements included in the definition of Partnership.

SECTION 7. **Covenants.**

7.1 Affirmative Covenants. Each of the Company and the Guarantors covenants and agrees that, until the Termination Date and thereafter until the payment in full of the Secured Obligations and expiration of this Agreement unless the Required Lenders shall otherwise consent in writing, it shall, and shall cause each of its Subsidiaries and Partnerships to:

(a) Preservation of Corporate Existence, Etc. Do or cause to be done all things necessary to preserve, renew and keep in full force and effect its and each Partnership's legal existence, and its qualification as a foreign corporation in good standing in each jurisdiction in which such qualification is necessary under applicable law and the rights, licenses, permits (including those required under Environmental Laws), franchises, patents, copyrights, trademarks and trade names material to the conduct of its and each Partnership's businesses; and defend all of the foregoing against all claims, actions, demands, suits or proceedings at law or in equity or by or before any governmental instrumentality or other agency or regulatory authority.

(b) Compliance with Laws, Etc. Comply in all material respects with all applicable laws, rules, regulations and orders of any governmental authority, whether federal, state, local or foreign (including without limitation ERISA, the Code and Environmental Laws), in effect from time to time; and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its or any Partnership's income, revenues or property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise, which, if unpaid, might give rise to Liens upon such properties or any portion thereof, except to the extent that payment of any of the foregoing is then being contested in good faith by appropriate legal proceedings and with respect to which adequate financial reserves have been established on its books and records.

(c) Maintenance of Partnerships, Properties, Insurance. Maintain, preserve and protect all property that is material to the conduct of its business and keep such property in good repair, working order and condition and from time to time make, or cause to be made all needful and proper repairs, renewals, extensions, additions, improvements and replacements thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times in accordance with customary and prudent business practices for similar businesses; comply with all applicable permits, statutes, laws, orders, licenses, rules and regulations relating to the Oil and Gas Interests owned by it and ensure that all wells and other properties operated by it (either for itself or as a general partner) are operated in accordance with good oil and gas field practices; comply with all of its duties and obligations under each Partnership Agreement to which it is a party and tak e all actions to maintain all leases and other rights in full force and effect; and, in addition to that insurance required under the Security Documents, maintain in full force and effect insurance with responsible and reputable insurance companies or associations in such amounts, on such terms and covering such risks, including fire and other risks insured against by extended coverage, as is usually carried by companies engaged in similar businesses and owning similar properties similarly situated and maintain in full force and effect public liability insurance, insurance against claims for personal injury or death or property damage occurring in connection with any of its activities or any of any properties owned, occupied or controlled by it, in such amount as it shall reasonably deem necessary, and maintain such other insurance as may be required by law or as may be reasonably requested by the Agent for purposes of assuring compliance with this Section 7.1(c).

(d) Reporting Requirements. Furnish to the Lenders and the Agent, in form and substance satisfactory to the Lenders and the Agent, the following:

(i) Promptly and in any event within three calendar days after becoming aware of the occurrence of (A) any Default, (B) the commencement of any material litigation against, by or affecting the Company or any Guarantor and, upon request by the Agent, any material developments therein, or (C) entering into any material contract or undertaking by the Company or any Guarantor that is not entered into in the ordinary course of business, (D) any development in the business or affairs of the Company or any Guarantor which has resulted in or which is likely

in the reasonable judgment of the Company or such Guarantor, to result in a material adverse change in the business, properties, operations or condition, financial or otherwise of the Company or such Guarantor or any Subsidiary or (E) default, breach or termination of any lease or (F) any Reportable Event under, or the institution of steps by the Company, any Guarantor or any Subsidiary to withdraw from, or the institution of any steps to terminate, any Plan, a statement of the chief financial officer of the Company or such Guarantor setting forth details of such Default or such event or condition or such litigation and the action which the Company or such Guarantor or such Subsidiary has taken and proposes to take with respect thereto;

(ii) As soon as available and in any event within 45 days after the end of each fiscal quarter of the Company, the consolidated and consolidating balance sheets of the Company and its Subsidiaries as of the end of such quarter, and the related consolidated and consolidating statements of income and cash flow for the period commencing at the end of the previous fiscal year and ending with the end of such quarter, setting forth in each case in comparative form the corresponding figures for the corresponding date or period of the preceding fiscal year, all in reasonable detail and duly certified (subject to year-end audit adjustments) by an appropriate officer of the Company as having been prepared in accordance with GAAP, together with a certificate of the chief financial officer of the Company stating (A) that no Default has occurred and is continuing or, if a Default has occurred and is continuing, a statement setting forth the details thereof and the action which the C ompany has taken and proposes to take with respect thereto, and (B) that a computation (which computation shall accompany such certificate and shall be in reasonable detail) showing compliance with Section 7.2 (a), (b), (c), (d), (e) and (f) hereof is in conformity with the terms of this Agreement;

(iii) As soon as available and in any event within 120 days after the end of each fiscal year of the Company, a copy of the consolidated balance sheet of the Company and its Subsidiaries for the fiscal year and related statements of income and cash flow with a customary audit report thereon by KPMG Peat Marwick LLP or other independent certified public accountants selected by the Company and acceptable to the Lenders, without qualifications unacceptable to the Lenders together with a certificate of such accountants stating that they have reviewed this Agreement and stating further that in making their review in accordance with GAAP nothing came to their attention that made them believe that any Default exists, or if their examination has disclosed the existence of any Default, specifying the nature, period of existence and status thereof;

(iv) (A) For each privately-held Partnership, upon the request of the Agent or any Lender, promptly after the sending or filing thereof, copies of all tax returns which such Partnership sends to or files with any federal, state or local government of the United States of America, and (B) for each publicly-held Partnership, upon the request of the Agent, as soon as available and in any event within 120 days after the end of each fiscal year of such Partnership, a copy of the consolidated balance sheet of such Partnership for the fiscal year, and the related statements of income and cash flow of such Partnership for such fiscal year, with a customary audit report thereon by KPMG Peat Marwick LLP or other independent certified public accountants selected by such Partnership and acceptable to the Lenders, without qualifications unacceptable to the Lenders;

(v) Promptly after the sending or filing thereof, copies of all reports, proxy statements and financial statements which the Company or any of its Subsidiaries sends to or files with any of their respective security holders or any securities exchange or the Securities and Exchange Commission or any successor agency thereof including, without limitation, quarterly Form 10-Qs of the Company filed with the Securities and Exchange Commission;

(vi) If requested by the Agent for such fiscal quarter, as soon as possible and in any event within 30 days of the end of each fiscal quarter of the Company, a schedule of all cash receipts and other payments received with respect to any Oil and Gas Interest of the Company, any Partnership or any Subsidiary and as soon as possible and in any event within 45 days after the end of each fiscal quarter of the Company, a schedule of all oil, gas, and other mineral production attributable to the Oil and Gas Interests of the Company, any Partnership or any Subsidiary;

(vii) Promptly, all title or other information received after the Effective Date by the Company which discloses any material defect in the title to any asset included in the Borrowing Base;

(viii) As soon as available but in any event by April 1 and October 1 of each year, a reserve report with respect to all Oil and Gas Interests of the Company, each Partnership and each Subsidiary, which reserve report shall be prepared at least once every 12 months by an independent engineering firm of recognized standing acceptable to the Agent and otherwise may be prepared internally by the Company, in each case using reasonable assumptions as the Agent may specify (including discount rates and projected hydrocarbon price assumptions);

(ix) Promptly, upon the request of the Agent, reserve reports prepared by an independent engineering firm of recognized standing acceptable to the Agent with respect to any Oil and Gas Interest of the Company, any Partnership or any Subsidiary for which there is any significant variance between (A) the information for such Oil and Gas Interest on any reserve reports furnished by the Company pursuant to Section 7.1(d)(viii) or otherwise and (B) prior reserve reports or other information received by the Agent with respect to such Oil and Gas Interest;

(x) As soon as possible and in any event within 15 days after the date of execution thereof, copies of (A) any amendment of any Major Sales Contract, and (B) any Major Sales Contract entered into after the Effective Date;

(xi) Promptly and in any event within 15 days after becoming aware of the occurrence of any material breach or default under, or repudiation or termination of, any Major Sales Contract, notice of such event;

(xii) From time to time upon, and within 10 days of, request by the Agent a report describing all insurance with respect to the Company and its Subsidiaries or any of their respective property or assets as of the end of such fiscal year, including, without limitation, liability, casualty, and business interruption (including product liability), insurance, in form and detail satisfactory to the Agent, certified as true and correct by the chief financial officer of the Company or such Subsidiary, as the case may be;

(xiii) Promptly and in any event within 10 calendar days after receiving or becoming aware thereof, (A) a copy of any notice of intent to terminate any Plan filed with the PBGC, (B) a statement of the chief financial officer of the Company setting forth the details of the occurrence of any Reportable Event with respect to any Plan, (C) a copy of any notice the Company, any Guarantor, any of their Subsidiaries or any ERISA Affiliate may receive from the PBGC relating to the intention of the PBGC to terminate any Plan or to appoint a trustee to administer any Plan, or (D) a copy of any notice of failure to make a required installment or other payment within the meaning of Section 412(n) of the Code or Section 302(f) of ERISA with respect to a Plan;

(xiv) If received, promptly and in any event within 10 days after receipt, a copy of any management letter or comparable analysis prepared by the auditors for the Company or any of its Subsidiaries;

(xv) As soon as available and in any event within 120 days after the end of each fiscal year of the Company, an annual report and certificate, in form and detail satisfactory to the Agent, (A) identifying the owner of each Oil and Gas Interest (whether owned by the Company, a Guarantor or a Partnership, and identifying the Partnership), (B) valuing each Oil and Gas Interest in accordance with the Company's SEC reporting requirements, and (C) updating Schedule 6.17; and

(xvi) Promptly, such other information respecting the business, properties or the condition or operations, financial or otherwise, of the Company, any Guarantor, any Partnership and any Subsidiary, including, without limitation, geological and engineering data of the Company and any title work with respect to any Oil and Gas Interests of the Company as the Agent or any Lender may from time to time reasonably request.

(e) Access to Records, Books, Etc. At any reasonable time and from time to time, permit any Lender or the Agent or any agents or representatives thereof, at the Company's own expense, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Company, any Guarantor, any Partnership and any Subsidiary and to discuss the affairs, finances and accounts of the Company and the Guarantors with their officers and employees. Without limiting the foregoing, the Company agrees that at any reasonable time and from time to time, the Company will permit the Agent or any agents or representations thereof to inspect all opinions with respect to title and other material work received by the Company with respect to any asset included in the Borrowing Base.

(f) Additional Security and Collateral. Promptly (i) execute and deliver additional Security Documents, within 5 days after request therefor by the Agent, sufficient to grant to the Agent for the benefit of the Lenders liens and security interests in any after acquired property to the extent required under Section 5.1 or 5.2, and (ii) cause each person becoming a Subsidiary of the Company from time to time to execute and deliver to the Agent, within 5 days after such person becomes a Subsidiary, a Guaranty and related Security Documents, together with other related documents, sufficient to grant to the Agent liens and security interests in all collateral of the type described in Section 5.1 or 5.2. The Company shall notify the Agent, within 10 days after the occurrence thereof, of the acquisition of any property by the Company that is not subject to the existing Security Documents, any persons becoming a Subsidiary and any other event or condition that may require additional action of any nature in order to preserve the effectiveness and perfected status of the liens and security interests of the Agent with respect to such property pursuant to the Security Documents.

(g) Further Assurances. Will execute and deliver within 30 days after request therefor by the Agent, all further instruments and documents and take all further action that may be necessary or desirable, or that the Agent may request, in order to give effect to, and to aid in the exercise and enforcement of the rights and remedies of the Agent and the Lenders under, this Agreement, the Notes and the Security Documents, including without limitation causing each lessor of real property to the Company or any Subsidiary to execute and deliver to the Agent, prior to or upon the commencement of any tenancy, an agreement in form and substance acceptable to the Agent duly executed on behalf of such lessor waiving any distraint, lien and similar rights with respect to any property subject to the Security Documents and agreeing to permit the Agent to enter such premises in connection therewith.

(h) Operating Accounts. Maintain all operating accounts of the Company, its Subsidiaries and the Partnerships with the Agent for the purpose of depositing all proceeds from all oil and gas sales received from the collateral under the Security Documents, and the Company shall not, and shall not allow any Subsidiary or any Partnership to, redirect the payment of any such proceeds without the prior written consent of the Agent.

7.2 Negative Covenants. Until payment in full of the Secured Obligations and the expiration of this Agreement, the Company and the Guarantors each agrees that, unless the Required Lenders shall otherwise consent in writing, it shall not, and shall not permit any Subsidiary or Partnership to:

(a) Tangible Net Worth. Permit or suffer the Consolidated Tangible Net Worth of the Company and its Subsidiaries at any time to be less than the sum of (i) $82,200,000 plus (ii) 50% of the Consolidated Net Income of the Company and it Subsidiaries for each

fiscal quarter of the Company ending thereafter, to be added as of the end of each fiscal quarter commencing with the fiscal quarter ending March 31, 2002 provided that if the Consolidated Net Income of the Company and its Subsidiaries is negative in any fiscal quarter, the amount added for such fiscal quarter shall be zero, plus (iii) 100% of the proceeds of any sale of equity of the Company, minus (iv) the aggregate amount of any non-cash write-downs under FASB 19, 144 and 133.

(b) Current Ratio. Permit or suffer the ratio of Consolidated Current Ratio of the Company and its Subsidiaries at any time to be less than 1.0 to 1.0.

(c) Leverage Ratio. Permit or suffer, as of the last day of any fiscal quarter of the Company, the ratio of (i) Consolidated Funded Indebtedness of the Company and its Subsidiaries to (ii) Consolidated EBITDA of the Company and its Subsidiaries for the then most-recently ended four fiscal quarters to be greater than 2.5 to 1.0, calculated on a consolidated basis for the Company and its Subsidiaries.

(d) Partnership Debt and Liens. Permit or suffer the Partnership Debt to be greater than $500,000 at any time or permit or suffer any Partnership to create, incur or suffer to exist, any Lien to exist on any assets, rights, revenues or property, real, personal or mixed, tangible or intangible, other than Liens of the type described in Section 7.2(f)(ii).

(e) Indebtedness. Create, incur, assume, guaranty or in any manner become liable in respect of, or suffer to exist, any Indebtedness other than:

(i) The Advances;

(ii) The Indebtedness described in the financial statements referred to in Section 6.7, having the same terms as those existing on the Effective Date, but no increase in the amount thereof shall be permitted;

(iii) Other Indebtedness in aggregate outstanding amount not to exceed $1,000,000.

(f) Liens. Create, incur or suffer to exist, any Lien to exist on any assets, rights, revenues or property, real, personal or mixed, tangible or intangible, other than:

(i) Liens for taxes not delinquent or for taxes being contested in good faith by appropriate proceedings and as to which adequate financial reserves have been established on its books and records;

(ii) Liens (other than any Lien imposed by ERISA) created and maintained in the ordinary course of business which are not material in the aggregate, and which would not have a material adverse effect on the business or operations of the Company or any Guarantor and which constitute (A) pledges or deposits under worker's compensation laws, unemployment insurance laws or similar legislation, (B) good faith deposits in connection with bids, tenders, contracts or leases to which the Company or such Guarantor is a party for a purpose other than borrowing money or obtaining credit, including rent security deposits, (C) liens imposed by law, such as those of carriers, warehousemen, operators and mechanics, if payment of the obligation secured thereby is not yet due, (D) Liens securing taxes, assessments or other governmental charges or levies not yet subject to penalties for nonpayment, and (E) pledges or deposits to secure public or statutory obligations of the Company or such Guaran tor, or surety, customs or appeal bonds to which the Company or such Guarantor is a party;

(iii) Liens created pursuant to the Security Documents and Liens expressly permitted by the Security Documents; and

(iv) Each Lien described on Schedule 7.2(f) hereto may be suffered to exist upon the same terms as those existing on the date hereof, but no modification, extension or renewal thereof shall be permitted.

(g) Merger; Acquisitions; Etc. Purchase or otherwise acquire, whether in one or a series of transactions, unless the Required Lenders shall otherwise consent in writing, all or any substantial portion of the business assets, rights, revenues or property, real, personal or mixed, tangible or intangible, of any person, or all or any substantial portion of the capital stock of or other ownership interest in any other person; nor merge or consolidate or amalgamate with any other person or take any other action having a similar effect, nor enter into any joint venture or similar arrangement with any other person other than a joint venture or similar arrangement in connection with oil and gas drilling ventures, oil and gas leases or otherwise in connection with oil and gas properties.

(h) Disposition of Assets; Etc. Without the prior written consent of the Required Lenders, sell, lease, license, transfer, assign or otherwise dispose of or impair the value of any Collateral or any of its other business, assets, rights, revenues or property, real, personal or mixed, tangible or intangible, whether in one or a series of transactions, other than, if no Default has occurred or would be caused thereby, sales of assets in aggregate amount not to exceed $2,500,000 in any twelve month period, provided, that, any sale of any Borrowing Base Property shall require the prior written consent of the Required Lenders.

(i) Nature of Business. Make any substantial change in the nature of its business from that engaged in on the date of this Agreement or engage in any other businesses other than those in which it is engaged on the date of this Agreement.

(j) Investments, Loans and Advances, Contingent Liabilities. Purchase or otherwise acquire any capital stock of or other ownership interest in, or debt securities of or other evidences of Indebtedness of, any other person; nor enter into any new lease, capital or

operating, after the date hereof; nor make any loan or advance of any of its funds or property or make any other extension of credit to, or make any investment or acquire any interest whatsoever in, any other person, other than loans and advances, which together with Indebtedness allowed under Section 7.2(e)(iii), shall not exceed $2,000,000 in aggregate amount; nor incur any Contingent Liability.

(k) Dividends. Make, pay, declare or authorize any dividend, payment or other distribution in respect of any class of its capital stock or any dividend, payment or distribution in connection with the redemption, repurchase, defeasance, conversion, retirement or other acquisition, directly or indirectly, of any shares of its capital stock in excess of 50% of the Company's Net Income for the current fiscal year, provided, however, that no such payment shall be made if before and after the payment of such cash dividend, a Default shall have occurred and be continuing. For purposes of this Section 7.2(k), "capital stock" shall include capital stock (preferred, common or other) and any securities exchangeable for or convertible into capital stock and any warrants, rights or other options to purchase or otherwise acquire capital stock or such securities.

(l) Transactions with Affiliates. Enter into or be a party to any transaction or arrangement with any Affiliate (including, without limitation, the purchase from, sale to or exchange of property with, or the rendering of any service by or for, any Affiliate), except in the ordinary course of and pursuant to the reasonable requirements of the Company's, such Guarantor's or such Subsidiary's business and upon fair and reasonable terms no less favorable to the Company, such Guarantor or such Subsidiary than would be obtained in a comparable arms-length transaction with a Person other than an Affiliate.

(m) Inconsistent Agreements. Enter into any agreement containing any provision which would be violated or breached by this Agreement or any of the transactions contemplated hereby or by performance by the Company, any Guarantor or any of their Subsidiaries of their obligations in connection therewith.

(n) Partnership Agreements. Amend, modify, supplement, terminate or otherwise modify any Partnership Document, or otherwise take or omit to take any action which could impair any rights or assets of the Company or any Partnership, whether in connection therewith or otherwise.

(o) Negative Pledge Limitation. Enter into, or allow any Partnership to enter into, any agreement, including without limitation any amendments to existing agreements, with any Person other than the Lenders pursuant hereto, which prohibits or limits the ability of the Company, any Subsidiary or any Partnership to create, incur, assume or suffer to exist any Lien upon any of its Oil and Gas Interests, whether now owned or hereafter acquired.

(p) Financial Contracts. Enter into or remain liable upon any Financial Contract, except: (i) crude oil or natural gas hedges in an aggregate notional amount of no more than 75% of the Company's monthly production forecast for all of the proved and producing Oil and Gas Interests of the Company and its Subsidiaries for any period covered by such hedges, and (ii) Rate Management Transactions in an aggregate notional amount of no more than 100% of the Indebtedness of the Company and its Subsidiaries projected to be outstanding during the period covered by such Rate Management Transactions; provided, that, in each case (A) each Financial Contract shall have a term of no more than three years and (b) each Financial Contract shall be with a Lender or another creditworthy counterparty approved by the Agent.

SECTION 8. Default.

8.1 Events of Default. The occurrence of any one of the following events or conditions shall be deemed an "Event of Default" hereunder unless waived by the Required Lenders pursuant to Section 12.1:

(a) Nonpayment. The Company shall fail to pay when due any principal of or interest on the Notes, any Reimbursement Obligation owing to any Lender, any amount due under any Rate Management Obligation, any fees or any other amount payable hereunder or under any Loan Document; or

(b) Misrepresentation. Any representation or warranty made by the Company or any Guarantor in Section 6 hereof, in any Security Document or any other document or certificate furnished by or on behalf of the Company or any Guarantor in connection with this Agreement, shall prove to have been incorrect in any material respect when made; or

(c) Covenants. The Company or any Guarantor shall fail to perform or observe any term, covenant or agreement contained in this Agreement, in any Security Document, in any document relating to any Rate Management Obligation owing to any Lender, or any other agreement or instrument between the Company or any Guarantor and the Agent or any Lender; or

(d) Cross Default. The Company or any Guarantor shall fail to pay any part of the principal of, the premium on, if any, or the interest on, or any other payment of money due under, any of its Indebtedness (other than Indebtedness hereunder), beyond any period of grace provided with respect thereto, which individually or together with other such Indebtedness as to which any failure exists has an aggregate outstanding principal amount in excess of $500,000; or if the Company or any Guarantor fails to perform or observe any other term, covenant or agreement contained in any agreement, document or instrument evidencing or securing any such Indebtedness, or under which any such Indebtedness was issued or created, beyond any period of grace, if any, provided with respect thereto if the effect of such failure is either (i) to cause, or permit the holders of such Indebtedness (or a trustee on behalf of such holders) to cause, any payment in respect of such Indebtedness to become due prior to its due date or (ii) to permit the holders of such Indebtedness (or a trustee on behalf of such holder) to elect a majority of the board of directors of the Company or any Guarantor; or

(e) Cross Default - Partnership. Any Partnership shall fail to pay any part of the principal of, the premium on, if any, or the interest on, or any other payment of money due under, any of its Indebtedness, beyond any period of grace provided with respect thereto, or if any Partnership fails to perform or observe any other term, covenant or agreement contained in any agreement, document or instrument evidencing or securing any such Indebtedness, or under which any such Indebtedness was issued or created, beyond any period of grace, if any, provided with respect thereto if the effect of such failure is either (i) to cause, or permit the holders of such Indebtedness (or a trustee on behalf of such holders) to cause, any payment in respect of such Indebtedness to become due prior to its due date or (ii) to permit the holders of such Indebtedness (or a trustee on behalf of such holder) to elect a majority of the board of directors of any Partnership; or

(f) Judgments. A judgment or order for the payment of money, which together with other such judgments or orders exceeds the aggregate amount of $1,000,000, shall be rendered against the Company, any Guarantor or any Partnership and either (i) enforcement proceedings shall have been commenced by any creditor upon such judgment or order and such judgment or order shall have remained unsatisfied and such proceedings shall have remained unstayed for a period of 10 consecutive days, or (ii) for a period of 10 consecutive days, such judgment or order shall have remained unsatisfied and a stay of enforcement thereof, by reason of pending appeal or otherwise, shall not have been in effect; or

(g) ERISA. The occurrence or existence with respect to the Company, any Guarantor or any of their ERISA Affiliates of any of the following: (i) any "prohibited transaction" (as defined in Section 406 of ERISA or Section 4975 of the Code) involving any Plan, (ii) any Reportable Event shall occur with respect to any Plan, (iii) the filing under ERISA of a notice of intent to terminate any Plan or the termination of any Plan, (iv) any event or circumstance exists which might constitute grounds entitling the PBGC to institute proceedings under ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the institution of the PBGC of any such proceedings, or (v) complete or partial withdrawal under ERISA from any Multiemployer Plan or the reorganization, insolvency, or termination of any Multiemployer Plan, and in each of the foregoing cases, such event or condition, together with all other events or conditions, if any, could in the opinion of the Required Lenders subject the Company or any Guarantor to any tax, penalty, or other liability to a Plan, the PBGC, or otherwise (or any combination thereof); or

(h) Insolvency, Etc. The Company, any Guarantor, any of their Subsidiaries or any Partnership shall generally not pay its debts as they become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors, or shall institute, or there shall be instituted against the Company, any Guarantor, any of their Subsidiaries or any Partnership, any proceeding or case seeking to adjudicate it a bankrupt or insolvent or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief or protection of debtors or seeking the entry of an order for relief or the appointment of a receiver, trustee, custodian or other similar official for it or for any substantial part of its property, and, if such proceeding is instituted against the Company, any Guarantor, any of their Subsidi aries or any Partnership and is being contested by the Company, such Guarantor, such Subsidiary or such Partnership, as the case may be, in good faith by appropriate proceedings, such proceedings shall remain undismissed or unstayed for a period of 30 days; or the Company, any Guarantor, any of their Subsidiaries or any Partnership shall take any action (corporate or other) to authorize or further any of the actions described above in this subsection; or

(i) Security Documents; Etc. Any event of default described in any Security Document or Partnership Agreement shall have occurred and be continuing, or any material provision of any Security Document or Partnership Agreement shall at any time for any reason cease to be valid and binding and enforceable against any obligor thereunder, or the validity, binding effect or enforceability thereof shall be contested by any person, or any obligor shall deny that it has any or further liability or obligation thereunder, or any Security Document shall be terminated, invalidated or set aside, or be declared ineffective or inoperative or in any way ceases to give or provide to the Agent and the Lenders the benefits purported to be created thereby, or the Company shall not be the general partner of and operator under each Partnership.

(j) Any Person, or any two or more Persons acting in concert, shall acquire beneficial ownership (within the meaning of Rule 13d-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934) of 25% or more of the outstanding shares of voting stock of the Company.

8.2 Remedies.

(a) Upon the occurrence and during the continuance of any Event of Default, the Agent may and, upon being directed to do so by the Required Lenders, shall, by notice to the Company (i) terminate the Commitments or (ii) declare the outstanding principal of, and accrued interest on, the Notes, all unpaid Reimbursement Obligations and all other amounts due under this Agreement and the Loan Documents, to be immediately due and payable, or (iii) demand immediate delivery of cash collateral, and the Company agrees to deliver such cash collateral upon demand, in an amount equal to the maximum amount that may be available to be drawn at any time prior to the stated expiry of all outstanding Letters of Credit, or any one or more of the foregoing, or all of the above, whereupon the Commitments shall terminate forthwith and all such amounts, including such cash collateral, shall become immediately due and payable, or both, as the case may be, provided that in the case of any event or condition described in Section 8.1(h), the Commitments shall automatically terminate forthwith and all such amounts, including such cash collateral, shall automatically become immediately due and payable without notice; in all cases without demand, presentment, protest, diligence, notice of dishonor or other formality, all of which are hereby expressly waived. Such cash collateral delivered in respect of outstanding Letters of Credit shall be deposited in a special cash collateral account to be held by the Agent as collateral security for the payment and performance of the Company's obligations under this Agreement to the LC Issuer, the Agent and the Lenders.

(b) Upon the occurrence and during the continuance of such Event of Default, the Agent may and, upon being directed to do so by the Required Lenders shall, in addition to the remedies provided in Section 8.2(a), enforce any and all other rights and remedies available to it, either by suit in equity, or by action at law, or by other appropriate proceedings, whether for the specific performance (to the extent permitted by law) of any covenant or agreement contained in this Agreement or in any then outstanding Notes or any Security Document or in aid of the exercise of any power granted in this Agreement, any then outstanding Notes or any Security Document, and may enforce the payment of any then outstanding Notes and any of the other rights of the Agent and the Lenders in any other agreement or available at law or in equity.

(c) (i) Upon the occurrence and during the continuance of any Event of Default hereunder, each Lender may at any time and from time to time, without notice to the Company or any Guarantor (any requirement for such notice being expressly waived by the Company and each Guarantor) set off and apply against any and all of the obligations of the Company or any Guarantor now or hereafter existing under this Agreement, the Notes or any of the Security Documents, any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender to or for the credit or the account of the Company or any Guarantor and any property of the Company or any Guarantor from time to time in possession of such Lender, irrespective of whether or not such Lender shall have made any demand hereunder and although such obligations may be contingent and unmatured. The rights of such Lender under this Section 8.2(c) are in addition to other rights and remedies (including, without limitation, other rights of setoff) which such Lender may have.

(ii) If any Lender, whether by setoff or otherwise, has payment made to it upon its Loans (other than payments received pursuant to Section 4.6, 4.8 or 4.10) in a greater proportion than that received by any other Lender, such Lender agrees, promptly upon demand, to purchase a portion of the Loans held by the other Lenders so that after such purchase each Lender will hold its ratable proportion of Loans. If any Lender, whether in connection with setoff or amounts which might be subject to setoff or otherwise, receives collateral or other protection for its Obligations or such amounts which may be subject to setoff, such Lender agrees, promptly upon demand, to take such action necessary such that all Lenders share in the benefits of such collateral ratably in proportion to their Loans. In case any such payment is disturbed by legal process, or otherwise, appropriate further adjustments shall be made.

SECTION 9. Guaranty.

As an inducement to the Agent, the LC Issuer and the Lenders to enter into the transactions contemplated by this Agreement, each Guarantor agrees with the Agent, the LC Issuer and the Lenders as follows:

9.1 Guarantee of Obligations.

(a) Each Guarantor hereby (i) guarantees, as principal obligor and not as surety only, to the Agent, the LC Issuer and the Lenders the prompt payment of the principal of and any and all accrued and unpaid interest (including interest which otherwise may cease to accrue by operation of any insolvency law, rule, regulation or interpretation thereof) on the Advances, all Rate Management Obligations owing to any Lender or any Affiliate thereof and all other obligations of the Company to the Agent, the LC Issuer and the Lenders under this Agreement and the other Loan Documents when due, whether by scheduled maturity, acceleration or otherwise, all in accordance with the terms of this Agreement, the Notes, and any Rate Management Transactions with any Lender, including, without limitation, default interest, interest and other obligations incurred or accrued during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, whether or not allowed or allowable in such proceeding, indemnification payments and all reasonable costs and expenses incurred by the Agent, the LC Issuer and the Lenders in connection with enforcing any obligations of the Company hereunder, including without limitation the reasonable fees and disbursements of counsel, (ii) guarantees the prompt and punctual performance and observance of each and every term, covenant or agreement contained in this Agreement, the other Loan Documents and any Rate Management Obligations with any Lender or any Affiliate thereof to be performed or observed on the part of the Company and (iii) agrees to make prompt payment, on demand, of any and all reasonable costs and expenses incurred by the Agent, the LC Issuer or the Lenders in connection with enforcing the obligations of the Guarantors hereunder, including, without limitation, the reasonable fees and disbursements of counsel (all of the foregoing being collectively referred to as the "Guaranteed Obligations").

(b) If for any reason any duty, agreement or obligation of the Company contained in this Agreement shall not be performed or observed by the Company as provided therein, or if any amount payable under or in connection with this Agreement shall not be paid in full when the same becomes due and payable, each Guarantor undertakes to perform or cause to be performed promptly each of such duties, agreements and obligations and to pay forthwith each such amount to the Agent for the account of the Lenders regardless of any defense or setoff or counterclaim which the Company may have or assert, and regardless of any other condition or contingency.

9.2 Nature of Guaranty. The obligations of the Guarantors hereunder constitute an absolute and unconditional and irrevocable guaranty of payment and not a guaranty of collection and are wholly independent of and in addition to other rights and remedies of the Agent, the LC Issuer and the Lenders, and are not contingent upon the pursuit by the Agent, the LC Issuer or any Lender of any such rights and remedies, such pursuit being hereby waived by the Guarantors.

9.3 Waivers and Other Agreements. Each Guarantor hereby unconditionally (a) waives any requirement that the Agent, the LC Issuer or any Lender or any Affiliate thereof, upon the occurrence of an Event of Default first make demand upon, or seek to enforce remedies against the Company before demanding payment under or seeking to enforce the obligations of the Guarantors hereunder, (b) covenants that the obligations of the Guarantors hereunder will not be discharged except by complete performance of

all obligations of the Company to the Agent, the LC Issuer or any Lender or any Affiliate thereof, (c) agrees that the obligations of the Guarantors hereunder shall remain in full force and effect without regard to, and shall not be affected or impaired, without limitation, by any invalidity, irregularity or unenforceability in whole or in part of this Agreement or any other Loan Document or any agreement or document executed in connection with any Rate Management Transaction, or an y limitation on the liability of the Company thereunder, or any limitation on the method or terms of payment thereunder which may or hereafter be caused or imposed in any manner whatsoever (including, without limitation, usury laws), (d) waives diligence, presentment and protest with respect to, and any notice of default or dishonor in the payment of any amount at any time payable by the Company under or in connection with this Agreement or the Notes or any agreement or document executed in connection with any Rate Management Transaction, and further waives any requirement of notice of acceptance of, or other formality relating to, the obligations of the Guarantors hereunder and (e) agrees that the Guaranteed Obligations shall include any amounts paid by the Company to the Agent, the LC Issuer or any Lender or any Affiliate thereof which may be required to be returned to the Company or to its representative or to a trustee, custodian or receiver for the Company.

9.4 Obligations Absolute. The obligations, covenants, agreements and duties of the Guarantors under this Agreement shall not be released, affected or impaired by any of the following whether or not undertaken with notice to or consent of the Guarantors: (a) an assignment or transfer, in whole or in part, of the Advances made to the Company or of this Agreement or any Note or any Rate Management Obligation although made without notice to or consent of the Guarantors, or (b) any waiver by the Agent, the LC Issuer or any Lender or any Affiliate thereof or by any other person, of the performance or observance by the Company of any of the agreements, covenants, terms or conditions contained in this Agreement or in the other Loan Documents or any agreement or document executed in connection with any Rate Management Transaction, or (c) any indulgence in or the extension of the time for payment by the Company of any amounts payable under or in connection with this Agreement or any other Loan Document or any agreement or document executed in connection with any Rate Management Transaction, or of the time for performance by the Company of any other obligations under or arising out of this Agreement or any other Loan Document, or the extension or renewal thereof, or (d) the modification, amendment or waiver (whether material or otherwise) of any duty, agreement or obligation of the Company set forth in this Agreement or any other Loan Document or any agreement or document executed in connection with any Rate Management Transaction (the modification, amendment or waiver from time to time of this Agreement and the other Loan Documents or any agreement or document executed in connection with any Rate Management Transaction, being expressly authorized without further notice to or consent of the Guarantors), or (e) the voluntary or involuntary liquidation, sale or other disposition of all or substantially all of the assets of the Company or any receivership, insolvency, bankruptcy, reorganiza tion, or other similar proceedings, affecting the Company or any of its assets, or (f) the merger or consolidation of the Company or the Guarantors with any other person, or (g) the release of discharge of the Company or the Guarantors from the performance or observance of any agreement, covenant, term or condition contained in this Agreement or any other Loan Document or any agreement or document executed in connection with any Rate Management Transaction, by operation of law, or (h) any other cause whether similar or dissimilar to the foregoing which would release, affect or impair the obligations, covenants, agreements or duties of the Guarantors hereunder.

9.5 No Investigation by Lenders or Agent. Each Guarantor hereby waives unconditionally any obligation which, in the absence of such provision, the Lenders or the Agent might otherwise have to investigate or to assure that there has been compliance with the law of any jurisdiction with respect to the Guaranteed Obligations recognizing that, to save both time and expense, each Guarantor has requested that the Lenders and the Agent not undertake such investigation. Each Guarantor hereby expressly confirms that the obligations of such Guarantor hereunder shall remain in full force and effect without regard to compliance or noncompliance with any such law and irrespective of any investigation or knowledge of the Lenders or the Agent of any such law.

9.6 Indemnity. As a separate, additional and continuing obligation, each Guarantor unconditionally and irrevocably undertakes and agrees with the Agent, the LC Issuer and the Lenders that, should the Guaranteed Obligations not be recoverable from the Guarantors under Section 9.1 for any reason whatsoever (including, without limitation, by reason of any provision of this Agreement or any Note or any other agreement or instrument executed in connection herewith being or becoming void, unenforceable, or otherwise invalid under any applicable law) then, notwithstanding any knowledge thereof by the Agent, the LC Issuer or any Lender at any time, each Guarantor as sole, original and independent obligor, upon demand by the Agent, will make payment to the Agent for the account of the Lenders of the Guaranteed Obligations by way of a full indemnity in such currency and otherwise in such manner as is provided in this Agreement and the Notes.

9.7 Subordination, Subrogation, Etc. Each Guarantor agrees that any present or future indebtedness, obligations or liabilities of the Company to any Guarantor shall be fully subordinate and junior in right and priority of payment to any present or future indebtedness, obligations or liabilities of the Company to the Agent, the LC Issuer and the Lenders. Each Guarantor waives any right of subrogation to the rights of the Agent, the LC Issuer or any Lender against the Company or any other person obligated for payment of the Guaranteed Obligations and any right of reimbursement or indemnity whatsoever arising or accruing out of any payment which any Guarantor may make pursuant to this Agreement and the Notes, and any right of recourse to security for the debts and obligations of the Company, unless and until the entire principal balance of and interest on the Guaranteed Obligations shall have been paid in full.

9.8 Waiver. To the extent that it lawfully may, each Guarantor agrees that it will not at any time insist upon or plead, or in any manner whatsoever claim or take any benefit or advantage of any applicable present or future stay, extension or moratorium law, which may affect observance or performance of the provisions of this Agreement or any other Loan Documents; nor will it claim, take or insist upon any benefit or advantage of any present or future law providing for the evaluation or appraisal of any security for its obligations hereunder or the Company under this Agreement and under any other Loan Documents prior to any sale or sales thereof which may be made under or by virtue of any instrument governing the same; nor will it, after any such sale or sales claim or exercise any right, under any applicable law, to redeem any portion of such security so sold.

SECTION 10. The Agent.

10.1. Appointment; Nature of Relationship. Bank One, NA is hereby appointed by each of the Lenders as its contractual representative (herein referred to as the "Agent") hereunder and under each other Loan Document, and each of the Lenders irrevocably authorizes the Agent to act as the contractual representative of such Lender with the rights and duties expressly set forth herein and in the other Loan Documents. The Agent agrees to act as such contractual representative upon the express conditions contained in this Section 10. Notwithstanding the use of the defined term "Agent," it is expressly understood and agreed that the Agent shall not have any fiduciary responsibilities to any Lender by reason of this Agreement or any other Loan Document and that the Agent is merely acting as the contractual representative of the Lenders with only those duties as are expressly set forth in this Agreement and the other Loan Documents. In its capacity as the Lenders' contractual re presentative, the Agent (i) does not hereby assume any fiduciary duties to any of the Lenders, (ii) is a "representative" of the Lenders within the meaning of the term "secured party" as defined in the Illinois Uniform Commercial Code and (iii) is acting as an independent contractor, the rights and duties of which are limited to those expressly set forth in this Agreement and the other Loan Documents. Each of the Lenders hereby agrees to assert no claim against the Agent on any agency theory or any other theory of liability for breach of fiduciary duty, all of which claims each Lender hereby waives.

10.2. Powers. The Agent shall have and may exercise such powers under the Loan Documents as are specifically delegated to the Agent by the terms of each thereof, together with such powers as are reasonably incidental thereto. The Agent shall have no implied duties to the Lenders, or any obligation to the Lenders to take any action thereunder except any action specifically provided by the Loan Documents to be taken by the Agent.

10.3. General Immunity. Neither the Agent nor any of its directors, officers, agents or employees shall be liable to the Company, the Lenders or any Lender for any action taken or omitted to be taken by it or them hereunder or under any other Loan Document or in connection herewith or therewith except to the extent such action or inaction is determined in a final non-appealable judgment by a court of competent jurisdiction to have arisen from the gross negligence or willful misconduct of such Person.

10.4. No Responsibility for Loans, Recitals, etc Neither the Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into, or verify (a) any statement, warranty or representation made in connection with any Loan Document or any borrowing hereunder; (b) the performance or observance of any of the covenants or agreements of any obligor under any Loan Document, including, without limitation, any agreement by an obligor to furnish information directly to each Lender; (c) the satisfaction of any condition specified in Section 3, except receipt of items required to be delivered solely to the Agent; (d) the existence or possible existence of any Default or Event of Default; (e) the validity, enforceability, effectiveness, sufficiency or genuineness of any Loan Document or any other instrument or writing furnished in connection therewith; (f) the value, sufficiency, creation, perfection or priority of any Lien in any collateral security; or (g) the financial condition of the Company or any guarantor of any of the Obligations or of any of the Company's or any such guarantor's respective Subsidiaries. The Agent shall have no duty to disclose to the Lenders information that is not required to be furnished by the Company to the Agent at such time, but is voluntarily furnished by the Company to the Agent (either in its capacity as Agent or in its individual capacity).

10.5. Action on Instructions of Lenders. The Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder and under any other Loan Document in accordance with written instructions signed by the Required Lenders, and such instructions and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders. The Lenders hereby acknowledge that the Agent shall be under no duty to take any discretionary action permitted to be taken by it pursuant to the provisions of this Agreement or any other Loan Document unless it shall be requested in writing to do so by the Required Lenders. The Agent shall be fully justified in failing or refusing to take any action hereunder and under any other Loan Document unless it shall first be indemnified to its satisfaction by the Lenders pro rata against any and all liability, cost and expense that it may incur by reason of taking or continuing to take any such action.

10.6. Employment of Agents and Counsel. The Agent may execute any of its duties as Agent hereunder and under any other Loan Document by or through employees, agents, and attorneys-in-fact and shall not be answerable to the Lenders, except as to money or securities received by it or its authorized agents, for the default or misconduct of any such agents or attorneys-in-fact selected by it with reasonable care. The Agent shall be entitled to advice of counsel concerning the contractual arrangement between the Agent and the Lenders and all matters pertaining to the Agent's duties hereunder and under any other Loan Document.

10.7. Reliance on Documents; Counsel. The Agent shall be entitled to rely upon any Note, notice, consent, certificate, affidavit, letter, telegram, statement, paper or document believed by it to be genuine and correct and to have been signed or sent by the proper person or persons, and, in respect to legal matters, upon the opinion of counsel selected by the Agent, which counsel may be employees of the Agent.

10.8. Agent's Reimbursement and Indemnification. The Lenders agree to reimburse and indemnify the Agent ratably in proportion to their respective Commitments (or, if the Commitments have been terminated, in proportion to their Commitments immediately prior to such termination) (i) for any amounts not reimbursed by the Company for which the Agent is entitled to reimbursement by the Company under the Loan Documents, (ii) for any other expenses incurred by the Agent on behalf of the Lenders, in connection with the preparation, execution, delivery, administration and enforcement of the Loan Documents (including, without limitation, for any expenses incurred by the Agent in connection with any dispute between the Agent and any Lender or between two or more of the Lenders) and (iii) for any liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever which may be imposed on, incurred by or a sserted against the Agent in any way

relating to or arising out of the Loan Documents or any other document delivered in connection therewith or the transactions contemplated thereby (including, without limitation, for any such amounts incurred by or asserted against the Agent in connection with any dispute between the Agent and any Lender or between two or more of the Lenders), or the enforcement of any of the terms of the Loan Documents or of any such other documents, *provided* that (i) no Lender shall be liable for any of the foregoing to the extent any of the foregoing is found in a final non-appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the Agent and (ii) any indemnification required pursuant to Section 4.6 shall, notwithstanding the provisions of this Section 10.8, be paid by the relevant Lender in accordance with the provisions thereof. The obligations of the Lenders under this Section 10.8 shall survive payment of t he Obligations and termination of this Agreement.

10.9. Notice of Default. The Agent shall not be deemed to have knowledge or notice of the occurrence of any Default or Event of Default hereunder unless the Agent has received written notice from a Lender or the Company referring to this Agreement describing such Default or Event of Default and stating that such notice is a "notice of default". In the event that the Agent receives such a notice, the Agent shall give prompt notice thereof to the Lenders.

10.10. Rights as a Lender. In the event the Agent is a Lender, the Agent shall have the same rights and powers hereunder and under any other Loan Document with respect to its Commitment and its Loans as any Lender and may exercise the same as though it were not the Agent, and the term "Lender" or "Lenders" shall, at any time when the Agent is a Lender, unless the context otherwise indicates, include the Agent in its individual capacity. The Agent and its Affiliates may accept deposits from, lend money to, and generally engage in any kind of trust, debt, equity or other transaction, in addition to those contemplated by this Agreement or any other Loan Document, with the Company or any of its Subsidiaries in which the Company or such Subsidiary is not restricted hereby from engaging with any other Person. The Agent, in its individual capacity, is not obligated to remain a Lender.

10.11. Lender Credit Decision. Each Lender acknowledges that it has, independently and without reliance upon the Agent, the Arranger or any other Lender and based on the financial statements prepared by the Company and such other documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement and the other Loan Documents. Each Lender also acknowledges that it will, independently and without reliance upon the Agent, the Arranger or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement and the other Loan Documents.

10.12. Successor Agent. The Agent may resign at any time by giving written notice thereof to the Lenders and the Company, such resignation to be effective upon the appointment of a successor Agent or, if no successor Agent has been appointed, forty-five days after the retiring Agent gives notice of its intention to resign. The Agent may be removed at any time with or without cause by written notice received by the Agent from the Required Lenders, such removal to be effective on the date specified by the Required Lenders. Upon any such resignation or removal, the Required Lenders shall have the right to appoint, on behalf of the Company and the Lenders, a successor Agent. If no successor Agent shall have been so appointed by the Required Lenders within thirty days after the resigning Agent's giving notice of its intention to resign, then the resigning Agent may appoint, on behalf of the Company and the Lenders, a successor Agent. Notwithstanding the previous sentence, the Agent may at any time without the consent of the Company or any Lender, appoint any of its Affiliates which is a commercial bank as a successor Agent hereunder. If the Agent has resigned or been removed and no successor Agent has been appointed, the Lenders may perform all the duties of the Agent hereunder and the Company shall make all payments in respect of the Obligations to the applicable Lender and for all other purposes shall deal directly with the Lenders. No successor Agent shall be deemed to be appointed hereunder until such successor Agent has accepted the appointment. Any such successor Agent shall be a commercial bank having capital and retained earnings of at least $100,000,000. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the resigning or removed Agent. Upon the effectiveness of the resignation or removal of the Agent, the resigning or removed Agent shall be discharged from its duties and obligations hereunder and under the Loan Documents. After the effectiveness of the resignation or removal of an Agent, the provisions of this Section 10 shall continue in effect for the benefit of such Agent in respect of any actions taken or omitted to be taken by it while it was acting as the Agent hereunder and under the other Loan Documents. In the event that there is a successor to the Agent by merger, or the Agent assigns its duties and obligations to an Affiliate pursuant to this Section 10.12, then the term "Prime Rate" as used in this Agreement shall mean the prime rate, base rate or other analogous rate of the new Agent.

10.13. Agent and Arranger Fees The Company agrees to pay to the Agent and the Arranger, for their respective accounts, the fees agreed to by the Company, the Agent and the Arranger pursuant to that certain letter agreement dated April 30, 2002 or as otherwise agreed from time to time.

10.14. Delegation to Affiliates. The Company and the Lenders agree that the Agent may delegate any of its duties under this Agreement to any of its Affiliates. Any such Affiliate (and such Affiliate's directors, officers, agents and employees) which performs duties in connection with this Agreement shall be entitled to the same benefits of the indemnification, waiver and other protective provisions to which the Agent is entitled under Sections 9 and 10.

10.15. Execution of Collateral Documents. The Lenders hereby empower and authorize the Agent to execute and deliver to the Company on their behalf the Security Document(s) and all related financing statements and any financing statements, agreements, documents or instruments as shall be necessary or appropriate to effect the purposes of the Security Document(s).

10.16. Collateral Releases. The Lenders hereby empower and authorize the Agent to execute and deliver to the Company on their behalf any agreements, documents or instruments as shall be necessary or appropriate to effect any releases of Collateral which shall be permitted by the terms hereof or of any other Loan Document or which shall otherwise have been approved by the Required Lenders (or, if required by the terms of Section 8.2, all of the Lenders) in writing.

10.17 Syndication and Managing Agents. Neither Bank One, as Syndication Agent hereunder, nor BNP Paribas, as Managing Agent hereunder, shall have any duties or liabilities hereunder in such capacity.

SECTION 11. Benefit of Agreement; Assignments; Participations.

11.1. Successors and Assigns. The terms and provisions of the Loan Documents shall be binding upon and inure to the benefit of the Company and the Lenders and their respective successors and assigns permitted hereby, except that (i) the Company shall not have the right to assign its rights or obligations under the Loan Documents without the prior written consent of each Lender, (ii) any assignment by any Lender must be made in compliance with Section 11.3, and (iii) any transfer by Participation must be made in compliance with Section 11.2. Any attempted assignment or transfer by any party not made in compliance with this Section 11.1 shall be null and void, unless such attempted assignment or transfer is treated as a participation in accordance with Section 11.3(b). The parties to this Agreement acknowledge that clause (ii) of this Section 11.1 relates only to absolute assignments and this Section 11.1 does not prohibit assignments creating security interests, including, without limitation, (x) any pledge or assignment by any Lender of all or any portion of its rights under this Agreement and any Note to a Federal Reserve Bank or (y) in the case of a Lender which is a Fund, any pledge or assignment of all or any portion of its rights under this Agreement and any Note to its trustee in support of its obligations to its trustee; *provided, however,* that no such pledge or assignment creating a security interest shall release the transferor Lender from its obligations hereunder unless and until the parties thereto have complied with the provisions of Section 11.3. The Agent may treat the Person which made any Loan or which holds any Note as the owner thereof for all purposes hereof unless and until such Person complies with Section 11.3; *provided, however,* that the Agent may in its discretion (but shall not be required to) follow instructions from the Person which made any Loan or which holds any Note to direct payments relating to such Loan or Note to another Pers on. Any assignee of the rights to any Loan or any Note agrees by acceptance of such assignment to be bound by all the terms and provisions of the Loan Documents. Any request, authority or consent of any Person, who at the time of making such request or giving such authority or consent is the owner of the rights to any Loan (whether or not a Note has been issued in evidence thereof), shall be conclusive and binding on any subsequent holder or assignee of the rights to such Loan.

11.2. Participations.

(a) Permitted Participants; Effect. Any Lender may at any time sell to one or more banks or other entities ("Participants") participating interests in any Outstanding Credit Exposure owing to such Lender, any Note held by such Lender, any Commitment of such Lender or any other interest of such Lender under the Loan Documents. In the event of any such sale by a Lender of participating interests to a Participant, such Lender's obligations under the Loan Documents shall remain unchanged, such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, such Lender shall remain the owner of its Outstanding Credit Exposure and the holder of any Note issued to it in evidence thereof for all purposes under the Loan Documents, all amounts payable by the Company under this Agreement shall be determined as if such Lender had not sold such participating interests, and the Company and the Agent shall continue to deal solely and direc tly with such Lender in connection with such Lender's rights and obligations under the Loan Documents.

(b) Voting Rights. Each Lender shall retain the sole right to approve, without the consent of any Participant, any amendment, modification or waiver of any provision of the Loan Documents other than any amendment, modification or waiver with respect to any Advance or Commitment in which such Participant has an interest which would require consent of all of the Lenders pursuant to the terms of Section 12.1 or of any other Loan Document.

(c) Benefit of Certain Provisions. The Company agrees that each Participant shall be deemed to have the right of setoff provided in Section 8.2(c) in respect of its participating interest in amounts owing under the Loan Documents to the same extent as if the amount of its participating interest were owing directly to it as a Lender under the Loan Documents, *provided* that each Lender shall retain the right of setoff provided in Section 8.2(c) with respect to the amount of participating interests sold to each Participant. The Lenders agree to share with each Participant, and each Participant, by exercising the right of setoff provided in Section 8.2(c), agrees to share with each Lender, any amount received pursuant to the exercise of its right of setoff, such amounts to be shared in accordance with Section 8.2(c) as if each Participant were a Lender. The Company further agrees that each Participant shall be entitled to the benefits of Sections 4.6, 4.8 an d 4.10 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to Section 11.3, *provided* that (i) a Participant shall not be entitled to receive any greater payment under Section 4.6, 4.8 or 4.10 than the Lender who sold the participating interest to such Participant would have received had it retained such interest for its own account, unless the sale of such interest to such Participant is made with the prior written consent of the Company, and (ii) any Participant not incorporated under the laws of the United States of America or any State thereof agrees to comply with the provisions of Section 4.6 to the same extent as if it were a Lender.

11.3 Assignments.

(a) Permitted Assignments. Any Lender may at any time assign to one or more banks or other entities ("Purchasers") all or any part of its rights and obligations under the Loan Documents. Such assignment shall be substantially in the form of Exhibit C or in such other form as may be agreed to by the parties thereto. Each such assignment with respect to a Purchaser which is not a Lender or an Affiliate of a Lender or an Approved Fund shall either be in an amount equal to the entire applicable Commitment and Loans of the assigning Lender or (unless each of the Company and the Agent otherwise consents) be in an aggregate amount not less than $5,000,000. The amount of the assignment shall be based on the Commitment or outstanding Loans (if the Commitment has been terminated) subject to the assignment, determined as of the date of such assignment or as of the "Trade Date," if the "Trade Date" is specified in the assignment.

(b) Consents. The consent of the Company shall be required prior to an assignment becoming effective unless the Purchaser is a Lender, an Affiliate of a Lender or an Approved Fund, provided that the consent of the Company shall not be required if a Default has occurred and is continuing. The consent of the Agent shall be required prior to an assignment becoming effective unless the Purchaser is a Lender, an Affiliate of a Lender or an Approved Fund. Any consent required under this Section 11.3(b) shall not be unreasonably withheld or delayed.

(c) Effect; Effective Date. Upon (i) delivery to the Agent of an assignment, together with any consents required by Sections 11.3(a) and 11.3(b), and (ii) payment of a $3,500 fee to the Agent for processing such assignment (unless such fee is waived by the Agent), such assignment shall become effective on the effective date specified in such assignment. The assignment shall contain a representation by the Purchaser to the effect that none of the consideration used to make the purchase of the Commitment and Outstanding Credit Exposure under the applicable assignment agreement constitutes "plan assets" as defined under ERISA and that the rights and interests of the Purchaser in and under the Loan Documents will not be "plan assets" under ERISA. On and after the effective date of such assignment, such Purchaser shall for all purposes be a Lender party to this Agreement and any other Loan Document executed by or on behalf of the Lenders and shall have all the rights and obligations of a Lender under the Loan Documents, to the same extent as if it were an original party thereto, and the transferor Lender shall be released with respect to the Commitment and Outstanding Credit Exposure assigned to such Purchaser without any further consent or action by the Company, the Lenders or the Agent. In the case of an assignment covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a Lender hereunder but shall continue to be entitled to the benefits of, and subject to, those provisions of this Agreement and the other Loan Documents which survive payment of the Obligations and termination of the applicable agreement. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 11.3 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with Section 11.2. Upon the consummation of any assignment to a Purchaser pursuant to this Section 11.3(c), the transferor Lender, the Agent and the Company shall, if the transferor Lender or the Purchaser desires that its Loans be evidenced by Notes, make appropriate arrangements so that new Notes or, as appropriate, replacement Notes are issued to such transferor Lender and new Notes or, as appropriate, replacement Notes, are issued to such Purchaser, in each case in principal amounts reflecting their respective Commitments, as adjusted pursuant to such assignment.

(d) Register. The Agent, acting solely for this purpose as an agent of the Company, shall maintain at one of its offices in Chicago, Illinois a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitments of, and principal amounts of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Company, the Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Company and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

11.4. Dissemination of Information. The Company authorizes each Lender to disclose to any Participant or Purchaser or any other Person acquiring an interest in the Loan Documents by operation of law or any other Person with (or through) whom that Lender enters into (or may potentially enter into) any sub-participation, any securitization, any hedge or otherwise, in relation to, or any other transaction under which payments are to be made by reference to, this Agreement (each a "Transferee") and any prospective Transferee any and all information in such Lender's possession concerning the creditworthiness of the Company and its Subsidiaries, including without limitation any information contained in any Reports; *provided* that each Transferee and prospective Transferee agrees to be bound by Section 12.14 of this Agreement.

11.5 Tax Treatment. If any interest in any Loan Document is transferred to any Transferee which is not incorporated under the laws of the United States or any State thereof, the transferor Lender shall cause such Transferee, concurrently with the effectiveness of such transfer, to comply with the provisions of Section 4.6(iv).

SECTION 12. Miscellaneous.

12.1 Amendments. Subject to the provisions of this Section 12.1, the Required Lenders (or the Agent with the consent in writing of the Required Lenders) and the Company may enter into agreements supplemental hereto for the purpose of adding or modifying any provisions to the Loan Documents or changing in any manner the rights of the Lenders or the Company hereunder or waiving any Default or Event of Default hereunder; *provided, however,* that no such supplemental agreement shall, without the consent of all of the Lenders:

(a) Extend the final maturity of any Loan, or extend the expiry of a Letter of Credit to a date after the Termination Date, or postpone any regularly scheduled payment of principal of any Loan or forgive all or any portion of the principal amount thereof or any Reimbursement Obligation related thereto, or reduce the rate or extend the time of payment of interest or fees thereon or Reimbursement Obligations related thereto.

(b) Reduce the percentage specified in the definition of Required Lenders.

(c) Extend the Termination Date, or reduce the amount or extend the payment date for, the mandatory payments required under Section 4.1(c) or 4.1(d), or, except as permitted pursuant to Section 2.3, increase the amount of the Aggregate Commitment, the Commitment of any Lender hereunder or the commitment to issue Letters of Credit, or permit the Company to assign its rights under this Agreement.

(d) Amend Section 2.3, 2.4 or this Section 12.1.

(e) Release any guarantor of any Advance or Rate Management Obligation or, except as provided in the Collateral Documents, release, or agree to subordinate, the Lenders' Liens with respect to, all or substantially all of the Collateral.

(f) Increase the Borrowing Base pursuant to Section 2.6.

No amendment of any provision of this Agreement relating to the Agent shall be effective without the written consent of the Agent and no amendment to any provision relating to the LC Issuer shall be effective without the written consent of the LC Issuer.

12.2 Notices. (a) Except as otherwise provided in Section 12.2(c) hereof, all notices, requests, consents and other communications hereunder shall be in writing and shall be delivered or sent to the Company, the Agent and the Lenders at the respective addresses for notices set forth on the signature pages hereof, or to such other address as may be designated by the Company, the Agent or any Lender by notice to the other parties hereto. All notices shall be deemed to have been given at the time of actual delivery thereof to such address, or if sent by the Agent or any Lender to the Company by certified or registered mail, postage prepaid, to such address, on the fifth day after the date of mailing.

(b) Notices by the Company to the Agent with respect to terminations or reductions of the Commitments pursuant to Section 2.2, requests for Advances pursuant to Section 3.1, requests for continuations or conversions of Loans pursuant to Section 3.4 and notices of prepayment pursuant to Section 4.1(b) shall be irrevocable and binding on the Company.

(c) Any notice to be given by the Company to the Agent pursuant to Sections 3.1, 3.4 or 4.1(b) and any notice to be given by the Agent or any Lender hereunder, may be given by telephone or by facsimile transmission and must be immediately confirmed in writing in the manner provided in Section 12.2(a). Any such notice given by telephone or facsimile transmission shall be deemed effective upon receipt thereof by the party to whom such notice is given.

12.3 Conduct No Waiver; Remedies Cumulative. No course of dealing on the part of the Agent, the LC Issuer or any Lender, nor any delay or failure on the part of the Agent, the LC Issuer or any Lender in exercising any right, power or privilege hereunder shall operate as a waiver of such right, power or privilege or otherwise prejudice the Agent's, the LC Issuer's or any Lender's rights and remedies hereunder; nor shall any single or partial exercise thereof preclude any further exercise thereof or the exercise of any other right, power or privilege. No right or remedy conferred upon or reserved to the Agent, the LC Issuer or any Lender under this Agreement is intended to be exclusive of any other right or remedy, and every right and remedy shall be cumulative and in addition to every other right or remedy given hereunder or now or hereafter existing under any applicable law. Every right and remedy given by this Agreement or by applicable law to the Agent, the LC Issuer or any Lender may be exercised from time to time and as often as may be deemed expedient by the Agent, the LC Issuer or any Lender.

12.4 Reliance on and Survival of Various Provisions. All terms, covenants, agreements, representations and warranties of the Company or any Guarantor made herein or in any certificate or other document delivered pursuant hereto shall be deemed to be material and to have been relied upon by the Lenders, notwithstanding any investigation heretofore or hereafter made by any Lender or on such Lender's behalf, and those covenants and agreements of the Company set forth in Section 12.5 hereof shall survive the repayment in full of the Advances and other obligations of the Company hereunder and under the Security Documents and the termination of the Commitments.

12.5 Expenses; Indemnification. (i) The Company shall reimburse the Agent and the Arranger for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, which attorneys may be employees of the Agent) paid or incurred by the Agent or the Arranger in connection with the preparation, negotiation, execution, delivery, syndication, distribution (including, without limitation, via the internet), review, amendment, modification, and administration of the Loan Documents. The Company also agrees to reimburse the Agent, the Arranger, the LC Issuer and the Lenders for any costs, internal charges and out-of-pocket expenses (including attorneys' fees and time charges of attorneys for the Agent, the Arranger and the Lenders, which attorneys may be employees of the Agent, the Arranger, the LC Issuer or the Lenders) paid or incurred by the Agent, the Arranger, the LC Issuer or any Lender in connection with the colle ction and enforcement of the Loan Documents. Expenses being reimbursed by the Company under this Section include, without limitation, the cost and expense of obtaining an appraisal of each parcel of real property or interest in real property described in the relevant Collateral Documents, which appraisal shall be in conformity with the applicable requirements of any law or any governmental rule, regulation, policy, guideline or directive (whether or not having the force of law), or any interpretation thereof, including, without limitation, the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, as amended, reformed or otherwise modified from time to time, and any rules promulgated to implement such provisions and costs and expenses incurred in connection with the Reports described in the following sentence. The Company acknowledges that from time to time Bank One may prepare and may distribute to the Lenders (but shall have no obligation or duty to prepare or to distribute to the Lenders) certain audit reports (the "Reports") pertaining to the Company's assets for internal use by Bank One from information furnished to it by or on behalf of the Company, after Bank One has exercised its rights of inspection pursuant to this Agreement.

(ii) The Company hereby further agrees to indemnify the Agent, the Arranger, the LC Issuer and each Lender, their respective affiliates, and each of their directors, officers and employees against all losses, claims, damages, penalties, judgments, liabilities and expenses (including, without limitation, all expenses of litigation or preparation therefor whether or not the Agent, the Arranger, the LC Issuer or any Lender or any affiliate is a party thereto) which any of them may pay or incur arising out of or relating to this Agreement, the other Loan Documents, the transactions contemplated hereby or the direct or indirect application or proposed application of the proceeds of any Advance hereunder except to the extent that they are determined in a final non-

appealable judgment by a court of competent jurisdiction to have resulted from the gross negligence or willful misconduct of the party seeking indemnification. The obligations of the Company under this Section 12.5 sha ll survive the termination of this Agreement.

12.6 GOVERNING LAW. THIS AGREEMENT IS A CONTRACT MADE UNDER, AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF ILLINOIS APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE WITHOUT GIVING EFFECT TO ANY CHOICE OF LAW PRINCIPLES OF SUCH STATE, BUT GIVING EFFECT TO FEDERAL LAWS APPLICABLE TO NATIONAL BANKS.

12.7 Table of Contents and Headings. The table of contents and the headings of the various subdivisions hereof are for the convenience of reference only and shall in no way modify any of the terms or provisions hereof.

12.8 Construction of Certain Provisions. All computations required hereunder and all financial terms used herein shall be made or construed in accordance with GAAP unless such principles are inconsistent with the express requirements of this Agreement. If any provision of this Agreement refers to any action to be taken by any Person, or which such Person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person, whether or not expressly specified in such provision.

12.9 Integration and Severability. This Agreement embodies the entire agreement and understanding among the Company, the Guarantors, the Agent, the LC Issuer and the Lenders, and supersedes all prior agreements and understandings, relating to the subject matter hereof. In case any one or more of the obligations of the Company or any Guarantor under this Agreement, the Notes or any other Loan Document shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining obligations of the Company and the Guarantors shall not in any way be affected or impaired thereby, and such invalidity, illegality or unenforceability in one jurisdiction shall not affect the validity, legality or enforceability of the obligations of the Company or any Guarantor under this Agreement, the Notes or any other Loan Document in any other jurisdiction.

12.10 Interest Rate Limitation. Notwithstanding any provisions of this Agreement, any Note or any other Loan Document, in no event shall the amount of interest paid or agreed to be paid by the Company exceed an amount computed at the highest rate of interest permissible under applicable law. If, from any circumstances whatsoever, fulfillment of any provision of this Agreement, any Note or any other Loan Document at the time performance of such provision shall be due, shall involve exceeding the interest rate limitation validly prescribed by law which a court of competent jurisdiction may deem applicable hereto, then, ipso facto, the obligations to be fulfilled shall be reduced to an amount computed at the highest rate of interest permissible under applicable law, and if for any reason whatsoever any Lender shall ever receive as interest an amount which would be deemed unlawful under such applicable law such interest shall be automatically applied to the paymen t of principal of the Advances outstanding and other obligations of the Company hereunder (whether or not then due and payable) and not to the payment of interest, or shall be refunded to the Company if such principal has been paid in full. Anything herein to the contrary notwithstanding, the obligations of the Company and the Guarantors under this Agreement shall be subject to the limitation that payments of interest shall not be required to the extent that receipt of any such payment by any Lender would be contrary to provisions of law applicable to any Lender which limits the maximum rate of interest which may be charged or collected by any Lender.

12.11 Counterparts. This Agreement may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

12.12 Independence of Covenants. All covenants hereunder shall be given independent effect so that if a particular action or condition is not permitted by any such covenant, the fact that it would be permitted by an exception to, or would be otherwise within the limitations of, another covenant shall not avoid the occurrence of a Default if such action is taken or such condition exists.

12.13 Nonliability of Lenders. The relationship between the Company on the one hand and the Lenders and the Agent on the other hand shall be solely that of borrower and lender. Neither the Agent, the Arranger nor any Lender shall have any fiduciary responsibilities to the Company. Neither the Agent, the Arranger nor any Lender undertakes any responsibility to the Company to review or inform the Company of any matter in connection with any phase of the Company's business or operations. The Company agrees that neither the Agent, the Arranger nor any Lender shall have liability to the Company (whether sounding in tort, contract or otherwise) for losses suffered by the Company in connection with, arising out of, or in any way related to, the transactions contemplated and the relationship established by the Loan Documents, or any act, omission or event occurring in connection therewith, unless it is determined in a final non-appealable judgment by a court of competent juri sdiction that such losses resulted from the gross negligence or willful misconduct of the party from which recovery is sought. Neither the Agent, the Arranger nor any Lender shall have any liability with respect to, and the Company hereby waives, releases and agrees not to sue for, any special, indirect, consequential or punitive damages suffered by the Company in connection with, arising out of, or in any way related to the Loan Documents or the transactions contemplated thereby.

12.14 Confidentiality. Each Lender agrees to hold any confidential information which it may receive from the Company pursuant to this Agreement in confidence, except for disclosure (i) to its Affiliates and to other Lenders and their respective Affiliates, (ii) to legal counsel, accountants, and other professional advisors to such Lender or to a Transferee, (iii) to regulatory officials, (iv) to any Person as requested pursuant to or as required by law, regulation, or legal process, (v) to any Person in connection with any legal proceeding to which such Lender is a party, (vi) to such Lender's direct or indirect contractual counterparties in swap agreements or to legal counsel, accountants and other professional advisors to such counterparties, (vii) permitted by Section 11.4 and (viii) to rating agencies if requested or required by such agencies in connection with a rating relating to the Advances hereunder.

12.15 Nonreliance. Each Lender hereby represents that it is not relying on or looking to any margin stock (as defined in Regulation U of the Board of Governors of the Federal Reserve System) for the repayment of the Loans provided for herein.

12.16 Disclosure. The Company and each Lender hereby acknowledge and agree that Bank One and/or its Affiliates from time to time may hold investments in, make other loans to or have other relationships with the Company and its Affiliates.

12.17 **CONSENT TO JURISDICTION**. **THE COMPANY HEREBY IRREVOCABLY SUBMITS TO THE NON-EXCLUSIVE JURISDICTION OF ANY UNITED STATES FEDERAL OR ILLINOIS STATE COURT SITTING IN CHICAGO, ILLINOIS IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO ANY LOAN DOCUMENTS AND THE COMPANY HEREBY IRREVOCABLY AGREES THAT ALL CLAIMS IN RESPECT OF SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN ANY SUCH COURT AND IRREVOCABLY WAIVES ANY OBJECTION IT MAY NOW OR HEREAFTER HAVE AS TO THE VENUE OF ANY SUCH SUIT, ACTION OR PROCEEDING BROUGHT IN SUCH A COURT OR THAT SUCH COURT IS AN INCONVENIENT FORUM. NOTHING HEREIN SHALL LIMIT THE RIGHT OF THE AGENT, THE LC ISSUER OR ANY LENDER TO BRING PROCEEDINGS AGAINST THE COMPANY IN THE COURTS OF ANY OTHER JURISDICTION. ANY JUDICIAL PROCEEDING BY THE COMPANY AGAINST THE AGENT, THE LC ISSUER OR ANY LENDER OR ANY AFFILIATE OF THE AGENT, THE LC ISSUER OR ANY LENDER INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER IN ANY WAY ARISING OUT O F, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT SHALL BE BROUGHT ONLY IN A COURT IN CHICAGO, ILLINOIS.**

12.18 **WAIVER OF JURY TRIAL. THE COMPANY, THE AGENT, THE LC ISSUER AND EACH LENDER HEREBY WAIVE TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH ANY LOAN DOCUMENT OR THE RELATIONSHIP ESTABLISHED THEREUNDER.**

.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of day and year first above written.

Address for Notices: PETROLEUM DEVELOPMENT CORPORATION

103 E. Main Street By: /s/ Dale G. Rettinger

P.O. Box 26 Dale G. Rettinger

Bridgeport, West Virginia 26330 Its: Executive Vice President

Attention: Dale G. Rettinger

Telephone No: 1-800-624-3821

Facsimile No: 1-304-842-0913

Commitment

$20,000,000 BANK ONE, NA, as Agent, Syndication Agent,

LC Issuer and a Lender

1 Bank One Plaza By: /s/ Dianne L. Russell

10th Floor, Suite 0362 Dianne L. Russell

Chicago, Illinois 60670 Title: Director

Attention: Joseph C. Giampetroni

Telephone No: (312) 732-1489

Facsimile No: (312) 732-3055

$20,000,000 BNP PARIBAS, as Managing Agent and as a Lender

1200 Smith Street By: /s/ Doug Liftman

Suite 3100 Doug Liftman

Houston, TX 77002 Title: Managing Director

Attention: Doug Liftman

Telephone No: (713) 982-1154 By: /s/ Betsy Jocher

Facsimile No: (713) 659-6915 Name: Betsty Jocher

Title: Vice President

GUARANTORS:

RILEY NATURAL GAS COMPANY

103 E. Main Street

P.O. Box 26 By: /s/ Dale G. Rettinger

Bridgeport, West Virginia 26330 Dale G. Rettinger

Attention: Dale G. Rettinger Its: Executive Vice President

Telephone No: 1-800-624-3821

Facsimile No: 1-304-842-0913

PRICING SCHEDULE

Applicable Margin	**Level I Status**	**Level II Status**	**Level III Status**
Eurodollar Rate	*1.25%*	*1.50%*	*1.75%*
Floating Rate	*0.00%*	*0.00%*	*0.25%*

Applicable Fee Rate	**Level I Status**	**Level II Status**	**Level III Status**
Commitment Fee	*0.375%*	*0.375%*	*0.50%*

For the purposes of this Schedule, the following terms have the following meanings, subject to the final paragraph of this Schedule:

"Level I Status" exists at any date if the Usage as of such date is less than 25%.

"Level II Status" exists at any date if the Usage as of such date is less than 75% but equal to or more than 25%.

"Level III Status" exists at any date if the Company has not qualified for Level I Status or Level II Status as of such date.

"Status" means either Level I Status, Level II Status or Level III Status.

"Usage" means the percentage obtained by dividing the Aggregate Outstanding Credit Exposure as of any date by the lesser of the Aggregate Commitment or the Borrowing Base as of such date.

The Applicable Margin and Applicable Fee Rate shall be determined by the Agent from time to time in accordance with the foregoing table based on the Company's Status.

Employment Agreement

This Employment Agreement (the "Agreement") is made and entered into this 6th day of March, 2003, by and between Petroleum Development Corporation, a Nevada Corporation (the "Company"), and Steven R. Williams (the "Employee").

WHEREAS, the Company wishes to employ the Employee as President and Chief Executive Officer and to perform the duties and services incident to such positions for the Company, and the Employee wishes to be so employed by the Company, all upon the terms and conditions set forth in this Agreement;

NOW THEREFOR, in consideration of the premises and mutual covenants and obligations set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and accepted, the parties hereto, intending to be legally bound, agree as follows:

1. Effective Date and Term

a. Initial Term. The effective date of this Agreement shall be January 1, 2004 (the "Effective Date"), and the initial term shall be for the twenty-four month period beginning on the Effective Date and ending December 31, 2005.

b. Automatic Extensions. The Term of this Agreement shall be extended for an additional 12 months beginning on the first anniversary of the Effective Date and on each successive anniversary unless either party provides the other with at least 30 days prior written notice, or unless the contract has been terminated by the parties in accordance with the provisions of Section 7 of this Agreement. The period of time from the Effective Date until the termination date shall be the "Term."

c. Change of Control. In the event of a Change of Control as defined in Section 7.c.iii, the Term of this Agreement will automatically be extended to the date 24 months after the date of the Change of Control without any action on the part of the Company or the Employee. Thereafter the date of the Change of Control will be treated as the Effective Date for purposes of further automatic 12-month extensions of the Agreement under this section.

2. Place of Employment

The place of employment shall be the Company's headquarters building in Bridgeport, West Virginia unless the Employee and the Company agree to an alternative location.

3. Position and Responsibilities

a. Position. The Employee shall serve as the President and CEO of the Company and shall report to the Board of Directors of the Company ("the Board") and be under the general direction and control of the Board.

b. Responsibilities. The Employee shall have obligations, duties, authority and power to do such acts as are customarily done by a person holding the same or an equivalent position in corporations of similar size to the Company. The Employee shall perform such managerial duties and responsibilities for the Company as may be reasonably be assigned to him by the Board and, at no additional compensation, shall serve on the Board and in other such positions with any subsidiary corporation of the Company, or any partnership, limited liability company or other entity in which the Company has an interest (herein collectively called "Affiliates"), as the Board may from time to time determine.

c. Dedication of Professional Services. The Employee shall devote substantially all of his business time, best efforts and attention to promote and advance the business of the Company and its Affiliates to perform diligently and faithfully all the duties, responsibilities and obligations of his position with the Company. Employee shall not be employed in any other business activity during the Term, whether or not such activity is pursued for gain, profit or other pecuniary advantage, provided, however, that this restriction shall not be construed as preventing Employee from investing his or her personal assets in a business which does not compete with the Company or its Affiliates, where the form or manner of such investment will not require services of any significance on the part of Employee in the operation of the affairs of the business in which such investment is made and in which his participation is solely that of a passive investor or advisor.

d. Adherence to Standards. Employee shall comply with the written policies, standards, rules and regulations of the Company from time to time established for all executive officers of the Company consistent with Employee's position and level of authority.

4. Compensation

a. Base Salary. The Company shall pay the Employee a monthly salary of $25,000 (the "Base Salary") commencing on the Effective Date and ending on the Termination Date. The Base Salary shall be payable in accordance with the ordinary payroll practices of the Company. The Base Salary shall be reviewed annually by the Compensation Committee, and may be changed by the Compensation Committee in its sole discretion, taking into account the base salaries, aggregate annual cash compensation, and other compensation of individuals holding similar positions at other comparable companies and the performance of the Employee and the Company.

b. Performance Bonus. In addition to his Base Salary, the Employee shall be eligible to earn an annual performance bonus (the "Bonus") during the Term. A portion of the bonus up to a maximum amount equal to 75% of the Base Salary shall be based on objective criteria to be determined prior to the beginning of each calendar year in writing by the Compensation Committee in its sole discretion, but only after consultation with the Employee. Performance criteria used in the determination of the objective part of the Bonus amount may include net income, cash flow, EBITDA, production, reserves, or such other criteria as the Compensation Committee may determine to be critical to the performance of the Employee and the Company. The Bonus may also include an amount up to 25% of the Base salary to be determined at the sole discretion of the compensation committee at the end of the calendar year based on such criteria as they deem to be important to the performance of the Employee. The total Bo nus for a given year shall not exceed 100% of the aggregate Base Salary for such year. The Bonus shall be paid in cash no later than April 30 of the following year, except that up to 50% may be payable in Company stock in the Employee's tax-deferred account at the option of the Employee and in accordance with the terms of any applicable deferred compensation plan, provided approval of such deferral by the shareholders of the Company has been obtained if required by applicable rules and regulations.

c. Retirement Compensation. For each year worked under this Agreement the Employee shall earn and be entitled to receive an annual retirement payment equal to $500 times the total number of years the employee is employed by the Company (the "Retirement Payment"). The Retirement Payment will be payable to the Employee, or in the event of the Employee's death, to his estate, beneficiaries, or designees, on the first business day of January in each of the first ten years following the date the Employee leaves the service of the Company. The Retirement Payment will be in addition to any deferred compensation, pension, or other payments the Employee has earned under this and any other previous and subsequent agreements with the Company and any other payments he may be due under the Company's employee benefit plans.

d. Other Compensation. The Employee shall continue to be eligible to participate in all other cash or stock compensation plans or programs maintained by the Company, as in effect from time to time, in which other senior executives of the Company are allowed to participate.

5. Employee Benefits

a. Participation in Company Benefit Plans. During the Term the Company shall provide the Employee with coverage under all employee pension and welfare benefit programs, plans and practices commensurate with his positions in the Company and to the extent permitted under the respective employee benefit plan.

b. Vacation. The Employee will be entitled to four weeks of paid vacation in each calendar year, to be taken at such times as is reasonably determined by the Employee to be consistent with the Employee's responsibilities under this Agreement.

c. Expense Reimbursement. The Employee is authorized to incur reasonable expenses in carrying out his duties and responsibilities under this Agreement, including, without limitation, expenses related to travel, meals, entertaining, and similar items related to such duties and responsibilities. The Company will reimburse the Employee for all such expenses on presentation by Employee from time to time of appropriately itemized and approved (consistent with the Company's policy) accounts of such expenditures. The Company shall reimburse the Employee for reasonable dues and expenses of membership in such club or clubs as the Board shall deem reasonably necessary for the Employee to entertain on behalf of the Company.

d. Insurance. The Company will reimburse the Employee for the cost of life insurance on the Employee in the face amount of one million dollars with a person or persons named by the Employee as either the owner or the beneficiary as the Employee shall direct, and for the cost the Employee's current disability policy with scheduled adjustments. The Company agrees that it will include the Employee under any hospital, surgical, or group health plan or policy adopted generally for the benefit of its employees. The payment of the premiums for the

Employee and his dependents shall be determined in accordance with the rules and regulations adopted by the Company for its employees. In addition to including the Employee and his dependents in such plan, the Company shall pay all reasonable hospital, surgical, medical, dental, and prescription expenses of the Employee and his dependents not covered by such a plan. In the event the Company has no group health plan, the Company agrees to pay all reasonab le premiums on any health insurance policy obtained by the Employee to provide such coverage.

e. Stock Redemption. For the Term the Company will maintain a Key Man life insurance policy on the Employee in the minimum amount of one million dollars, the proceeds of which shall be used to purchase stock of the Company from the Employee's estate or family in the event of the Employee's death, in accordance with the terms of the Stock Redemption Agreement between the Employee and the Company dated October 15, 1991.

6. Confidential Material and Employee Obligations.

a. Confidential Material. The Employee shall not, directly or indirectly, either during the Term or thereafter, disclose to anyone (except in the regular course of the Company's business or as required by law), or use in any manner, any information acquired by the Employee during his employment by the Company with respect to any clients or customers of the Company or any confidential or secret aspect of the Company's operations or affairs unless such information has become public knowledge other than by reason of actions, direct or indirect, of the Employee. Information subject to the provisions of this paragraph shall include, without limitation:

i. Brokers, broker/dealer firms, law firms used to prepare partnership registration statements, due diligence investigators, or other parties involved with the registration, review, or offering of the Company's drilling programs;

ii. Names, addresses, and other information regarding investors in the Company's Public drilling programs;

iii. Names, addresses and other information regarding investors who participate with the Company in the drilling, completion or operation of oil and gas wells as joint venture partners, working interest owners, or in any other form of ownership:

iv. Lists of or information about personnel seeking employment with or who are currently employed by the Company;

v. Maps, logs, drilling reports and any other information regarding past, planned or possible future leasing, drilling, acquisition, or other operations that the Company has completed or is investigating or has investigated for possible inclusion in future activities;

vi. Any other information or contacts relating to the Company's drilling, development, fund-raising, purchasing, engineering, marketing, merchandising, and selling activities.

b. Return of Confidential Material. All maps, logs, data, drawings and other records and written material prepared or compiled by the Employee or furnished to the Employee during the Term shall be the sole and exclusive property of the Company and none of such material shall be retained by the Employee upon termination of his employment. Notwithstanding the foregoing, the Employee shall be under no obligation to return public information.

c. No Solicitation. The Employee shall not, directly or indirectly, either during the Term or for a period of one (1) year thereafter solicit, directly or indirectly, the services of any person who was a full-time employee of the Company, its subsidiaries, divisions, or affiliates, or otherwise induce such employee to terminate or reduce employment, or solicit the business of any person who was a client or customer of the Company, its subsidiaries, divisions, or affiliates, in each case at any time during the past year of the Term. For purposes of this Agreement, the term "person" shall include natural persons, corporations, business trusts, associations, sole proprietorships, unincorporated organizations, partnerships, joint ventures, limited liability companies or partnerships, and governments, or any agencies, instrumentalities, or political subdivisions thereof.

d. Non-Compete. The Employee shall not, directly or indirectly, either during the Term or for a period of one (1) year thereafter, engage in any Competitive Business in West Virginia, Pennsylvania, Colorado, Utah, Wyoming, Michigan, Ohio, Kentucky and Tennessee;

provided, however, that the ownership of less than five percent (5%) of the outstanding capital stock of a corporation whose shares are traded on a national securities exchange or on the over-the-counter market or the ownership shall not be deemed engaging any Competitive Business. "Competitive Business" shall mean the oil and natural gas industry, including oil and gas leasing, drilling, and other operations, syndication and marketing of partnership or other investments related to oil and natural gas operations, or any other business activities that are the same as or similar to the Company concept as it exists on the Effective Date or on the Termination Date.

e. Remedies. Employee acknowledges and agrees that the Company's remedy at law for a breach or a threatened breach of the provisions herein would be inadequate, and in recognition of this fact, in the event of a breach or threatened breach by Employee of any of the provisions of this Agreement, it is agreed that the Company shall be entitled to equitable relief in the form of specific performance, a temporary restraining order, a temporary or permanent injunction or any other equitable remedy which may then be available, without posting bond or other security. Employee acknowledges that the granting of a temporary injunction, a temporary restraining order or other permanent injunction merely prohibiting Employee from engaging in any Business Activities would not be an adequate remedy upon breach or threatened breach of this Agreement, and consequently agrees upon any such breach or threatened breach to the granting of injunctive relief prohibiting Employee from engaging in any activities prohi bited by this Agreement. No remedy herein conferred is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder now or hereinafter existing at law or in equity or by statute or otherwise.

7. Termination of the Agreement

a. Notice of Termination. Either the Employee or the Board may terminate this Agreement at any time and in his or their sole discretion upon 30 days written Notice of Termination to the other party. "Notice of Termination" shall mean a written notice which shall indicate the specified termination provision in this Agreement relied upon (Section 7.c., Section 7.d., Section 7.e., or Section 7.f.) and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under the provision so indicated; provided, however, no such purported termination shall be effective without such Notice of Termination; provided further, however, any purported termination by the Company or by Employee shall be communicated by a Notice of Termination to the other party hereto in accordance with Section 8 ("Notices") of this Agreement.

b. Termination Date. The "Termination Date" shall mean the date specified in the Notice of Termination. The Termination Date shall not be less than thirty (30) days from the date such Notice of Termination is given; provided, however, that if within fifteen (15) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date finally determined by either mutual written agreement of the parties or by the final judgment, order or decree of a court of competent jurisdiction (the time for appeal there from having expired and no appeal having been taken).

c. Termination by the Company for Just Cause.

i. The Company may terminate the Employee for "Just Cause" (as defined in Section 7.c.ii), provided that the Company shall:

1. Give the Employee Notice of Termination as specified in Section 7.a., and

2. Pay the Employee his Base Salary through the Termination Date at the rate in effect at the time the Notice of Termination is given plus any Bonus (only for periods completed and accrued, but not paid), incentive, deferred, retirement or other compensation, and provide any other benefits, which have been earned or become payable as of the Termination Date, pursuant to the terms of this or any other agreement, or compensation or benefit plan, but which have not yet been paid or provided.

ii. For purposes of this Agreement "Just Cause" shall be a good faith determination of the Board that the Employee:

1. Failed to substantially perform his duties with the Company (other than a failure resulting from his incapacity due to physical or mental illness) after a written demand for substantial performance has been delivered to him by the Board, which demand specifically identifies the manner in which the Board believes he has not substantially performed his duties;

2. Has engaged in conduct the consequences of which are materially adverse to the Company, monetarily or otherwise; or

3. Has pleaded guilty to or been convicted of a felony; or

4. Has materially breached the terms of this Agreement.

No act, or failure to act, on the Employee's part shall be grounds for termination with Just Cause unless he has acted or failed to act with an absence of good faith or without a reasonable belief that his action or failure to act was in or at least not opposed to the best interests of the Company. The Employee shall not be deemed to have been terminated with Just Cause unless there shall have been delivered to the Employee a letter setting forth the reasons for the Company's termination of the Employee for Just Cause and the Employee has failed to cure such reason for termination within thirty (30) days of the receipt of such notice.

d. Termination by the Company Without Just Cause or by the Employee for Good Reason.

i. In the event the Company terminates this Agreement prior to its expiration (including extensions as provided in Section1.b) for any reason other than for Just Cause or the death or disability of the Employee, or if the Employee terminates this Agreement for Good Reason (as defined in Section 7.d.ii.), the Company shall:

1. Pay to the Employee within 30 days after the Termination Date an amount (the "Severance Payment") equal to three times the sum of: a) the Employee's highest Base Salary during the previous two years of employment immediately preceding the Termination Date, plus b) the highest Bonus paid to the Employee during the same two year period,

2. Pay to the Employee any unpaid expense reimbursement upon presentation by the Employee of an accounting of such expenses in accordance with normal Company practices,

3. Immediately vest any unvested Company stock options or restricted stock,

4. The Employee will be entitled to receive the Retirement Payment specified in Section 4.c. for the full year in which the termination occurred, as well that earned in all previous years, with payments commencing in January of the year following the Termination Date,

5. Pay any deferred income or retirement payment or other benefit payments due under this or any other agreements or plans, provided such payments may be made under the schedule originally contemplated in the agreement under which they were granted, or in full without discount within 60 days of the Termination Date at the discretion of the Company,

6. Make any other payments or provide any benefits earned under this or any other employment agreement or plan,

7. Continue coverage of the Employee under the Company's group health plans at the Company's cost for a period equal to the lesser of 18 months or such period as the Employee is receiving COBRA health continuation coverage from the Company.

ii. "Good Reason" shall mean the occurrence of any of the following events without Employee's prior express written consent:

1. The Employee is assigned any duties materially and adversely inconsistent with his position, duties, responsibilities and status with the Company as in effect at the Effective Date or as may be assigned to the Employee pursuant to Section 3 of this Agreement;

2. The title or offices in effect as of the date of this Agreement or as the Employee may be appointed to or elected to in accordance with Section 3 are materially and adversely changed;

3. There is a Change of Control of the Company as defined in Section 7.d.iii below;

4. There is a reduction in the Base Salary (as such Base Salary shall have been increased from time to time) payable to the Employee pursuant to Section 4 of this Agreement;

5. The Company fails to continue in effect any material employee benefit plan (including any medical, hospitalization, life insurance or disability benefit plan in which Employee participates), or any material fringe benefit or perquisite enjoyed by him unless either an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to the failure to continue such plan or the Employee is not materially and adversely damaged, or the failure by the Company to continue Employee's participation therein, or any action by the Company which would directly or indirectly materially reduce his participation therein or reward opportunities thereunder, or the failure by the Company to provide him with the benefits to which he is entitled under this Agreement; provided, however, that Employee continues to meet all eligibility requirements thereof;

6. The Company requires or attempts to require the Employee to be based anywhere outside of Bridgeport, West Virginia, except reasonably required travel in connection with the Company's business;

7. The Company fails to obtain a satisfactory agreement from any successor or assign of the Company to assume and agree to perform this Agreement, as contemplated in Section 10 (Successors) hereof;

8. Any material breach by the Company of any material provision of this Agreement; or

9. Any purported Termination of the Employee's employment by the Company for Just Cause that does not comply with the terms of Sections 7.c.ii (Definition of Just Cause) of this Agreement.

iii. "Change of Control" shall mean:

1. The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of twenty percent (20%) or more of either (A) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (1), the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled b y the Company, (D) any acquisition by a lender to the Company pursuant to a debt restructuring of the Company, or (E) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (3) of this Section.

2. Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

3. Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of, respectively, the then-outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more su bsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, twenty percent (20%) or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of t he action of the Board, providing for such Business Combination; or

4. Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

e. Termination in the Event of Death or Disability. This Agreement may be terminated by the Company in the event of the death or Disability (as hereinafter defined) of the Employee upon proper notification to the Employee (or his estate in the event of his death), provided the Company shall pay to the Employee (or to the estate of the Employee in the event of termination due to the death of the Employee) the compensation and other benefits described in Section 4. of this Agreement, except for the Bonus or incentive compensation, which would have been earned for (6) months after the Termination Date. The benefits provided under this Section shall be no less favorable to Employee in terms of amounts, deductibles and costs to him, if any, than such benefits provided by the Company to him and shall not be interpreted so as to limit any benefits to which Employee, as a terminated employee of the Company, or his family may be entitled under the Company's life insurance, medical, hospitalization or disability plans following his Termination Date or under applicable law, and any other benefits or payments earned by the employee under this or any other agreement or plan. "Disability" shall mean being eligible to receive a disability benefit under the Federal Social Security Act.

f. Termination by the Employee for other than Good Reason. The Employee may terminate this Agreement for other than Good Reason upon proper notification as provided in Section 7.a. In such event the Company shall pay to the Employee:

i. The compensation provided in Section 4 at the rate in effect at the time the Notice of Termination. The Base Salary, Bonus and incremental Retirement Payment shall be prorated for the portion of the year that the Employee is employed by the Company; provided, however, that if the Employee's termination occurs prior to March 31 of the year the Employee shall not be entitled to a prorated Bonus for the year;

ii. Any incentive, deferred or other compensation which has been earned or has become payable pursuant to the terms of this or any other agreement or compensation or benefit plan as of the Termination Date, but which has not yet been paid, provided such payments may be made under the schedule originally contemplated in the agreement under which they were granted or in full without discount within 60 days of the Termination Date at the discretion of the Company;

iii. Any unpaid expense reimbursement upon presentation by the Employee of an accounting of such expenses in accordance with normal Company practices; and

iv. Any other payments for benefits earned under this or any other employment agreement or plan.

8. Notices. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid, or by expedited (overnight) courier with established national reputation, shipping prepaid or billed to sender, in either case addressed to the respective addresses last given by each party to the other (provided that all notices to the Company shall be directed to the attention of the Secretary of the Company) or to such other address as either party may have furnished to the other in writing in accordance herewith. All notices and communication shall be deemed to have been received on the date of delivery thereof, or on the second day after deposit thereof with an expedited courier service, except that notice of change of address shall be effective only upon receipt.

Company at: Petroleum Development Corporation

P.O. Box 26

103 E. Main Street

Bridgeport, WV 26330

Employee at: Steven R. Williams

137 Ashford Dr.

Bridgeport, WV 26330

9. Life Insurance. The Company may, at any time after the execution of this Agreement, maintain any outstanding life insurance policies and apply for and procure as owner and for its own benefit new life insurance on Employee, in such amounts and in such form or forms as the Company may determine. Employee shall, at the request of the Company, submit to such medical examinations, supply such information, and execute such documents as may be required by the insurance company or companies to whom the Company has applied for such insurance. Employee hereby represents that to his knowledge he is in excellent physical and mental condition.

10. Successors. This Agreement shall be binding on the Company and any successor to any of its businesses or assets. Without limiting the effect of the prior sentence, the Company shall use its best efforts to require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor or assign to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement or which is otherwise obligated under this Agreement by the first sentence of this Section, entitled Successors, by operation of law or otherwise.

11. Binding Effect. This Agreement shall inure to the benefit of and be enforceable by Employee's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's estate.

12. Modification and Waiver. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

13. Headings. Headings used in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.

14. Waiver of Breach. The waiver of either the Company or Employee of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by either the Company or Employee.

15. Amendments. No amendments or variations of the terms and conditions of this Agreement shall be valid unless the same is in writing and signed by all of the parties hereto.

16. Survival of Obligations. The provisions of Section 5.e. and Section 6 of this Agreement shall continue to be binding upon the Employee and Company in accordance with their terms, notwithstanding the termination of the Employee's employment with the Company for any reason or the expiration of this Agreement.

17. Severability. The invalidity or unenforceability of any provision of this Agreement, whether in whole or in part, shall not in any way affect the validity and/or enforceability of any other provision contained herein. Any invalid or unenforceable provision shall be deemed severable to the extent of any such invalidity or unenforceability. It is expressly understood and agreed that while the Company and Employee consider the restrictions contained in this Agreement reasonable for the purpose of preserving for the Company the good will, other proprietary rights and intangible business value of the Company, if a final judicial determination is made by a court having jurisdiction that the time or territory or any other restriction contained in this Agreement is an unreasonable or otherwise unenforceable restriction against Employee, the provisions of such clause shall not be rendered void but shall be deemed amended to apply as to maximum time and territory and to such other extent as such co urt may judicially determine or indicate to be reasonable.

18. Governing Law. This Agreement shall be construed and enforced pursuant to the laws of the State of West Virginia.

19. Arbitration. Any controversy or claim arising out of or relating to this Agreement or any transactions provided for herein, or the breach thereof, other than a claim for injunctive relief, shall be settled by arbitration in accordance with the commercial Arbitration Rules of the American Arbitration Association (the "Rules") in effect at the time demand for arbitration is made by any party. The evidentiary and procedural rules in such proceedings shall be kept to the minimum level of formality that is consistent with the Rules. The Company shall name one arbitrator, Employee shall name a second and the two arbitrators so chosen shall name a neutral, third arbitrator, who shall serve as the sole arbitrator of the controversy or claim. The third arbitrator shall be experienced in the matters in dispute. In the event that the third and sole arbitrator is not agreed upon, the American Arbitration Association shall name him or her. Arbitration shall occur in Bridgeport, West Virginia, or suc h other location agreed to by the Company and Employee. The award made by the third arbitrator shall be final and binding, and judgment may be entered in any court of law having competent jurisdiction. The award is subject to confirmation, modification, correction, or vacation only as explicitly provided in Title 9 of the United States Code. The prevailing party shall be entitled to an award of pre- and post-award interest as well as reasonable attorneys' fees incurred in connection with the arbitration and any judicial proceedings related thereto.

20. Executive Officer Status. Employee acknowledges that he may be deemed to be an "executive officer" of the Company for purposes of the Securities Act of 1993, as amended (the "1933 Act"), and the Securities Exchange Act of 1934, as amended (the "1934 Act") and, if so, he shall comply in all respects with all the rules and regulations under the 1933 Act and the 1934 Act applicable to him in a timely and non-delinquent manner. In order to assist the Company in complying with its obligations under the 1933 Act and 1934 Act, Employee shall provide to the Company such information about Employee as the Company shall reasonably request including, but not limited to, information relating to personal history and stockholdings. Employee shall immediately report to the General Counsel of the Company or other designated officer of the Company all changes in beneficial ownership of any shares of the Company

Common Stock deemed to be beneficially owned by Employee and/or any members of Employee's immedia te family.

21. Pronouns. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular, or plural, as the identity of the person or entity may require. As used in this Agreement: (1) words of the masculine gender shall mean and include corresponding neuter words or words of the feminine gender, (2) words in the singular shall mean and include the plural and vice versa, and (3) the word "may" gives sole discretion without any obligation to take any action.

22. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one document.

23. Exhibits. Any Exhibits attached hereto are incorporated herein by reference and are an integral part of this Agreement.

IN WITNESS WHEREOF, the Company and the Employee have duly executed this Employment Agreement as of the date first above written.

Company Executive

Petroleum Development Corporation

By: /s/ Jeffrey C. Swoveland /s/ Steven R. Williams

Jeffrey C. Swoveland Steven R. Williams

Position: Chairman of the Compensation

Committee

Employment Agreement

This Employment Agreement (the "Agreement") is made and entered into this 6th day of March, 2003, by and between Petroleum Development Corporation, a Nevada Corporation (the "Company"), and Dale G. Rettinger (the "Employee").

WHEREAS, the Company wishes to employ the Employee as Chief Financial Officer, Executive Vice President and Treasurer to perform the duties and services incident to such positions for the Company, and the Employee wishes to be so employed by the Company, all upon the terms and conditions set forth in this Agreement;

NOW THEREFOR, in consideration of the premises and mutual covenants and obligations set forth herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged and accepted, the parties hereto, intending to be legally bound, agree as follows:

1. Effective Date and Term

a. Initial Term. The effective date of this Agreement shall be January 1, 2004 (the "Effective Date"), and the initial term shall be for the twenty-four month period beginning on the Effective Date and ending December 31, 2005.

b. Automatic Extensions. The Term of this Agreement shall be extended for an additional 12 months beginning on the first anniversary of the Effective Date and on each successive anniversary unless either party provides the other with at least 30 days prior written notice, or unless the contract has been terminated by the parties in accordance with the provisions of Section 7 of this Agreement. The period of time from the Effective Date until the termination date shall be the "Term."

c. Change of Control. In the event of a Change of Control as defined in Section 7.c.iii, the Term of this Agreement will automatically be extended to the date 24 months after the date of the Change of Control without any action on the part of the Company or the Employee. Thereafter the date of the Change of Control will be treated as the Effective Date for purposes of further automatic 12-month extensions of the Agreement under this section.

2. Place of Employment

The place of employment shall be the Company's headquarters building in Bridgeport, West Virginia unless the Employee and the Company agree to an alternative location.

3. Position and Responsibilities

a. Position. The Employee shall serve as the Chief Financial Officer, Executive Vice President and Treasurer of the Company and shall report to the President of the Company ("the President") and be under the general direction and control of the President.

b. Responsibilities. The Employee shall have obligations, duties, authority and power to do such acts as are customarily done by a person holding the same or an equivalent position in corporations of similar size to the Company. The Employee shall perform such managerial duties and responsibilities for the Company as may be reasonably be assigned to him by the President and, at no additional compensation, shall serve on the Board and in other such positions with any subsidiary corporation of the Company, or any partnership, limited liability company or other entity in which the Company has an interest (herein collectively called "Affiliates"), as the Board or President may from time to time determine.

c. Dedication of Professional Services. The Employee shall devote substantially all of his business time, best efforts and attention to promote and advance the business of the Company and its Affiliates to perform diligently and faithfully all the duties, responsibilities and obligations of his position with the Company. Employee shall not be employed in any other business activity during the Term, whether or not such activity is pursued for gain, profit or other pecuniary advantage, provided, however, that this restriction shall not be construed as preventing Employee from investing his or her personal assets in a business which does not compete with the Company or its Affiliates, where the form or manner of such investment will not require services of any significance on the part of Employee in the operation of the affairs of the business in which such investment is made and in which his participation is solely that of a passive investor or advisor.

d. Adherence to Standards. Employee shall comply with the written policies, standards, rules and regulations of the Company from time to time established for all executive officers of the Company consistent with Employee's position and level of authority.

4. Compensation

a. Base Salary. The Company shall pay the Employee a monthly salary of $25,000 (the "Base Salary") commencing on the Effective Date and ending on the Termination Date. The Base Salary shall be payable in accordance with the ordinary payroll practices of the Company. The Base Salary shall be reviewed annually by the Compensation Committee, and may be changed by the Compensation Committee in its sole discretion, taking into account the base salaries, aggregate annual cash compensation, and other compensation of individuals holding similar positions at other comparable companies and the performance of the Employee and the Company.

b. Performance Bonus. In addition to his Base Salary, the Employee shall be eligible to earn an annual performance bonus (the "Bonus") during the Term. A portion of the bonus up to a maximum amount equal to 75% of the Base Salary shall be based on objective criteria to be determined prior to the beginning of each calendar year in writing by the Compensation Committee in its sole discretion, but only after consultation with the Employee. Performance criteria used in the determination of the objective part of the Bonus amount may include net income, cash flow, EBITDA, production, reserves, or such other criteria as the Compensation Committee may determine to be critical to the performance of the Employee and the Company. The Bonus may also include an amount up to 25% of the Base salary to be determined at the sole discretion of the compensation committee at the end of the calendar year based on such criteria as they deem to be important to the performance of the Employee. The total Bo nus for a given year shall not exceed 100% of the aggregate Base Salary for such year. The Bonus shall be paid in cash no later than April 30 of the following year, except that up to 50% may be payable in Company stock in the Employee's tax-deferred account at the option of the Employee and in accordance with the terms of any applicable deferred compensation plan, provided approval of such deferral by the shareholders of the Company has been obtained if required by applicable rules and regulations.

c. Retirement Compensation. For each year worked under this Agreement the Employee shall earn and be entitled to receive an annual retirement payment equal to $500 times the total number of years the employee is employed by the Company (the "Retirement Payment"). The Retirement Payment will be payable to the Employee, or in the event of the Employee's death, to his estate, beneficiaries, or designees, on the first business day of January in each of the first ten years following the date the Employee leaves the service of the Company. The Retirement Payment will be in addition to any deferred compensation, pension, or other payments the Employee has earned under this and any other previous and subsequent agreements with the Company and any other payments he may be due under the Company's employee benefit plans.

d. Other Compensation. The Employee shall continue to be eligible to participate in all other cash or stock compensation plans or programs maintained by the Company, as in effect from time to time, in which other senior executives of the Company are allowed to participate.

5. Employee Benefits

a. Participation in Company Benefit Plans. During the Term the Company shall provide the Employee with coverage under all employee pension and welfare benefit programs, plans and practices commensurate with his positions in the Company and to the extent permitted under the respective employee benefit plan.

b. Vacation. The Employee will be entitled to four weeks of paid vacation in each calendar year, to be taken at such times as is reasonably determined by the Employee to be consistent with the Employee's responsibilities under this Agreement.

c. Expense Reimbursement. The Employee is authorized to incur reasonable expenses in carrying out his duties and responsibilities under this Agreement, including, without limitation, expenses related to travel, meals, entertaining, and similar items related to such duties and responsibilities. The Company will reimburse the Employee for all such expenses on presentation by Employee from time to time of appropriately itemized and approved (consistent with the Company's policy) accounts of such expenditures. The Company shall reimburse the Employee for reasonable dues and expenses of membership in such club or clubs as the Board shall deem reasonably necessary for the Employee to entertain on behalf of the Company.

d. Insurance. The Company will reimburse the Employee for the cost of life insurance on the Employee in the face amount of one million dollars with a person or persons named by the Employee as either the owner or the beneficiary as the Employee shall direct, and for the cost the Employee's current disability policy with scheduled adjustments. The Company agrees that it will include the Employee under any hospital, surgical, or group health plan or policy adopted generally for the benefit of its employees. The payment of the premiums for the

Employee and his dependents shall be determined in accordance with the rules and regulations adopted by the Company for its employees. In addition to including the Employee and his dependents in such plan, the Company shall pay all reasonable hospital, surgical, medical, dental, and prescription expenses of the Employee and his dependents not covered by such a plan. In the event the Company has no group health plan, the Company agrees to pay all reasonab le premiums on any health insurance policy obtained by the Employee to provide such coverage.

e. Stock Redemption. For the Term the Company will maintain a Key Man life insurance policy on the Employee in the minimum amount of one million dollars, the proceeds of which shall be used to purchase stock of the Company from the Employee's estate or family in the event of the Employee's death, in accordance with the terms of the Stock Redemption Agreement between the Employee and the Company dated October 15, 1991.

6. Confidential Material and Employee Obligations.

a. Confidential Material. The Employee shall not, directly or indirectly, either during the Term or thereafter, disclose to anyone (except in the regular course of the Company's business or as required by law), or use in any manner, any information acquired by the Employee during his employment by the Company with respect to any clients or customers of the Company or any confidential or secret aspect of the Company's operations or affairs unless such information has become public knowledge other than by reason of actions, direct or indirect, of the Employee. Information subject to the provisions of this paragraph shall include, without limitation:

i. Brokers, broker/dealer firms, law firms used to prepare partnership registration statements, due diligence investigators, or other parties involved with the registration, review, or offering of the Company's drilling programs;

ii. Names, addresses, and other information regarding investors in the Company's Public drilling programs;

iii. Names, addresses and other information regarding investors who participate with the Company in the drilling, completion or operation of oil and gas wells as joint venture partners, working interest owners, or in any other form of ownership:

iv. Lists of or information about personnel seeking employment with or who are currently employed by the Company;

v. Maps, logs, drilling reports and any other information regarding past, planned or possible future leasing, drilling, acquisition, or other operations that the Company has completed or is investigating or has investigated for possible inclusion in future activities;

vi. Any other information or contacts relating to the Company's drilling, development, fund-raising, purchasing, engineering, marketing, merchandising, and selling activities.

b. Return of Confidential Material. All maps, logs, data, drawings and other records and written material prepared or compiled by the Employee or furnished to the Employee during the Term shall be the sole and exclusive property of the Company and none of such material shall be retained by the Employee upon termination of his employment. Notwithstanding the foregoing, the Employee shall be under no obligation to return public information.

c. No Solicitation. The Employee shall not, directly or indirectly, either during the Term or for a period of one (1) year thereafter solicit, directly or indirectly, the services of any person who was a full-time employee of the Company, its subsidiaries, divisions, or affiliates, or otherwise induce such employee to terminate or reduce employment, or solicit the business of any person who was a client or customer of the Company, its subsidiaries, divisions, or affiliates, in each case at any time during the past year of the Term. For purposes of this Agreement, the term "person" shall include natural persons, corporations, business trusts, associations, sole proprietorships, unincorporated organizations, partnerships, joint ventures, limited liability companies or partnerships, and governments, or any agencies, instrumentalities, or political subdivisions thereof.

d. Non-Compete. The Employee shall not, directly or indirectly, either during the Term or for a period of one (1) year thereafter engage in any Competitive Business in West Virginia, Pennsylvania, Colorado, Utah, Wyoming, Michigan, Ohio, Kentucky and Tennessee;

provided, however, that the ownership of less than five percent (5%) of the outstanding capital stock of a corporation whose shares are traded on a national securities exchange or on the over-the-counter market or the ownership shall not be deemed engaging any Competitive Business. "Competitive Business" shall mean the oil and natural gas industry, including oil and gas leasing, drilling, and other operations, syndication and marketing of partnership or other investments related to oil and natural gas operations, or any other business activities that are the same as or similar to the Company concept as it exists on the Effective Date or on the Termination Date.

e. Remedies. Employee acknowledges and agrees that the Company's remedy at law for a breach or a threatened breach of the provisions herein would be inadequate, and in recognition of this fact, in the event of a breach or threatened breach by Employee of any of the provisions of this Agreement, it is agreed that the Company shall be entitled to equitable relief in the form of specific performance, a temporary restraining order, a temporary or permanent injunction or any other equitable remedy which may then be available, without posting bond or other security. Employee acknowledges that the granting of a temporary injunction, a temporary restraining order or other permanent injunction merely prohibiting Employee from engaging in any Business Activities would not be an adequate remedy upon breach or threatened breach of this Agreement, and consequently agrees upon any such breach or threatened breach to the granting of injunctive relief prohibiting Employee from engaging in any activities prohi bited by this Agreement. No remedy herein conferred is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder now or hereinafter existing at law or in equity or by statute or otherwise.

7. Termination of the Agreement

a. Notice of Termination. Either the Employee or the Board may terminate this Agreement at any time and in his or their sole discretion upon 30 days written Notice of Termination to the other party. "Notice of Termination" shall mean a written notice which shall indicate the specified termination provision in this Agreement relied upon (Section 7.c., Section 7.d., Section 7.e., or Section 7.f.) and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of Employee's employment under the provision so indicated; provided, however, no such purported termination shall be effective without such Notice of Termination; provided further, however, any purported termination by the Company or by Employee shall be communicated by a Notice of Termination to the other party hereto in accordance with Section 8 ("Notices") of this Agreement.

b. Termination Date. The "Termination Date" shall mean the date specified in the Notice of Termination. The Termination Date shall not be less than thirty (30) days from the date such Notice of Termination is given; provided, however, that if within fifteen (15) days after any Notice of Termination is given the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be the date finally determined by either mutual written agreement of the parties or by the final judgment, order or decree of a court of competent jurisdiction (the time for appeal there from having expired and no appeal having been taken).

c. Termination by the Company for Just Cause.

i. The Company may terminate the Employee for "Just Cause" (as defined in Section 7.c.ii), provided that the Company shall:

1. Give the Employee Notice of Termination as specified in Section 7.a., and

2. Pay the Employee his Base Salary through the Termination Date at the rate in effect at the time the Notice of Termination is given plus any Bonus (only for periods completed and accrued, but not paid), incentive, deferred, retirement or other compensation, and provide any other benefits, which have been earned or become payable as of the Termination Date, pursuant to the terms of this or any other agreement, or compensation or benefit plan, but which have not yet been paid or provided.

ii. For purposes of this Agreement "Just Cause" shall be a good faith determination of the Board that the Employee:

1. Failed to substantially perform his duties with the Company (other than a failure resulting from his incapacity due to physical or mental illness) after a written demand for substantial performance has been delivered to him by the Board, which demand specifically identifies the manner in which the Board believes he has not substantially performed his duties;

2. Has engaged in conduct the consequences of which are materially adverse to the Company, monetarily or otherwise;

3. Has pleaded guilty to or been convicted of a felony; or

4. Has materially breached the terms of this Agreement.

No act, or failure to act, on the Employee's part shall be grounds for termination with Just Cause unless he has acted or failed to act with an absence of good faith or without a reasonable belief that his action or failure to act was in or at least not opposed to the best interests of the Company. The Employee shall not be deemed to have been terminated with Just Cause unless there shall have been delivered to the Employee a letter setting forth the reasons for the Company's termination of the Employee for Just Cause and the Employee has failed to cure such reason for termination within thirty (30) days of the receipt of such notice.

d. Termination by the Company Without Just Cause or by the Employee for Good Reason.

i. In the event the Company terminates this Agreement prior to its expiration (including extensions as provided in Section1.b) for any reason other than for Just Cause or the death or disability of the Employee, or if the Employee terminates this Agreement for Good Reason (as defined in Section 7.d.ii.), the Company shall:

1. Pay to the Employee within 30 days after the Termination Date an amount (the "Severance Payment") equal to three times the sum of: a) the Employee's highest Base Salary during the previous two years of employment immediately preceding the Termination Date, plus b) the highest Bonus paid to the Employee during the same two year period,

2. Pay to the Employee any unpaid expense reimbursement upon presentation by the Employee of an accounting of such expenses in accordance with normal Company practices,

3. Immediately vest any unvested Company stock options or restricted stock,

4. The Employee will be entitled to receive the Retirement Payment specified in Section 4.c. for the full year in which the termination occurred, as well that earned in all previous years, with payments commencing in January of the year following the Termination Date,

5. Pay any deferred income or retirement payment or other benefit payments due under this or any other agreements or plans, provided such payments may be made under the schedule originally contemplated in the agreement under which they were granted, or in full without discount within 60 days of the Termination Date at the discretion of the Company,

6. Make any other payments or provide any benefits earned under this or any other employment agreement or plan,

7. Continue coverage of the Employee under the Company's group health plans at the Company's cost for a period equal to the lesser of 18 months or such period as the Employee is receiving COBRA health continuation coverage from the Company.

ii. "Good Reason" shall mean the occurrence of any of the following events without Employee's prior express written consent:

1. The Employee is assigned any duties materially and adversely inconsistent with his position, duties, responsibilities and status with the Company as in effect at the Effective Date or as may be assigned to the Employee pursuant to Section 3 of this Agreement;

2. The title or offices in effect as of the date of this Agreement or as the Employee may be appointed to or elected to in accordance with Section 3 are materially and adversely changed;

3. There is a Change of Control of the Company as defined in Section 7.d.iii below;

4. There is a reduction in the Base Salary (as such Base Salary shall have been increased from time to time) payable to the Employee pursuant to Section 4 of this Agreement;

5. The Company fails to continue in effect any material employee benefit plan (including any medical, hospitalization, life insurance or disability benefit plan in which Employee participates), or any material fringe benefit or perquisite enjoyed by him unless either an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to the failure to continue such plan or the Employee is not materially and adversely damaged, or the failure by the Company to continue Employee's participation therein, or any action by the Company which would directly or indirectly materially reduce his participation therein or reward opportunities thereunder, or the failure by the Company to provide him with the benefits to which he is entitled under this Agreement; provided, however, that Employee continues to meet all eligibility requirements thereof;

6. The Company requires or attempts to require the Employee to be based anywhere outside of Bridgeport, West Virginia, except reasonably required travel in connection with the Company's business;

7. The Company fails to obtain a satisfactory agreement from any successor or assign of the Company to assume and agree to perform this Agreement, as contemplated in Section 10 (Successors) hereof;

8. Any material breach by the Company of any material provision of this Agreement; or

9. Any purported Termination of the Employee's employment by the Company for Just Cause that does not comply with the terms of Sections 7.c.ii (Definition of Just Cause) of this Agreement.

iii. "Change of Control" shall mean:

1. The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of twenty percent (20%) or more of either (A) the then-outstanding shares of common stock of the Company (the "Outstanding Company Common Stock") or (B) the combined voting power of the then-outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this subsection (1), the following acquisitions shall not constitute a Change of Control: (A) any acquisition directly from the Company, (B) any acquisition by the Company, (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled b y the Company, (D) any acquisition by a lender to the Company pursuant to a debt restructuring of the Company, or (E) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (3) of this Section.

2. Individuals who, as of the date hereof, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board;

3. Consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company (a "Business Combination"), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than fifty percent (50%) of, respectively, the then-outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more su bsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, twenty percent (20%) or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination, or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership existed prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of t he action of the Board, providing for such Business Combination; or

4. Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

e. Termination in the Event of Death or Disability. This Agreement may be terminated by the Company in the event of the death or Disability (as hereinafter defined) of the Employee upon proper notification to the Employee (or his estate in the event of his death), provided the Company shall pay to the Employee (or to the estate of the Employee in the event of termination due to the death of the Employee) the compensation and other benefits described in Section 4. of this Agreement, except for the Bonus or incentive compensation, which would have been earned for (6) months after the Termination Date. The benefits provided under this Section shall be no less favorable to Employee in terms of amounts, deductibles and costs to him, if any, than such benefits provided by the Company to him and shall not be interpreted so as to limit any benefits to which Employee, as a terminated employee of the Company, or his family may be entitled under the Company's life insurance, medical, hospitalization or disability plans following his Termination Date or under applicable law, and any other benefits or payments earned by the employee under this or any other agreement or plan. "Disability" shall mean being eligible to receive a disability benefit under the Federal Social Security Act.

f. Termination by the Employee for other than Good Reason. The Employee may terminate this Agreement for other than Good Reason upon proper notification as provided in Section 7.a. In such event the Company shall pay to the Employee:

i. The compensation provided in Section 4 at the rate in effect at the time the Notice of Termination. The Base Salary, Bonus and incremental Retirement Payment shall be prorated for the portion of the year that the Employee is employed by the Company; provided, however, that if the Employee's termination occurs prior to March 31 of the year the Employee shall not be entitled to a prorated Bonus for the year;

ii. Any incentive, deferred or other compensation which has been earned or has become payable pursuant to the terms of this or any other agreement or compensation or benefit plan as of the Termination Date, but which has not yet been paid, provided such payments may be made under the schedule originally contemplated in the agreement under which they were granted or in full without discount within 60 days of the Termination Date at the discretion of the Company;

iii. Any unpaid expense reimbursement upon presentation by the Employee of an accounting of such expenses in accordance with normal Company practices; and

iv. Any other payments for benefits earned under this or any other employment agreement or plan.

8. Notices. For the purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or sent by certified mail, return receipt requested, postage prepaid, or by expedited (overnight) courier with established national reputation, shipping prepaid or billed to sender, in either case addressed to the respective addresses last given by each party to the other (provided that all notices to the Company shall be directed to the attention of the Secretary of the Company) or to such other address as either party may have furnished to the other in writing in accordance herewith. All notices and communication shall be deemed to have been received on the date of delivery thereof, or on the second day after deposit thereof with an expedited courier service, except that notice of change of address shall be effective only upon receipt.

Company at: Petroleum Development Corporation

P.O. Box 26

103 E. Main Street

Bridgeport, WV 26330

Employee at: Dale G. Rettinger

116 Cherry Tree Lane

Addison, PA 15411

9. Life Insurance. The Company may, at any time after the execution of this Agreement, maintain any outstanding life insurance policies and apply for and procure as owner and for its own benefit new life insurance on Employee, in such amounts and in such form or forms as the Company may determine. Employee shall, at the request of the Company, submit to such medical examinations, supply such information, and execute such documents as may be required by the insurance company or companies to whom the Company has applied for such insurance. Employee hereby represents that to his knowledge he is in excellent physical and mental condition.

10. Successors. This Agreement shall be binding on the Company and any successor to any of its businesses or assets. Without limiting the effect of the prior sentence, the Company shall use its best efforts to require any successor or assign (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession or assignment had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor or assign to its business and/or assets as aforesaid which assumes and agrees to perform this Agreement or which is otherwise obligated under this Agreement by the first sentence of this Section, entitled Successors, by operation of law or otherwise.

11. Binding Effect. This Agreement shall inure to the benefit of and be enforceable by Employee's personal and legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Employee should die while any amounts would still be payable to him hereunder if he had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to Employee's estate.

12. Modification and Waiver. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by Employee and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time.

13. Headings. Headings used in this Agreement are for convenience only and shall not be used to interpret or construe its provisions.

14. Waiver of Breach. The waiver of either the Company or Employee of a breach of any provision of this Agreement shall not operate or be construed as a waiver of any subsequent breach by either the Company or Employee.

15. Amendments. No amendments or variations of the terms and conditions of this Agreement shall be valid unless the same is in writing and signed by all of the parties hereto.

16. Survival of Obligations. The provisions of Section 5.e. and Section 6 of this Agreement shall continue to be binding upon the Employee and Company in accordance with their terms, notwithstanding the termination of the Employee's employment with the Company for any reason or the expiration of this Agreement.

17. Severability. The invalidity or unenforceability of any provision of this Agreement, whether in whole or in part, shall not in any way affect the validity and/or enforceability of any other provision contained herein. Any invalid or unenforceable provision shall be deemed severable to the extent of any such invalidity or unenforceability. It is expressly understood and agreed that while the Company and Employee consider the restrictions contained in this Agreement reasonable for the purpose of preserving for the Company the good will, other proprietary rights and intangible business value of the Company, if a final judicial determination is made by a court having jurisdiction that the time or territory or any other restriction contained in this Agreement is an unreasonable or otherwise unenforceable restriction against Employee, the provisions of such clause shall not be rendered void but shall be deemed amended to apply as to maximum time and territory and to such other extent as such co urt may judicially determine or indicate to be reasonable.

18. Governing Law. This Agreement shall be construed and enforced pursuant to the laws of the State of West Virginia.

19. Arbitration. Any controversy or claim arising out of or relating to this Agreement or any transactions provided for herein, or the breach thereof, other than a claim for injunctive relief, shall be settled by arbitration in accordance with the commercial Arbitration Rules of the American Arbitration Association (the "Rules") in effect at the time demand for arbitration is made by any party. The evidentiary and procedural rules in such proceedings shall be kept to the minimum level of formality that is consistent with the Rules. The Company shall name one arbitrator, Employee shall name a second and the two arbitrators so chosen shall name a neutral, third arbitrator, who shall serve as the sole arbitrator of the controversy or claim. The third arbitrator shall be experienced in the matters in dispute. In the event that the third and sole arbitrator is not agreed upon, the American Arbitration Association shall name him or her. Arbitration shall occur in Bridgeport, West Virginia, or suc h other location agreed to by the Company and Employee. The award made by the third arbitrator shall be final and binding, and judgment may be entered in any court of law having competent jurisdiction. The award is subject to confirmation, modification, correction, or vacation only as explicitly provided in Title 9 of the United States Code. The prevailing party shall be entitled to an award of pre- and post-award interest as well as reasonable attorneys' fees incurred in connection with the arbitration and any judicial proceedings related thereto.

20. Executive Officer Status. Employee acknowledges that he may be deemed to be an "executive officer" of the Company for purposes of the Securities Act of 1993, as amended (the "1933 Act"), and the Securities Exchange Act of 1934, as amended (the "1934 Act") and, if so, he shall comply in all respects with all the rules and regulations under the 1933 Act and the 1934 Act applicable to him in a timely and non-delinquent manner. In order to assist the Company in complying with its obligations under the 1933 Act and 1934 Act, Employee shall provide to the Company such information about Employee as the Company shall reasonably request including, but not limited to, information relating to personal history and stockholdings. Employee shall immediately report to the General Counsel of the Company or other designated officer of the Company all changes in beneficial ownership of any shares of the Company

Common Stock deemed to be beneficially owned by Employee and/or any members of Employee's immedia te family.

21. Pronouns. All pronouns and any variations thereof shall be deemed to refer to the masculine, feminine, neuter, singular, or plural, as the identity of the person or entity may require. As used in this Agreement: (1) words of the masculine gender shall mean and include corresponding neuter words or words of the feminine gender, (2) words in the singular shall mean and include the plural and vice versa, and (3) the word "may" gives sole discretion without any obligation to take any action.

22. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original, but all of which together shall constitute but one document.

23. Exhibits. Any Exhibits attached hereto are incorporated herein by reference and are an integral part of this Agreement.

IN WITNESS WHEREOF, the Company and the Employee have duly executed this Employment Agreement as of the date first above written.

Company Executive

Petroleum Development Corporation

By: /s/ Jeffrey C. Swoveland /s/ Dale G. Rettinger

Jeffrey C. Swoveland Dale G. Rettinger

Position: Chairman of the Compensation

Committee

Exhibit 14.1

Petroleum Development Corporation

Code of Business Conduct and Ethics

(adopted on January 24, 2003)

PURPOSE

The Board of Directors (the "Board") of Petroleum Development Corporation together with its subsidiaries ("PDC" or the "Company") has adopted this Code of Business Conduct and Ethics (the "Code"), in connection with Section 406 of the Sarbanes-Oxley Act of 2002. The Code is to apply to PDC's Chief Executive Officer, President, Chief Financial Officer, principal accounting officer and all other corporate officers (collectively, the "Officers"). The Code is designed to deter wrongdoing and to promote (i) honest and ethical conduct, (ii) avoidance of conflicts of interests, (iii) full, fair, accurate, timely and understandable disclosure in SEC filings, (iv) compliance with applicable governmental laws, rules and regulations, (v) prompt internal reporting to the Board of violations of the Code and (vi) accountability for adherence to the Code.

The Board believes the Code should be an evolving set of conduct and ethics, subject to alteration as circumstances warrant. Any modifications to or waiver of the Code may be made only by the Board. The Board will promptly disclose changes to and waivers of this Code as required by applicable law, including the rules and regulations promulgated by the SEC.

Those who violate the standards in the Code will be subject to disciplinary action. Disciplinary action may include loss of pay, termination, referral for criminal prosecution and reimbursement to the Company or others for any losses or damages resulting from the violation. If you are in a situation which you believe may violate or lead to a violation of this Code, you must contact the Company's Audit Committee of the Board as soon as practicable.

I. **ETHICAL BEHAVIOR**

Each Officer is expected to conduct his or her affairs with uncompromising honesty and integrity. Each Officer is required to adhere to the highest moral and ethical standards in carrying out their duties on behalf of the Company. An Officer of PDC is expected to be honest and ethical in dealing with all employees of PDC, clients, vendors and third parties. The actions of an Officer must be free from illegal discrimination, libel, slander or harassment. Each person must be accorded equal opportunities in compliance with applicable law.

II. CONFLICTS OF INTEREST

Each Officer is expected to avoid engaging in activities that conflict with, or are reasonably likely to conflict with, the best interests of the Company and its stockholders. Any personal activities or interests of an Officer that would negatively influence his or her judgment, decisions or actions to a material extent must be disclosed to the Board or its designee, who will (in consultation with the Board, if appropriate) determine if there is a conflict and, if so, how to resolve it without compromising the Company's interests. Prompt and full disclosure is always the correct first step towards identifying and resolving any potential conflict of interest or problem.

This policy applies not only to each Officer but also to immediate family members of each Officer, any trust in which an Officer (or a member of the Officer's immediate family) has a beneficial interest (and over which it can exercise or influence decision making), and any person with whom the Officer (or a member of the Officer's immediate family) has a substantial business relationship. An "immediate family member" includes a person's spouse, parents, children, sibling, parents-in-law, children-in-law, siblings-in-law and anyone who shares such person's home.

Material conflicts of interests will be reviewed by the Board. In certain limited cases, activities giving rise to potential conflicts of interest may be permitted if the Board determines that they are not to be harmful to the Company.

III. CORPORATE OPPORTUNITIES

Each Officer owes a duty to the Company to advance its legitimate interests when the opportunity to do so arises. Consequently, each Officer is prohibited from taking for themselves personally (including for the benefit of family members or friends) opportunities that are discovered through the use of corporate property, information or position without the consent of the Board. No Officer may use corporate property, information, or position for improper personal gain (including for the gain of family members or friends), and may not compete with the Company directly or indirectly.

IV. FULL, FAIR, ACCURATE AND TIMELY DISCLOSURE FOR SEC FILINGS; RECORD KEEPING

The Company requires honest and accurate recording and reporting of information in order to make responsible business decisions. All of the Company's books, records, accounts and financial statements must be maintained in reasonable detail, must promptly, completely and accurately reflect the Company's assets, liabilities and transactions and must conform both to applicable legal requirements and to the Company's system of internal controls. Unrecorded or "off the books" funds or assets should not be maintained unless permitted by applicable law or regulation. In addition, no undisclosed or unrecorded fund or asset shall be

maintained for any purpose and no transaction shall be carried out in a manner such that the substance of the transaction is obscured, nor shall any transaction be recorded improperly. If a mistake in any information previously disclosed is discovered, such mistake should immediately be brought to the attention of the Audit Committee of the Board and, if applicable, t he Company's independent auditors or legal advisors.

The Chief Executive Officer, President, Chief Financial Officer and Controller shall read each SEC report and press release prior to the time it is filed, furnished or issued to the SEC or public, as applicable. Any inaccuracy or material misstatement in, or the omission of any information necessary to make the statements made not misleading from, any SEC filing or press release shall be immediately disclosed to the Audit Committee of the Board and, if applicable, the Company's auditors.

If you have any concerns with accounting or auditing matters, you should report them to the Audit Committee of the Board.

Records should always be retained or destroyed according to the Company's record retention policies. In accordance with those policies, in the event of litigation or governmental investigation, please consult the Company's legal advisors.

V. PROTECTION AND PROPER USE OF COMPANY ASSETS

All Officers should protect PDC's assets and ensure their efficient use. Furthermore, Company equipment should not be used for non-Company business, though incidental personal use may be permitted. It is important to remember that theft, carelessness, and waste of the Company's assets have a direct impact on the Company's profitability. Accordingly, any suspected incident of fraud, theft or misuse should be immediately reported for investigation.

VI. COMPLIANCE WITH LAWS, RULES AND REGULATIONS

The business of the Company is to be conducted in accordance with the applicable laws of the United States and in accordance with the highest ethical standards of business conduct. Obeying the law, both in letter and in spirit, is the foundation on which this Company's ethical standards are built. Each Officer must respect and obey the laws of the United States and the states and other jurisdictions in which we operate. If a law conflicts with a policy in this Code, you must comply with the law; however, if a local custom or policy conflicts with this Code, you must comply with this Code.

VII. WAIVERS OF THE CODE OF BUSINESS CONDUCT AND ETHICS

A waiver of the Code may be made only by the Board and will be promptly disclosed as required by law, including the rules and regulations promulgated by the SEC.

VIII. REPORTING ANY ILLEGAL OR UNETHICAL BEHAVIOR OR ACCOUNTING OR AUDITING CONCERNS

Officers shall discuss with the Audit Committee of the Board observed illegal or unethical behavior, violations of the Code or accounting or auditing concerns, when in doubt about the best course of action in a particular situation. It is the policy of the Company not to allow retaliation for reports of misconduct by others or of accounting or auditing concerns, in each case, made in good faith by employees. Officers are expected to cooperate in internal investigations of misconduct. If you observe or become aware of illegal or unethical behavior, violations of the Code or accounting or auditing concerns, you should report the behavior immediately to the Board. To the extent the matter has been reported and remains unresolved you should report the matter to the Company's legal advisors.

Exhibit 99.1

Statement of Chief Financial Officer

Pursuant to Section 1350 of Title 18 of the United States Code

Pursuant to Section 1350 of Title 18 of the United States Code, I, Dale G. Rettinger, the Chief Financial Officer of Petroleum Development Corporation (the "Company"), hereby certify that:

1. I have reviewed the Annual Report on Form 10-K of the Company (the "Report") to which this statement is an Exhibit;
2. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
3. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Dale G. Rettinger

Name: Dale G. Rettinger

Title: Chief Financial Officer

Date: March 7, 2003

Exhibit 99.2

Statement of Chief Executive Officer

Pursuant to Section 1350 of Title 18 of the United States Code

Pursuant to Section 1350 of Title 18 of the United States Code, I, James N. Ryan, the Chief Executive Officer of Petroleum Development Corporation (the "Company"), hereby certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of the Company (the "Report") to which this statement is an Exhibit;
2. the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
3. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ James N. Ryan

Name: James N. Ryan

Title: Chief Executive Officer

Date: March 7., 2003