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

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FORM 10-Q

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

For the quarterly period ended June 30, 2002

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Commission File Number: 000-20872

ST. MARY LAND & EXPLORATION COMPANY
(Exact name of registrant as specified in its charter)

| Delaware | 41-0518430 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |

1776 Lincoln Street, Suite 1100, Denver, Colorado 80203
(Address of principal executive offices) (Zip Code)

(303) 861-8140
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [ |X| ] No [ ]

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date.

As of August 12, 2002, the registrant had 27,857,141 shares of common stock, $.01 par value, outstanding.

ST. MARY LAND & EXPLORATION COMPANY

INDEX



PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share amounts)

| ASSETS | June 30, 2002 | December 31, 2001 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 47,856 | $ 4,116 |
| Short term investments | 9,376 | - |
| Accounts receivable | 35,041 | 46,484 |
| Prepaid expenses and other | 4,002 | 2,337 |
| Accrued derivative asset | 4,292 | 8,194 |
| Refundable income taxes | 1,009 | 11,090 |
| Deferred income taxes | 29 | - |
| Total current assets | 101,605 | 72,221 |
| Property and equipment (successful efforts method), at cost: | | |
| Proved oil and gas properties | 567,965 | 523,823 |

| | | |
|---|---|---|
| Less accumulated depletion, depreciation and amortization | (237,685) | (216,288) |
| Unproved oil and gas properties, net of impairment allowance of $9,402 in 2002 and $8,908 in 2001 | 45,203 | 48,143 |
| Other property and equipment, net of accumulated depreciation of $3,499 in 2002 and $3,120 in 2001 | 3,544 | 3,252 |
| Total property and equipment | 379,027 | 358,930 |
| Other assets | 10,165 | 5,838 |
| Total assets | $ 490,797 | $ 436,989 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 39,914 | $ 34,858 |
| Deferred tax liability | 1,711 | 3,363 |
| Total current liabilities | 41,625 | 38,221 |
| Long-term liabilities: | | |
| Long-term credit facility | - | 64,000 |
| Convertible notes, issued at par | 99,554 | - |
| Deferred income taxes | 52,458 | 47,685 |
| Other noncurrent liabilities | 867 | 255 |
| Total long-term liabilities | 152,879 | 111,940 |
| Commitments and contingencies | | |
| Minority interest | 668 | 711 |
| Stockholders' equity: | | |
| Common stock, $0.01 par value: authorized - 100,000,000 shares: Issued and outstanding - 28,867,041 shares in 2002 and 28,779,808 shares in 2001 | 289 | 288 |
| Additional paid-in capital | 138,567 | 137,384 |
| Treasury stock - at cost: 1,009,900 shares in 2002 and 2001 | (16,210) | (16,210) |
| Retained earnings | 169,255 | 157,739 |
| Accumulated other comprehensive income | 3,724 | 6,916 |
| Total stockholders' equity | 295,625 | 286,117 |
| Total Liabilities and Stockholders' Equity | $ 490,797 | $ 436,989 |

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



ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share amounts)

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| Operating revenues: | | | | |
| Oil and gas production | $ 46,197 | $ 55,421 | $ 87,290 | $ 123,336 |
| Gain on sale of proved properties | 449 | 48 | 413 | 50 |
| Marketed gas revenue | 2,939 | - | 3,444 | - |
| Other oil and gas revenue | 397 | 203 | 747 | 565 |
| Gain on sale of KMOC stock | - | - | 836 | - |
| Other revenues | 46 | 104 | 71 | 172 |
| Total operating revenues | 50,028 | 55,776 | 92,801 | 124,123 |
| Operating expenses: | | | | |
| Oil and gas production | 11,531 | 13,436 | 25,561 | 25,493 |
| Depletion, depreciation and amortization | 13,279 | 12,884 | 26,333 | 24,172 |
| Exploration | 4,297 | 2,149 | 11,213 | 10,511 |
| Impairment of proved properties | - | 73 | - | 244 |
| Abandonment and impairment of unproved properties | 622 | 608 | 1,319 | 1,074 |
| General and administrative | 3,015 | 3,536 | 6,156 | 7,557 |
| Unrealized derivative loss (gain) | (2,327) | - | (1,975) | - |
| Marketed gas system operating expense | 2,662 | - | 3,086 | - |
| Minority interest and other | 243 | 118 | 620 | 379 |
| Total operating expenses | 33,322 | 32,804 | 72,313 | 69,430 |
| Income from operations | 16,706 | 22,972 | 20,488 | 54,693 |
| Nonoperating income (expense): | | | | |
| Interest income | 170 | 147 | 280 | 335 |
| Interest expense | (1,018) | - | (1,470) | (35) |
| Income before income taxes | 15,858 | 23,119 | 19,298 | 54,993 |
| Income tax expense | 5,269 | 8,885 | 6,391 | 20,366 |
| Net income | $ 10,589 | $ 14,234 | $ 12,907 | $ 34,627 |
| Basic net income per common share | $ 0.38 | $ 0.51 | $ 0.46 | $ 1.23 |
| Diluted net income per common share | $ 0.37 | $ 0.50 | $ 0.46 | $ 1.20 |
| Basic weighted average common shares outstanding | 27,825 | 28,135 | 27,805 | 28,185 |
| Diluted weighted average common shares outstanding | 28,428 | 28,717 | 28,347 | 28,826 |

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



ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

| | For the Six Months Ended |
|---|---|

| | June 30, 2002 | June 30, 2001 |
|---|---|---|
| Reconciliation of net income to net cash provided by operating activities: | | |
| Net income | $ 12,907 | $ 34,627 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Gain on sale of proved properties | (413) | (50) |
| Gain on sale of KMOC stock | (836) | - |
| Depletion, depreciation and amortization | 26,333 | 24,172 |
| Exploratory dry hole expense | 6,133 | 4,418 |
| Impairment of proved properties | - | 244 |
| Abandonment and impairment of unproved properties | 1,319 | 1,074 |
| Unrealized derivative loss (gain) | (1,975) | - |
| Deferred income taxes | 4,989 | 10,841 |
| Minority interest and other | 288 | 442 |
| | 48,745 | 75,768 |
| Changes in current assets and liabilities: | | |
| Accounts receivable | 12,490 | (2,394) |
| Prepaid expenses and other | 8,436 | (2,030) |
| Accounts payable and accrued expenses | 6,399 | 1,530 |
| Net cash provided by operating activities | 76,070 | 72,874 |
| Cash flows from investing activities: | | |
| Proceeds from sale of oil and gas properties | 122 | 660 |
| Capital expenditures | (42,577) | (63,335) |
| Acquisition of oil and gas properties | (13,643) | 1,590 |
| Proceeds from distribution and sale of KMOC stock | 3,114 | 7,009 |
| Short term investments available-for-sale | (9,370) | - |
| Other | (2,122) | 69 |
| Net cash used in investing activities | (64,476) | (54,007) |
| Cash flows from financing activities: | | |
| Proceeds from credit facility | 16,000 | 41,750 |
| Repayment of credit facility | (80,000) | (50,350) |
| Proceeds from issuance of convertible notes, net | 96,754 | - |
| Proceeds from sale of common stock | 783 | 1,721 |
| Repurchase of common stock | - | (10,949) |
| Dividends paid | (1,391) | (1,413) |
| Net cash provided by (used in) financing activities | 32,146 | (19,241) |
| Net change in cash and cash equivalents | 43,740 | (374) |
| Cash and cash equivalents at beginning of period | 4,116 | 6,619 |
| Cash and cash equivalents at end of period | $ 47,856 | $ 6,245 |

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



ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(Continued)

Supplemental schedule of additional cash flow information and noncash investing and financing activities:

| | For the Six Months Ended June 30, 2002 | For the Six Months Ended June 30, 2001 |
|---|---|---|
| | (In thousands) | |
| Cash paid for interest | $ 478 | $ 284 |
| Cash paid (received) for income taxes | (8,699) | 10,386 |
| Cash paid for exploration expenses | 14,155 | 10,499 |

In June 2002 the Company issued 800 shares of common stock to a director and recorded compensation expense of $14,763.

In January 2002 the Company issued 7,200 shares of common stock to its directors and recorded compensation expense of $129,683.

In January 2001 the Company issued 8,400 shares of common stock to its directors and recorded compensation expense of $237,852.

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



ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
(In thousands, except share amounts)

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Retained Earnings | Treasury Stock Shares | Treasury Stock Amount | Accumulated Other Comprehensive Income | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| Balances, December 31, 2000 | 28,553,826 | $ 286 | $ 132,973 | $ 120,075 | (395,600) | $ (3,339) | $ 141 | $ 250,136 |
| Comprehensive income: | | | | | | | | |
| Net Income | - | - | - | 40,459 | - | - | - | 40,459 |
| Unrealized net loss on marketable equity securities available for sale | - | - | - | - | - | - | (132) | (132) |
| Adoption of SFAS No. 133 | - | - | - | - | - | - | (28,587) | (28,587) |
| Change in derivative instrument fair value | - | - | - | - | - | - | 35,494 | 35,494 |
| Total comprehensive income | | | | | | | | 47,234 |
| Cash dividends, $ 0.10 per share | - | - | - | (2,795) | - | - | - | (2,795) |
| Treasury stock purchases | - | - | - | - | (614,300) | (12,871) | - | (12,871) |
| Issuance for Employee Stock Purchase Plan | 29,772 | - | 575 | - | - | - | - | 575 |
| Sale of common stock, including income tax benefit of stock option exercises | 187,810 | 2 | 3,598 | - | - | - | - | 3,600 |
| Directors' stock compensation | 8,400 | - | 238 | - | - | - | - | 238 |
| Balances, December 31, 2001 | 28,779,808 | $ 288 | $ 137,384 | $ 157,739 | (1,009,900) | $ (16,210) | $ 6,916 | $ 286,117 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Comprehensive income: | | | | | | | | |
| Net Income | - | - | - | 12,907 | - | - | - | 12,907 |
| Unrealized net loss on marketable equity securities available for sale | - | - | - | - | - | - | (151) | (151) |
| Change in derivative instrument fair value | - | - | - | - | - | - | (3,041) | (3,041) |
| Total comprehensive income | | | | | | | | 9,715 |
| Cash dividends, $0.05 per share | - | - | - | (1,391) | - | - | - | (1,391) |
| ESPP disqualified disposition | - | - | 20 | - | - | - | - | 20 |
| Sale of common stock, including income tax benefit of stock option exercises | 79,233 | 1 | 1,018 | - | - | - | - | 1,019 |
| Directors' stock compensation | 8,000 | - | 145 | - | - | - | - | 145 |
| Balances, June 30, 2002 | 28,867,041 | $ 289 | $ 138,567 | $ 169,255 | (1,009,900) | $ (16,210) | $ 3,724 | $ 295,625 |

The accompanying notes are an integral part of thest consolidated financial statements.



ST. MARY LAND & EXPLORATION COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

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June 30, 2002

Note 1 - Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of St. Mary Land & Exploration Company and Subsidiaries ("St. Mary" or the "Company") have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. They do not include all information and notes required by generally accepted accounting principles for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in St. Mary's Annual Report on Form 10-K for the year ended December 31, 2001. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the periods presented are not necessarily indicative of the results that may be expected for the full year.

The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements in the Form 10-K for the year ended December 31, 2001. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in the Form 10-K.

Certain amounts in the 2001 unaudited condensed consolidated financial statements have been reclassified to correspond to the 2002 presentation.

Note 2 - Income Taxes

Federal income tax expense for the three and six months ended June 30, 2002 and 2001 differ from the amounts that would be provided by applying the statutory U.S. Federal income tax rate to income before income taxes primarily due to Section 29 credits, percentage depletion, interest expense on convertible debt with contingent interest provisions, and the effect of state income taxes. For the six months ended June 30, 2002 the Company's current portion of income tax expense was $1.5 million.

Note 3 - Long-term Debt

In March 2002 the Company issued in a private placement a total of $100,000,000 of 5.75% senior convertible notes due 2022 (the "Notes") with a 1/2% contingent interest provision (see Note 4). Interest payments will be made on March 15 and September 15 of every year beginning September 15, 2002. The Company received net proceeds of $96,754,000 after deducting the initial purchasers' discount and offering expenses paid by the Company. The Notes are general unsecured obligations and rank on a parity in right of payment with all existing and future senior indebtedness and other general unsecured obligations. They are senior in right of payment with all future subordinated indebtedness. The Notes are convertible into the Company's common stock at a conversion price of $26.00 per share, subject to adjustment. The Company can redeem the Notes with cash in whole or in part at a repurchase price of 100% of the principal amount plus accrued and unpaid interest (including contingent interest) beginning on March 20, 2007. The note holders have the option of requiring the Company to repurchase the Notes for cash at 100% of the principal amount plus accrued and unpaid interest (including contingent interest) upon (1) a change in control of St. Mary or (2) on March 20, 2007, March 15, 2012 and March 15, 2017. If the note holders request repurchase on March 20, 2007, the Company may pay the repurchase price with cash, shares of its common stock valued at a discount to the market price at the time of repurchase or any combination of cash and its discounted common stock. St. Mary is not restricted from paying dividends,



incurring debt, or issuing or repurchasing its securities under the indenture for the Notes. There are no financial covenants in the indenture. The Company used a portion of the net proceeds from the Notes to repay its credit facility balance and will use the remaining net proceeds to fund a portion of its 2002 capital budget. On March 25, 2002 the Company entered into a five-year fixed-rate to floating-rate interest rate swap on $50,000,000 of Notes. The floating rate for each applicable six-month period will be determined as LIBOR plus 0.36%. For the initial six-month calculation period this rate was 2.69%. See "Note 4 - Financial Instruments" for a discussion of the derivative accounting for the interest rate swap.

The stated total borrowing base under the Company's current long-term revolving credit agreement was decreased to $160,000,000 in April 2002. Pursuant to a March 4, 2002 amendment to the credit agreement, during the revolving period of the loan, loan balances will accrue interest at the Company's option of either (1) the higher of the federal funds rate plus 1/2% or the prime rate, plus an additional 1/4% when the Company's debt to capitalization ratio is greater than 50%, or (2) the LIBOR rate plus (a) 1% when the Company's debt to total capitalization ratio is less than 30%, (b) 1 1/4% when the Company's debt to capitalization ratio is greater than or equal to 30% but less than 40%, (c) 1 3/8% when the Company's debt to capitalization ratio is greater than or equal to 40% but less than 50%, or (d) 1 5/8% when the Company's debt to capitalization ratio is greater than 50%. At June 30, 2002 the Company's debt to capitalization ratio as defined under the credit agreement was 25.2%.

The Company had no outstanding borrowings under its revolving credit agreement and $100,000,000 in outstanding borrowings under the Notes as of June 30, 2002. The weighted average interest rate paid for the second quarter of 2002 was 4.6 % including commitment fees paid on the unused portion of the borrowing base.

Note 4 - Financial Instruments

The Company seeks to protect its rate of return on acquisitions of producing properties by hedging cash flow when the economic criteria from its

evaluation and pricing model indicate it would be appropriate. Management's strategy is to hedge cash flows from investments requiring a gas price in excess of $3.25 per Mcf and an oil price in excess of $22.50 per Bbl in order to meet minimum rate-of-return criteria. The Company anticipates this strategy will result in the hedging of future cash flow from acquisitions. St. Mary generally limits its aggregate hedge position to no more than 35% of its total production but will hedge up to 50% of total production in certain circumstances. The Company seeks to minimize basis risk and index the majority of oil hedges to NYMEX prices and the majority of gas hedges to various regional index prices associated with pipelines in proximity to its areas of gas production.

On February 4, 2002 the Company entered into an agreement to monetize its unrealized hedge gain receivable due from Enron for $1.1 million. This amount was included in other comprehensive income at December 31, 2001, is recorded in oil hedge gain and is reported in oil and gas production revenues in the consolidated statements of operations. Amortization of $609,000 of other comprehensive income related to commodity positions with Enron is also recorded in oil hedge gain. Additional amortization will be recorded in oil hedge gain in future months. Unrealized derivative loss on the consolidated statements of operations includes $54,000 of net loss from oil and gas hedge ineffectiveness.

The Notes contain a provision for payment of contingent interest if certain conditions are met. Under Statement of Financial Accounting Standards ("SFAS") No. 133 this provision is considered an embedded equity-related derivative that is not clearly and closely related to the fair value of an equity interest and therefore must be separated from the Notes and accounted for as a derivative instrument. The value of the derivative at issuance in March 2002 was $474,000. This amount was recorded as an adjustment to the Notes on the consolidated balance sheets. Of this amount, $28,000 has been amortized through interest expense. Unrealized derivative loss on the consolidated statements of operations includes $245,000 of net loss from mark-to-market adjustments for this derivative.



The fixed-rate to floating-rate interest rate swap on $50,000,000 of Notes did not qualify for fair value hedge treatment under SFAS No. 133. Unrealized derivative gain on the consolidated statements of operations includes $2,244,000 of net gain from mark-to-market adjustments for this derivative instrument.

The Company anticipates that all oil and gas hedge transactions will occur as expected. Based on current prices we anticipate that $3,228,000 of the after tax gain amount included in accumulated and other comprehensive income will be included in earnings during the next 12 months.

Note 5 - Short-term Investments Available-for-Sale

The following short-term interest-bearing investment-grade securities available for sale will mature within one year:

| Major security type | Amortized Cost Basis | Gross Unrealized Holding Gains | Aggregate Fair Value |
|---|---|---|---|
| Mortgaged-backed securities | $ 995,000 | $ - | $ 995,000 |
| | 8,375,000 | | |
| Corporate debt securities | | 6,000 | 8,381,000 |
| Total securities | $ 9,370,000 | $ 6,000 | $ 9,376,000 |

Note 6 - Newly Issued Accounting Standards

In June 2002 the Financial Accounting Standards Board ("FASB") issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in Restructuring)." This statement requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF No. 94-3. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not have any pending or planned exit or disposal activities and does not expect a material effect on its financial position or results of operations from the adoption of this statement.

In April 2002 the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." FASB No. 4 required all gains or losses from extinguishment of debt to be classified as extraordinary items net of income taxes. SFAS No. 145 requires that gains and losses from extinguishment of debt be evaluated under the provisions of Accounting Principles Board Opinion No. 30, and be classified as ordinary items unless they are unusual or infrequent or meet the specific criteria for treatment as an extraordinary item. This statement is effective January 1, 2003. The Company does not anticipate that the adoption of this statement will have a material effect on its financial position or results of operations.

On January 1, 2002 the Company adopted SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." There was no impact on the Company's financial position or results of operations as a result of the adoption of this statement.

In June 2001 FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement requires companies to recognize the fair value of an asset retirement liability in the financial statements by capitalizing that cost as part of the cost of the related long-lived asset. The asset retirement liability should then be allocated to expense by using a systematic and rational method. The statement is effective January 1, 2003. The Company has not yet determined the impact of adoption of this statement.



On January 1, 2002 the Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets." There was no impact on the Company's financial position or results of operations as a result of the adoption of this statement.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Cautionary Note About Forward - Looking Statements

This Quarterly Report on Form 10-Q includes certain statements that may be deemed to be "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included in this Form 10-Q that address activities, events or developments that St. Mary management expects, believes or anticipates will or may occur in the future are forward-looking statements. The words "will," "believe," "anticipate," "intend," "estimate," "expect," "project," and similar expressions are intended to identify forward - looking statements, although not all forward - looking statements contain such identifying words. Examples of forward-looking statements may include discussion of such matters as:

- the amount and nature of future capital, development and exploration expenditures,
- the drilling of wells,
- reserve estimates and the estimates of both future net revenues and the present value of future net revenues that are included in their calculation,
- future oil and gas production estimates,
- repayment of debt,
- business strategies,

- o expansion and growth of operations,
- o recent legal developments, and
- o other similar matters.

These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments and other factors we believe are appropriate in the circumstances. Such statements are subject to a number of assumptions, risks and uncertainties, including such factors as the volatility and level of oil and natural gas prices, production rates and reserve replacement, reserve estimates, drilling and operating service availability and risks, uncertainties in cash flow, the financial strength of hedge contract counterparties, the availability of attractive exploration, development and property acquisition opportunities, financing requirements, expected acquisition benefits, competition, litigation, environmental matters, the potential impact of government regulations, and other matters discussed under the "Risk Factors" section of our 2001 Annual Report on Form 10-K. Readers are cautioned that forward-looking statements are not guarantees of future performance and that actual results or developments may differ materially from those expressed or implied in the forward-looking statements. Although we may from time to time voluntarily update our prior forward - looking statements, we disclaim any commitment to do so except as required by securities laws.

Overview

When comparing the quarter ended June 30, 2002 to activity in 2001 the focus will again be on oil and gas prices. Prices decreased compared to last year but were higher this quarter than they were in the first quarter of 2002. Our experience in the acquisition market during the quarter suggests to us that this market may be moving toward our opinion of rationality. We remain hopeful of meeting our acquisition budget this year. We continue to have a strong balance sheet as a result of the $100.0 million senior convertible note private placement we completed in the first quarter.



Critical Accounting Policies and Estimates

We refer you to the corresponding section of our Annual Report on Form 10-K for the year ended December 31, 2001.

Results of Operations

The following table sets forth selected operating data for the periods indicated:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2002 | 2001 | 2002 | 2001 |
| | (In thousands, except per volume data) | | | |
| Oil and gas production revenues: | | | | |
| Gas production | $ 29,113 | $ 40,970 | $ 53,734 | $ 93,350 |
| Oil production | 17,084 | 14,451 | 33,556 | 29,986 |
| Total | $ 46,197 | $ 55,421 | $ 87,290 | $ 123,336 |
| Net production: | | | | |
| Gas (MMcf) | 9,618 | 10,041 | 19,173 | 19,650 |
| Oil (MBbls) | 673 | 595 | 1,378 | 1,203 |
| MCFE | 13,655 | 13,611 | 27,440 | 26,868 |
| Average sales price (1): | | | | |
| Gas (per Mcf) | $ 3.03 | $ 4.08 | $ 2.80 | $ 4.75 |
| Oil (per Bbl) | $ 25.39 | $ 24.30 | $ 24.35 | $ 24.92 |
| Oil and gas production costs: | | | | |
| Lease operating expense | $ 8,177 | $ 9,826 | $ 18,626 | $ 17,364 |
| Transportation costs | 761 | 541 | 1,577 | 6,991 |
| Production taxes | 2,593 | 3,069 | | |
| Total | $ 11,531 | $ 13,436 | $ 25,561 | $ 25,493 |
| Additional per MCFE data: | | | | |
| Sales price | $ 3.38 | $ 4.07 | $ 3.18 | $ 4.59 |
| Lease operating expense | 0.60 | 0.72 | 0.68 | 0.65 |
| Transportation costs | 0.06 | 0.04 | 0.06 | 0.04 |
| Production taxes | 0.18 | 0.23 | 0.19 | 0.26 |
| Operating margin | $ 2.54 | $ 3.08 | $ 2.25 | $ 3.64 |
| Depletion, depreciation and amortization | $ 0.97 | $ 0.95 | $ 0.96 | $ 0.90 |
| Impairment of proved properties | $ - | $ 0.01 | $ - | $ 0.01 |
| General and administrative | $ 0.22 | $ 0.26 | $ 0.22 | $ 0.28 |

2,593 3,069

(1)Includes the effects of St. Mary's hedging activities.

Three-Month Comparison

Oil and Gas Production Revenues. Our quarterly oil and gas production revenues decreased $9.2 million, or 17% to $46.2 million for the three months ended June 30, 2002, compared with $55.4 million for the same period in 2001.



The following table presents the components of increases or (decreases) between 2002 and 2001:

| | Production % Change | Price $ Change | Price % Change |
|---|---|---|---|
| o Natural Gas | (4%) | ($1.05)/Mcf | (26%) |
| o Oil | 13% | $1.09/Bbl | 4% |

Average net daily production increased to 150.1 MMCFE for 2002 compared with 149.6 MMCFE in 2001. Our acquisition of properties from Choctaw in November 2001 added $3.4 million of revenue and average net daily production of 12.0 MMCFE to the second quarter of 2002. Other acquisitions and wells completed during 2002 added average net daily production of 16.9 MMCFE. These increases in average net daily production offset decreases from older properties.

We hedged approximately 39% or 260 MBbls of our oil production for the three months ended June 30, 2002, and realized a $1.2 million increase in oil revenue attributable to hedging compared with a $775,000 decrease in 2001. Without these contracts our average price would have been $23.64 per Bbl in the second quarter of 2002 compared to $25.60 per Bbl in 2001. We also hedged 44% of our 2002 second quarter gas production or 4.6 million MMBtu and realized a $1.5 million decrease in gas revenue compared with a $5.1 million decrease in gas revenue in 2001. Without these contracts our average price would have been $3.18 per Mcf for the three months ended June 30, 2002, compared to $4.51 per Mcf for the same period in 2001.

Marketed Gas Revenue and Gas System Operating Expense. As a result of our acquisition of gas gathering system lines in Cole County, Oklahoma in February 2002 we started taking title to and marketing natural gas for third parties. For the three months ended June 30, 2002 we received $2.9 million from the sale of this natural gas. Operating costs associated with these revenues totaled $2.7 million and resulted in gross margin to us of $277,000. Due to fluctuations in natural gas prices, cost inflation and the variability of

production from oil and gas wells, we may not always have a positive gross margin from marketing.

Oil and Gas Production Costs. Oil and gas production costs consist of lease operating expense, production taxes and transportation expenses. Total production costs decreased $1.9 million or 14% to $11.5 million for the three months ended June 30, 2002, from $13.4 million in 2001. In the second quarter of 2002 our Gulf Coast region experienced a $2.7 million decrease in LOE that was comprised of a decrease in expense for non-recurring LOE and an adjustment due to the issuance of a revised Authorization For Expenditure by the operator of the Judge Digby field. This AFE indicated that non-recurring LOE we previously expensed under the original AFE should be recorded as property, plant and equipment. Our acquisition of properties from Choctaw in November 2001 added $1.7 million of production costs in 2002 that were not reflected in 2001. Total oil and gas production costs per MCFE decreased 15% to $0.84 for the three months ended June 30, 2002 compared with $0.99 for 2001. A $0.07 per MCFE decrease was due to the decrease in Gulf Coast non-recurring LOE. The Judge Digby adjustment caused another $0.05 decrease. A $0.01 per MCFE increase was due to the acquisitions previously discussed. A net $0.03 per MCFE decrease was due to decreased production taxes partially offset by increased transportation expenses.

Depreciation, Depletion, Amortization and Impairment. Depreciation, depletion and amortization expense ("DD&A") increased $395,000 or 3% to $13.3 million for the three months ended June 30, 2002, from $12.9 million in 2001. DD&A per MCFE increased by 2% to $0.97 for the second quarter of 2002 compared with $0.95 in 2001. This increase reflects acquisitions and drilling results in 2001 and 2002 that have added costs at a higher per-unit rate.



Exploration. Exploration expense increased $2.1 million or 100% to $4.3 million for the three months ended June 30, 2002, compared with $2.1 million in 2001. Percentages of total exploration expense are as follows:

| | 2002 | 2001 |
|---|---|---|
| o Geological and geophysical expenses | 12% | 26% |
| o Exploratory dry holes | 46% | -14% |
| o Overhead and other expenses | 42% | 88% |

Oil and gas exploration is imprecise, and success can be affected by numerous factors. Not every likely geological structure contains oil or natural gas. Even when oil or natural gas is discovered there are no guarantees that sufficient quantities can be produced to justify the completion of an exploratory well. We have budgeted for additional geological and geophysical expenses and expect to incur additional overhead and other expenses in the pursuit of exploration, but we generally explore with an expectation of success.

General and Administrative. General and administrative expenses decreased $521,000 or 15% to $3.0 million for the three months ended June 30, 2002, compared with $3.5 million in 2001. We experienced a $491,000 increase in COPAS overhead reimbursement from operations in this quarter.

Interest Expense. Interest expense increased to $1.0 million for the quarter ended June 30, 2002. This amount reflects accrued interest on our senior convertible notes and will increase significantly on a comparative basis with last year as we accrue and pay the interest due on the notes. The amount we accrue and pay will be affected by the fixed-rate to floating-rate interest rate swap we entered into in March 2002.

Income Taxes. Income tax expense totaled $5.3 million for the three months ended June 30, 2002, and $8.9 million in 2001, resulting in effective tax rates of 33.2% and 38.4%, respectively. This decrease is a result of the tax effect of interest expense on convertible debt with contingent interest provisions combined with a lesser effect of state income taxes and an increase in the effect on Section 29 credits on a lesser net income in 2002.

Net Income. Net income for the three months ended June 30, 2002 decreased $3.6 million to $10.6 million compared with $14.2 million in 2001. A 26% decrease in gas prices and a 4% increase in oil prices combined with a 13% increase in oil production and a 4% decrease in gas production resulted in a $9.2 million decrease in oil and gas production revenue. This decrease was offset by decreases of $1.9 million in oil and gas production costs and $3.6 million in income tax expense.

Six-Month Comparison

Oil and Gas Production Revenues. We experienced a decrease in oil and gas production revenues of $36.0 million, or 29% to $87.3 million for the six months ended June 30, 2002, compared with $123.3 million for the same period in 2001. The following table presents the components of increases or (decreases) between 2002 and 2001:

| | Production %Change | Price $ Change | Price % Change |
|---|---|---|---|
| o Natural Gas | (2%) | ($1.95)/Mcf | (41%) |
| o Oil | 15% | ($0.57)/Bbl | (2%) |

Average net daily production increased to 151.6 MMCFE for the first six months of 2002 compared with 148.4 MMCFE in 2001. Our acquisition of properties from Choctaw in November 2001 added $6.7 million of revenue and average net daily production of 12.1 MMCFE to the first six months of 2002. Other



acquisitions and wells completed during 2002 added average net daily production of 9.6 MMCFE. These increases offset declines in average net daily production from older properties.

We hedged approximately 39% or 542 MBbls of our oil production for the six months ended June 30, 2002, and realized a $2.6 million increase in oil revenue attributable to hedging compared with a $1.9 million decrease in 2001. Without these contracts we would have received an average price of $22.46 per Bbl for the six months ended June 30, 2002 compared to $26.48 per Bbl in 2001. We also hedged 43% of our gas production or 9.0 million MMBtu and realized a $904,000 increase in gas revenue for the six months ended June 30, 2002 compared with a $20.4 million decrease in gas revenue in 2001. Without these contracts we would have received an average price of $2.76 per Mcf for the six months ended June 30, 2002, compared to $5.79 per Mcf for the same period in 2001.

Marketed Gas Revenue and Gas System Operating Expense. As a result of our acquisition of gas gathering system lines in Cole County, Oklahoma in February 2002 we started taking title to and marketing natural gas for third parties. For the six months ended June 30, 2002 we received $3.4 million from the sale of this natural gas. Costs associated with these revenues totaled $3.1 million and resulted in gross margin to us of $358,000.

Oil and Gas Production Costs. Total production costs increased slightly to $25.6 million for the six months ended June 30, 2002, from $25.5 million in 2001. Our acquisition of properties from Choctaw added 2.6 million of LOE in 2002 that was not reflected in 2001. In the second quarter of 2002 our Gulf Coast region experienced a $2.7 million decrease in LOE that was comprised of a decrease in expense for non-recurring LOE and an adjustment due to the issuance of a revised AFE by the Operator at Judge Digby. This AFE indicated that non-recurring LOE we previously expensed under the original AFE should be recorded as property, plant and equipment. This decrease offset $1.4 million of increases we expected from general inflation. The decrease in oil and gas production revenues caused a corresponding $1.6 million decrease in production taxes. Total oil and gas production costs per MCFE decreased 2% to $0.93 for the six months ended June 30, 2002 compared with $0.95 for 2001. A $0.07 per MCFE decrease in production taxes offset a $0.05 per MCFE increase in LOE and transportation costs. We continue to concentrate on these costs in an effort to decrease the per MCFE amounts using a cost-benefit approach that will still justify additional expenditures when appropriate.

Depreciation, Depletion, Amortization and Impairment. DD&A increased $2.2 million or 9% to $26.3 million for the six months ended June 30, 2002, from $24.2 million in 2001. DD&A per MCFE increased by 7% to $0.96 for the six months ended June 30, 2002 compared with $.90 in 2001. This increase reflects acquisitions and drilling results in 2001 and 2002 that added costs at a higher per unit rate.

Exploration. Exploration expense increased $701,000 or 7% to $11.2 million for the six months ended June 30, 2002, compared with $10.5 million in 2001. Percentages of total exploration expense are as follows:

| | 2002 | 2001 |
|---|---|---|
| o Geological and geophysical expenses | 11% | 22% |
| o Exploratory dry holes | 55% | 42% |
| o Overhead and other expenses | 34% | 36% |

General and Administrative. General and administrative expenses decreased $1.4 million or 19% to $6.2 million for the six months ended June 30, 2002, compared with $7.6 million in 2001. We experienced a $955,000 increase in COPAS overhead reimbursement from operations in this period and a $275,000 decrease in compensation expense caused primarily by decreased compensation related to our incentive plans.



Interest Expense. Interest expense increased to $1.5 million for the six months ended June 30, 2002. This amount reflects accrued interest on our senior convertible notes and will increase significantly on a comparative basis with last year as we accrue and pay the interest due on the notes in 2002. The amount we accrue and pay will be affected by the fixed-rate to floating-rate interest rate swap we entered into in March 2002.

Income Taxes. Income tax expense totaled $6.4 million for the six months ended June 30, 2002, and $20.4 million in 2001, resulting in effective tax rates of 33.1% and 37.0%, respectively. This decrease is a result of the tax effect of interest expense on convertible debt with contingent interest provisions combined with a lesser effect of state income taxes and an increase in the effect on Section 29 credits on a lesser net income in 2002.

Net Income. Net income for the six months ended June 30, 2002 decreased $21.7 million or 63% to $12.9 million compared with $34.6 million in 2001. A 41% decrease in gas prices and a 2% decrease in oil prices combined with a 14% increase in oil production and a 2% decrease in gas production resulted in a $36.0 million decrease in oil and gas production revenue. This decrease was offset by a corresponding $14.0 million decrease in income tax expense.

Liquidity and Capital Resources

Our primary sources of liquidity are the cash provided by operating activities, debt financing, sales of non-strategic properties and access to the capital markets. All of these sources can be impacted by significant fluctuations in oil and gas prices. An unexpected decrease in prices would reduce expected cash flow from operating activities, might reduce the borrowing base on our credit facility, could reduce the value of our non-strategic properties and historically has limited our industry's access to the capital markets.

We use cash for the acquisition, exploration and development of oil and gas properties and for the payment of debt obligations, trade payables and stockholder dividends. Exploration and development programs are generally financed from internally generated cash flow, debt financing and cash and cash equivalents on hand. In the event of an unexpected decrease in oil and gas prices, cash uses such as the acquisition of oil and gas properties and the payment of stockholder dividends are discretionary and can be reduced or eliminated. At any given point in time, we may be obligated to pay for commitments to explore for or develop oil and gas properties or incur trade payables. However, future obligations can be reduced or eliminated when necessary. We are currently only required to make interest payments on our debt obligations. An unexpected increase in oil and gas prices provides flexibility to modify our uses of cash flow.

We continually review our capital expenditure budget to reflect changes in current and projected cash flow, acquisition opportunities, debt requirements and other factors.

Cash Flow. Net cash provided by operating activities increased $3.2 million or 4% to $76.1 million for the six months ended June 30, 2002 compared with $72.9 million in 2001. The increase reflects the effect of a change between years of $14.9 million from the collection of receivables and $15.1 million in decreases of cash spent for other current assets and liabilities offset by the effect of the decrease in oil and gas production revenues.

Net cash used in investing activities increased $10.5 million or 19% to $64.5 million for the six months ended June 30, 2002, compared with $54.0 million in 2001. This increase is due to a $9.4 million investment in short-term securities in 2002 and a $3.9 million decrease in receipts from sales of KMOC stock offset by decreased capital expenditures. Total capital expenditures, including acquisitions of oil and gas properties, in the first six months of 2002 decreased $5.5 million or 9% to $56.2 million compared with $61.7 million in the first half of 2001.



Net cash provided by financing activities increased $51.4 million to $32.1 million for the six months ended June 30, 2002, compared with net cash used in financing activities of $19.2 million in 2001. This increase reflects our March 2002 private placement of $100.0 million of 5.75% senior convertible notes due 2022. A portion of the net proceeds of $96.8 million was used to repay the balance due on the credit facility. We have not repurchased any common stock in the first six months of 2002.

St. Mary had $47.9 million in cash and cash equivalents and had working capital of $60.0 million as of June 30, 2002, compared with $4.1 million in cash and cash equivalents and working capital of $34.0 million at December 31, 2001. The increase in cash and cash equivalents reflects our issuance of $100.0 million of senior convertible notes during the first quarter of 2002.

Senior Convertible Notes. In March 2002 we issued in a private placement a total of $100.0 million of 5.75% senior convertible notes due 2022 with a 1/2% contingent interest provision. Interest payments will commence September 15, 2002 and will be made on March 15 and September 15 of every year. We received net proceeds of $96.8 million after deducting the initial purchasers' discount and estimated offering expenses payable by us. The notes are general unsecured obligations and rank on a parity in right of payment with all our existing and future senior indebtedness and other general unsecured obligations, and are senior in right of payment with all our future subordinated indebtedness. The notes are convertible into our common stock at a conversion price of $26.00 per share, subject to adjustment. We can redeem the notes with cash in whole or in part at a repurchase price of 100% of the principal amount plus accrued and unpaid interest including contingent interest beginning on March 20, 2007. The note holders have the option of requiring us to repurchase the notes for cash at 100% of the principal amount plus accrued and unpaid interest including contingent interest upon (1) a change in control of St. Mary or (2) on March 20, 2007, March 15, 2012 and March 15, 2017. If the note holders request repurchase on March 20, 2007, we may pay the repurchase price with cash, shares of our common stock valued at a discount to the market price at the time of repurchase or any combination of cash and our discounted common stock. We are not restricted from paying dividends, incurring debt, or issuing or repurchasing our securities under the indenture for the notes. There are no financial covenants in the indenture. We used a portion of the net proceeds from the notes to repay our credit facility balance and will use the remaining net proceeds to fund a portion of our 2002 capital budget. On March 25, 2002 we entered into a five-year fixed-rate to floating-rate interest rate swap on $50.0 million of the

notes. The floating rate for each applicable six-month period will be determined as LIBOR plus 0.36%. For the initial calculation period this rate was 2.69%.

Credit Facility. The maximum loan amount under our long-term revolving credit facility is $200.0 million. The amount actually available depends upon a borrowing base that the lenders periodically redetermine based on the value of our oil and gas properties and other assets. Since we pay commitment fees based on the unused portion of the borrowing base, we have generally limited the borrowing base which we have accepted to correspond to our actual funding requirements. On April 10, 2002 the stated total possible borrowing base was reduced by $10.0 million to $160.0 million and the accepted borrowing base was reduced by $60.0 million to $40.0 million. The facility has a maturity date of December 31, 2006, and includes a revolving period that matures on June 30, 2003 at which time all outstanding borrowings convert to a term loan payable in quarterly installments through the facility maturity date. We must comply with certain covenants including maintenance of stockholders' equity at a specified level, restrictions on additional indebtedness, sales of oil and gas properties, activities outside our ordinary course of business and certain merger transactions. Borrowings under the facility are secured by a pledge of collateral in favor of the banks and guarantees by subsidiaries. Such collateral consists primarily of security interests in the oil and gas properties of St. Mary and its subsidiaries.

As of June 30, 2002 we had no balance outstanding under this credit agreement, compared to $64 million at December 31, 2001. Pursuant to a March 4, 2002 amendment to the credit agreement, during the revolving period of the loan, loan balances will accrue interest at our option of either (1) the higher of the federal funds rate plus 1/2% or the prime rate, plus an additional 1/4% when our debt to capitalization ratio is greater than 50%, or (2) the LIBOR rate plus (a) 1% when our debt to total capitalization ratio is less than 30%, (b) 1 1/4 % when our debt to capitalization ratio is greater than or equal to 30% but less than 40%, (c) 1 3/8% when our debt to capitalization ratio is greater than or



equal to 40% but less than 50%, or (d) 1 5/8% when our debt to capitalization ratio is greater than 50%. At June 30, 2002 our debt to capitalization ratio as defined under the credit agreement was 25.2%.

Schedule of Contractual Obligations. The following table summarizes our future estimated principal payments for the periods specified:

| Contractual Obligations | Long-Term Debt | Operating Leases | Total Cash Obligation |
|---|---|---|---|
| Less than 1 year | - | $1.1 million | $ 1.1 million |
| 1-3 years | - | $1.2 million | $ 1.2 million |
| 4-5 years | - | $1.4 million | $ 1.4 million |
| After 5 years | $100.0 million | $3.2 million | $103.2 million |
| Total | $100.0 million | $6.9 million | $106.9 million |

In the period from 1-3 years, we have two leases of office space for our regional offices that will expire. A third lease for office space will expire in year 4. Estimated costs to replace these leases are not included in the table above. For purposes of the table we assume that the holders of our senior convertible notes will not exercise the conversion feature.

Common Stock. In August 1998 St. Mary's Board of Directors authorized a stock repurchase program whereby we may purchase from time-to-time, in open market transactions or negotiated sales, up to two million of our common shares. Through June 30, 2002 we have repurchased a cumulative total of 1,009,900 shares of St. Mary's common stock under the program for $16.2 million at a weighted average price of $15.86 per share, net of put option sale premiums received. We anticipate that additional purchases of shares may occur as market conditions warrant. Any future purchases will be funded with internal cash flow and borrowings under our credit facility.

Capital and Exploration Expenditures Incurred. Expenditures for exploration and development of oil and gas properties and acquisitions are the primary use of our capital resources. The following table sets forth certain information regarding the costs incurred by us in our oil and gas activities during the periods indicated.

| | Capital and Exploration Expenditures | |
|---|---|---|
| | Six Months Ended June 30, | |
| | 2002 | 2001 |
| | (In thousands) | |
| Development | $ 30,444 | $ 43,451 |
| Domestic Exploration | 9,034 | 14,639 |
| Acquisitions: | | |
| Proved | 7,040 | 301 |
| Unproved | 8,597 | 10,110 |
| Total | $ 55,115 | $ 68,501 |

We continuously evaluate opportunities in the marketplace for oil and gas properties and, accordingly, may be a buyer or a seller of properties at various times. We will continue to emphasize smaller niche acquisitions utilizing St. Mary's technical expertise, financial flexibility and structuring experience. In addition, we are also actively seeking larger acquisitions of assets or companies that would afford opportunities to expand our existing core areas, to acquire additional geoscientists or to gain a significant acreage and production foothold in a new basin.



St. Mary's total costs incurred in the first six months of 2002 decreased $13.4 million or 20% compared to the first six months of 2001. We spent $48.1 million in the first six months of 2002 for unproved property acquisitions and domestic exploration and development compared to $68.2 million for the comparable period in 2001. This decrease was a result of planned decreases in drilling activity and a $1.5 million decrease in unproved leasehold acquisition activity. We successfully obtained permits to begin producing our two coalbed methane pilot programs located on fee acreage in the Hanging Woman Basin. A total of 17 wells are being equipped for production and dewatering began in May. In April we were successful in obtaining an additional 10,000 acres of leases bringing our total to 127,000 acres in the Hanging Woman Basin. We are subject to an environmental public interest group lawsuit on 47,500 of these acres. See "Legal Proceedings" for a discussion of this lawsuit.

On April 26, 2002 the Interior Board of Land Appeals of the U.S. Department of the Interior issued an order that reversed a decision by the U.S. Bureau of Land Management dismissing a protest by the Wyoming Outdoor Council and Powder River Basin Resource Council of the offer for sale in February 2000 of three oil and gas leases in the Powder River Basin in Wyoming. The Board held that the BLM determination to allow the offer for sale of the three particular leases did not comply with environmental laws since the environmental analysis used by the BLM in making that determination did not contain a discussion of the unique potential impacts associated with coalbed methane extraction and development or consider reasonable alternatives relevant to a pre-leasing environmental analysis. The order addressed only three particular leases covering approximately 2,600 acres that are not included in our Hanging Woman Basin project. However, we cannot assure you that other leases, including issued leases that we hold in the Hanging Woman Basin, will not be challenged on a similar basis.

In November 2001 we purchased oil and gas properties from Choctaw II Oil & Gas, Ltd. for $40.5 million in cash. We used a portion of our credit

facility for this acquisition. The properties are primarily located in the Williston Basin of Montana and North Dakota and in the Green River Basin of Wyoming.

Capital Expenditure Budget. We anticipate spending approximately $164.0 million for capital and exploration expenditures in 2002 with $60.0 million for acquisitions. Budgeted ongoing exploration and development expenditures in 2002 for each of our core areas is as follows (in millions):

| | |
|---|---|
| o Mid-Continent region | $ 40.0 |
| o Gulf Coast and Gulf of Mexico region | 15.0 |
| o ArkLaTex region | 14.0 |
| o Williston Basin | 20.0 |
| o Permian Basin | 8.0 |
| o Other | 7.0 |
| Total | $ 104.0 |

We believe the amount not funded from our internally generated cash flow in 2002 can be funded from our existing cash and our credit facility. The amount and allocation of future capital and exploration expenditures will depend upon a number of factors including the number and size of available acquisition opportunities and our ability to assimilate these acquisitions. Also, the impact of oil and gas prices on investment opportunities, the availability of capital and borrowing capability and the success of our development and exploratory activity could lead to funding requirements for further development. If additional development or attractive acquisition opportunities arise, we may consider other forms of financing, including the public offering or private placement of equity or debt securities.

Derivatives. We seek to protect our rate of return on acquisitions of producing properties by hedging cash flow when the economic criteria from our evaluation and pricing model indicate it would be appropriate. Management's



strategy is to hedge cash flows from investments requiring a gas price in excess of $3.25 per Mcf and an oil price in excess of $22.50 per Bbl in order to meet minimum rate-of-return criteria. Management reviews these hedging parameters on a quarterly basis. We anticipate this strategy will result in the hedging of future cash flow from acquisitions. We generally limit our aggregate hedge position to no more than 35% of total production but will hedge up to 50% of total production in certain circumstances. We seek to minimize basis risk and index the majority of oil hedges to NYMEX prices and the majority of gas hedges to various regional index prices associated with pipelines in proximity to our areas of gas production. Including hedges entered into since June 30, 2002 we have the following swaps in place:

Swaps:

| Product | Average Volumes/month | Quantity Type | Average Fixed price | Duration |
|---|---|---|---|---|
| Natural Gas | 1,058,000 | MMBtu | $2.85 | 07/02 - 12/02 |
| Natural Gas | 468,000 | MMBtu | $3.34 | 01/03 - 12/03 |
| Natural Gas | 229,000 | MMBtu | $3.81 | 01/04 - 12/04 |
| Oil | 57,700 | Bbls | $24.77 | 07/02 - 12/02 |
| Oil | 49,800 | Bbls | $22.68 | 01/03 - 12/03 |

On February 4, 2002 we entered into an agreement to monetize our unrealized hedge gain receivable due from Enron for $1.1 million. This amount was included in other comprehensive income at December 31, 2001, is recorded in oil hedge gain and is reported in oil and gas production revenues on our consolidated statements of operations. Amortization of $609,000 of other comprehensive income related to our commodity positions with Enron is also recorded in oil hedge gain. Additional amortization will be recorded in oil hedge gain in future months. Unrealized derivative gain on the consolidated statements of operations includes $54,000 of net gain from oil and gas hedge ineffectiveness.

Our senior convertible notes contain a provision for payment of contingent interest if certain conditions are met. Under Statement of Financial Accounting Standards No. 133 this provision is considered an embedded equity-related derivative that is not clearly and closely related to the fair value of an equity interest and therefore must be separated and accounted for as a derivative instrument. The value of the derivative at issuance was $474,000. This amount was recorded as a decrease to the convertible notes payable on the consolidated balance sheets. Of this amount, $28,000 has been amortized through interest expense. Unrealized derivative gain on the consolidated statements of operations includes $245,000 of net loss from mark-to-market adjustments for this derivative.

Our fixed-rate to floating-rate interest rate swap on $50.0 million of senior convertible notes did not qualify for fair value hedge treatment under SFAS No. 133. Unrealized derivative gain on the consolidated statements of operations includes $2.2 million of net gain from mark-to-market adjustments for this derivative.

We anticipate that all hedge transactions will occur as expected.

Accounting Matters

New Accounting Standards

In June 2002 the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." FASB No. 146 requires recognition of a liability for a cost associated with an exit or disposal activity when the liability is incurred, as opposed to when the entity commits to an exit plan under EITF No. 94-3. This statement is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. We have not determined the impact of adoption of this statement.



In April 2002 the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections." FASB No. 4 required all gains or losses from extinguishment of debt to be classified as extraordinary items net of income taxes. SFAS No. 145 requires that gains and losses from extinguishment of debt be evaluated under the provisions of Accounting Principles Board Opinion No. 30, and be classified as ordinary items unless they are unusual or infrequent or meet the specific criteria for treatment as an extraordinary item. This statement is effective for fiscal years beginning after May 15, 2002. We do not anticipate that the adoption of this statement will have a material effect on our financial position or results of operations.

In June 2001 the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations." This statement requires companies to recognize the fair value of an asset retirement liability in the financial statements by capitalizing that cost as part of the cost of the related long-lived asset. The asset retirement liability should then be allocated to expense by using a systematic and rational method. The statement is effective January 1, 2003. We have not determined the impact of adoption of this statement.

Compensation Expense

We have a net profits interest incentive bonus plan for key employees designated as participants by our board of directors. Under the plan oil and gas wells that are completed or acquired during a year are designated as a pool. Participants employed by us on the last day of that year vest and become entitled to bonus payments after we recover net revenues generated by the pool equal to 100% of our investment in that pool. Thereafter an amount equal to10% of net revenues generated by the pool will be split among the participants and paid on a quarterly basis. The percentage of net revenues from the pool to be

split among the participants increases to 20% after we recover net revenues equal to 200% of our investment.

Beginning in 2002 we changed our method of accounting to record estimated compensation expense related to future amounts payable to participants under the plan on a quarterly basis in the plan year that the participants vest. The estimated compensation expense will be based on a number of assumptions including estimates of oil and gas production, oil and gas prices, recurring and non-recurring lease operating expense and a present value discount factor. We use a discount factor to calculate present value that reflects recovery of our investment, the timing of payments to participants and uncertainties associated with our estimates. The estimates we use will change from year-to-year based on new information and any change in estimated compensation will be recorded in the period that information becomes available.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We hold derivative contracts and financial instruments that have cash flow and net income exposure to changes in commodity prices or interest rates. Financial and commodity-based derivative contracts are used to limit the risks inherent in some crude oil and natural gas price changes that have an effect on us.

Our board of directors has adopted a policy regarding the use of derivative instruments. This policy requires every derivative used by St. Mary to relate to underlying offsetting positions, anticipated transactions or firm commitments. It prohibits the use of speculative, highly complex or leveraged derivatives. Under the policy, the Chief Executive Officer and Vice President - Finance must review and approve all risk management programs that use derivatives. The board of directors periodically reviews these programs.

Commodity Price Risk. We use various hedging arrangements to manage our exposure to price risk from natural gas and crude oil production. These hedging arrangements have the effect of locking in for specified periods, at predetermined prices or ranges of prices, the prices we will receive for the



volumes to which the hedge relates. Consequently, while these hedging arrangements are structured to reduce our exposure to decreases in prices associated with the hedged commodity, they also limit the benefit we might otherwise receive from any price increases associated with the hedged commodity. The derivative gain or loss effectively offsets the loss or gain on the underlying commodity exposures that have been hedged. The fair value of the swaps are estimated based on quoted market prices of comparable contracts and approximate the net gains or losses that would have been realized if the contracts had been closed out at quarter-end. The fair value of the futures are based on quoted market prices obtained from the New York Mercantile Exchange and have been adjusted for our hedging of the basis differential accorded to the pipelines relative to our areas at production.

A hypothetical $0.10 per MMBtu change in our quarter-end market prices for natural gas swaps and futures contracts on a notional amount of 18.1 million MMBtu would cause a potential $1.6 million change in net income before income taxes for contracts in place on June 30, 2002. A hypothetical $1.00 per Bbl change in our quarter-end market prices for crude oil swaps and future contracts on a notional amount of 1.4 million Bbls would cause a potential $1.3 million change in net income before income taxes for oil contracts in place on June 30, 2002. These hypothetical changes were discounted to present value using a 7.5% discount rate since the latest expected maturity date of certain swaps and futures contracts is greater than one year from the reporting date.

Interest Rate Risk. Market risk is estimated as the potential change in fair value resulting from an immediate hypothetical one percentage point parallel shift in the yield curve. A sensitivity analysis presents the hypothetical change in fair value of those financial instruments held by St. Mary at June 30, 2002, which are sensitive to changes in interest rates. For fixed-rate debt, interest rate changes affect the fair market value but do not impact results of operations or cash flows. Conversely for floating rate debt, interest rate changes generally do not affect the fair market value but do impact future results of operations and cash flows, assuming other factors are held constant. The carrying amount of our floating rate debt approximates its fair value. At June 30, 2002, we had floating rate debt of $50.0 million and $50.0 million of fixed rate debt. Assuming constant debt levels, the impact on results of operations and cash flows for the remainder of the year resulting from a one-percentage-point change in interest rates would be approximately $250,000 before taxes.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

On March 27, 2002 Nance Petroleum Corporation, a wholly owned subsidiary, was named along with several other leaseholders and interested parties as an additional co-defendant in a lawsuit that was originally filed on June 12, 2001 in the U.S. District Court for the District of Montana by the Northern Plains Resource Council, Inc., an environmental public interest group, against the U.S. Bureau of Land Management, the U.S. Secretary of the Interior, the Montana BLM State Director and Fidelity Exploration & Production Company. The lawsuit, which was reported in our 2001 Form 10-K and our first quarter 2002 Form 10-Q, seeks the cancellation of all federal leases related to coalbed methane development issued by the BLM in Montana since January 1, 1997, primarily on the grounds of an alleged failure of the BLM to comply with federal environmental laws by analyzing the environmental impacts of coalbed methane development before issuing the challenged leases. The lawsuit potentially affects 47,500 acres subject to federal leases of the 127,000 total acres in our Hanging Woman Basin coalbed methane project. While we believe, based on information presently available to us that the applicable environmental laws have been complied with, there is no assurance of the outcome of the lawsuit and therefore there is no assurance that it will not adversely affect our coalbed methane project. However, even if the federal leases in Montana become unavailable, we anticipate continuing with the Hanging Woman Basin project in Wyoming and obtaining additional non-federal leases in Montana. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" for a discussion of other recent coalbed methane legal developments.



As previously reported in our first quarter 2002 Form 10-Q, on May 1, 2002 GNK Acquisition Corp., a recently acquired wholly owned subsidiary, was served in a lawsuit that was filed earlier in 2002 in the District Court in Shelby County, Texas, by Samson Lone Star Limited Partnership against GNK Acquisition Corp. and GNK, Inc., the previous owner of GNK Acquisition Corp. The lawsuit primarily involves a claim related to certain oil and gas leasehold positions acquired by GNK Acquisition Corp. under a contractual preferential right to purchase that was triggered by an attempt by Samson to acquire such leasehold positions from the party that sold the positions to GNK Acquisition Corp. Samson alleges that it should be entitled to acquire a portion of such positions as a result of an agreement it had with GNK, Inc. An answer by GNK Acquisition Corp. to the underlying petition by Samson has been filed, and discovery has begun. Although the lawsuit is in a very preliminary stage and there can be no assurance of the ultimate outcome, we do not believe based on the information presently available that the lawsuit will have a material adverse effect on our financial condition or results of operations.

ITEM 2. Changes in Securities and Use of Proceeds

(c) On June 4, 2002 St. Mary issued 800 restricted shares of common stock to a newly elected director as compensation recorded in the amount of

$14,763 for services as a member of the board of directors. These shares were not registered under the Securities Act of 1933 in reliance on Rule 506 of Regulation D promulgated under the Securities Act since the director is an accredited investor and certificates representing the shares bear a legend restricting the transfer of those shares.

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

At the Company's annual stockholders' meeting on May 20, 2002, the stockholders approved management's current slate of directors. The directors elected and the vote tabulation for each director are as follows:

| Director | For | Withheld |
|---|---|---|
| Larry W. Bickle | 19,273,354 | 558,050 |
| Barbara M. Baumann | 19,292,967 | 538,437 |
| Ronald D. Boone | 19,273,374 | 558,030 |
| Thomas E. Congdon | 18,913,554 | 917,850 |
| William J. Gardiner | 19,273,354 | 558,050 |
| Mark A. Hellerstein | 19,273,374 | 558,030 |
| Robert L. Nance | 19,273,354 | 558,050 |
| Arend J. Sandbulte | 19,273,354 | 558,050 |
| John M. Seidl | 19,273,354 | 558,050 |

Also at the Company's annual stockholders' meeting on May 20, 2002, the stockholders did not approve a proposed amendment to the Company's certificate of incorporation to authorize the issuance of up to a total of 5,000,000 shares of preferred stock with such powers, preferences, rights and limitations as the board of directors may designate from time to time. The tabulation of votes for that proposal is as follows:

| | |
|---|---|
| For: | 7,822,200 |
| Against: | 8,963,607 |
| Abstain: | 377,120 |
| Not Voted: | 2,668,477 |



ITEM 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are furnished as part of this report:

| Exhibit | Description |
|---|---|
| 10.1 | Security Agreement made as of May 1, 2002 by St. Mary Land & Exploration Company, St. Mary Operating Company, St. Mary Energy Company, Nance Petroleum Corporation, St. Mary Minerals Inc., Parish Corporation, Four Winds Marketing, LLC and Roswell, L.L.C. in favor of Bank of America, N.A. |
| 10.2 | Stock Pledge Agreement made as of May 1, 2002 by St. Mary Land & Exploration Company in favor of Bank of America, N.A. |
| 10.3 | LLC Pledge Agreement made as of May 1, 2002 by St. Mary Land & Exploration Company in favor of Bank of America, N.A. |
| 10.4 | Guaranty made as of May 1, 2002 by St. Mary Operating Company, St. Mary Energy Company, Nance Petroleum Corporation, St. Mary Minerals, Inc., Parish Corporation, Four Winds Marketing LLC and Roswell LLC in favor of Bank of America, N.A. |

(b) Reports on Form 8-K

St. Mary Land & Exploration Company filed the following current reports on Form 8-K during the quarter ended June 30, 2002:

On April 30, 2002 we filed a current report on Form 8-K reporting under Item 9 that we had issued a press release announcing an update of our first quarter 2002 operations and an update of our 2002 forecast.

On May 10, 2002 we filed a current report on Form 8-K reporting under Item 9 that we had issued a press release announcing our earnings and financial highlights for the first quarter of 2002.

On May 30, 2002 we filed a current report on Form 8-K reporting under Item 4 that we had dismissed Arthur Andersen LLP as our independent accountants.

On June 4, 2002 we filed a current report on Form 8-K reporting under Item 4 that we had engaged Deloitte & Touche LLP as our new independent accountants.

On July 9, 2002 we filed a current report on Form 8-K reporting under Item 9 that we had issued a press release announcing an update of our operations for the second quarter of 2002 and an updating of our 2002 forecast.

On August 8, 2002 we filed a current report on Form 8-K reporting under Item 9 that we had issued a press release announcing our earnings and financial highlights for the second quarter of 2002.



On August 8, 2002 we filed an amended current report on Form 8-K/A to include a conformed signature for the Form 8-K filed August 8, 2002. The conformed signature was inadvertently omitted from the originally-filed Form 8-K.



## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

ST. MARY LAND & EXPLORATION COMPANY

August 14, 2002

By /s/ MARK A. HELLERSTEIN
Mark A. Hellerstein
President and Chief Executive Officer

August 14, 2002

By /s/ RICHARD C. NORRIS
Richard C. Norris
Vice President - Finance, Secretary and Treasurer

August 14, 2002

By /s/ GARRY A. WILKENING
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Garry A. Wilkening
Vice President - Administration and Controller

EXHIBIT 10.1

[Execution]

# SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement") is made as of May 1, 2002, by St. Mary Land & Exploration Company, a Delaware corporation, St. Mary Operating Company, a Colorado corporation, St. Mary Energy Company, a Delaware corporation, Nance Petroleum Corporation, a Montana corporation, St. Mary Minerals Inc. a Colorado corporation, Parish Corporation, a Colorado corporation, Four Winds Marketing, LLC, a Colorado limited liability company and Roswell, L.L.C., a Texas limited liability company, as debtors (collectively "Debtors" and each individually a "Debtor"), in favor of Bank of America, N.A., individually and as agent ("Secured Party").

W I T N E S S E T H:

WHEREAS, St. Mary Land & Exploration Company, as borrower (in such capacity, "Borrower"), Secured Party, as Agent, and certain lenders (collectively, the "Lenders") are parties to a Credit Agreement dated as of June 30, 1998 (as from time to time amended, supplemented, or restated, the "Credit Agreement");

WHEREAS, pursuant to the Credit Agreement, Lenders have agreed to extend credit to Borrower;

WHEREAS, in order to induce Lenders to extend such credit pursuant to the Credit Agreement, Debtors have agreed to grant to Secured Party, for the benefit of Lenders, a security interest in the Collateral as defined herein;

WHEREAS, Borrower owns, directly, or indirectly through one or more of its subsidiaries, all of the equity interests of each other Debtor;

NOW, THEREFORE, in consideration of the premises and in order to induce Lenders to extend such credit under the Credit Agreement, Debtor hereby agrees with Secured Party, for the benefit of Lenders and Secured Party, as follows:

## ARTICLE I

## Definitions and References

Section 1.1. General Definitions. As used herein, the terms "Agreement", "Debtor", and "Credit Agreement" shall have the meanings indicated above, and the following terms shall have the following meanings:

"Collateral" means all property, of whatever type, which is described in Section 2.1 as being at any time subject to a security interest granted hereunder to Secured Party.

"Commercial Tort Claims" means a claim arising in tort with respect to which the claimant is Debtor.

"Commitment" means the agreement or commitment by Lenders to make loans or otherwise extend credit to Borrower under the Credit Agreement, and any other agreement, commitment, statement of terms or other document contemplating the making of loans or advances or other extension of credit by Lenders to or for the account of Borrower which is now or at any time hereafter intended to be secured by the Collateral under this Agreement.

"Deposit Accounts" means all "deposit accounts" (as defined in the UCC) or other demand, time, savings, passbook, or similar accounts maintained with a bank, including nonnegotiable certificates of deposit.

"Documents" means all "documents" (as defined in the UCC) or other receipts covering, evidencing or representing inventory, equipment, or other goods.

"Equipment" means all "equipment" (as defined in the UCC) in whatever form, wherever located, and whether now or hereafter existing, and all parts thereof, all accessions thereto, and all replacements therefor.

"General Intangibles" means all "general intangibles" (as defined in the UCC) of any kind (including choses in action, Commercial Tort Claims, Software, Payment Intangibles, tax refunds, insurance proceeds, and contract rights), and all instruments, security agreements, leases, contracts, and other rights (except those constituting Receivables, Documents, or Instruments) to receive payments of money or the ownership or possession of property, including all general intangibles under which an account debtor's principal obligation is a monetary obligation.

"Guaranty" means that certain Guaranty of even date herewith from Debtors (not including Borrower) in favor of Secured Party for the benefit of Lenders.

"Instruments" means all "instruments", "chattel paper" or "letters of credit" (as each is defined in the UCC) and all Letter-of-Credit Rights.

"Inventory" means all "inventory" (as defined in the UCC) in all of its forms, wherever located and whether now or hereafter existing, including (a) all movable property and other goods held for sale or lease, all movable property and other goods furnished or to be furnished under contracts of service, all raw materials and work in process, and all materials and supplies used or consumed in a business, (b) all movable property and other goods which are part of a product or mass, (c) all movable property and other goods which are returned to or repossessed by the seller, lessor, or supplier thereof, (d) all goods and substances in which any of the foregoing is commingled or to which any of the foregoing is added, and (e) all accessions to, products of, and documents for any of the foregoing.



"Investment Property" means all "investment property" (as defined in the UCC) and all other securities, whether certificated or uncertificated, securities entitlements, securities accounts, commodity contracts, or commodity accounts.

"Letter-of-Credit Rights" means all rights to payment or performance under a "letter of credit" (as defined in the UCC) whether or not the beneficiary has demanded or is at the time entitled to demand payment or performance.

"Lenders" means the Persons who are from time to time "Lenders" as defined in the Credit Agreement.

"Obligation Documents" means the Credit Agreement, the Notes, the Loan Documents, and all other documents and instruments under, by reason of which, or pursuant to which any or all of the Secured Obligations are evidenced, governed, secured, or otherwise dealt with, and all other agreements, certificates, and other documents, instruments and writings heretofore or hereafter delivered in connection herewith or therewith.

"Other Liable Party" means any Person, other than Debtors, who may now or may at any time hereafter be primarily or secondarily liable for any of the Secured Obligations or who may now or may at any time hereafter have granted to Secured Party or Lenders a Lien upon any property as security for the Secured Obligations.

"Payment Intangibles" means all "payment intangibles" (as defined in the UCC).

"Proceeds" means, with respect to any property of any kind, all proceeds of, and all other profits, products, rentals or receipts, in whatever form, arising from any sale, exchange, collection, lease, licensing or other disposition of, distribution in respect of, or other realization upon, such property, including all claims against third parties for loss of, damage to or destruction of, or for proceeds payable under (or unearned premiums with respect to) insurance in respect of, such property (regardless of whether Secured Party is named a loss payee thereunder), and any payments paid or owing by any third party under any indemnity, warranty, or guaranty with respect to such property,

and any condemnation or requisition payments with respect to such property, in each case whether now existing or hereafter arising.

"Receivables" means (a) all "accounts" (as defined in the UCC) and all other rights to payment for goods or other personal property which have been (or are to be) sold, leased, or exchanged or for services which have been (or are to be) rendered, regardless of whether such accounts or other rights to payment have been earned by performance and regardless of whether such accounts or other rights to payment are evidenced by or characterized as accounts receivable, contract rights, book debts, notes, drafts or other obligations of indebtedness, (b) all Documents and Instruments of any kind relating to such accounts or other rights to payment or otherwise arising out of or in connection with the sale, lease or exchange of goods or other personal property or the rendering of services, (c) all rights in, to, or under all security agreements, leases and other contracts securing or otherwise relating to any such accounts, rights to payment, Documents, or Instruments, (d) all rights in, to and under any purchase orders, service contracts, or other contracts out of which such accounts and



other rights to payment arose (or will arise on performance), and (e) all rights in or pertaining to any goods arising out of or in connection with any such purchase orders, service contracts, or other contracts, including rights in returned or repossessed goods and rights of replevin, repossession, and reclamation.

"Related Person" means Debtors, each Subsidiary of Debtors and each Other Liable Party.

"Secured Obligations" has the meaning given such term in Section 2.2.

"Secured Party" means the Person named as such at the beginning of this Agreement, together with its successors and assigns as the "Agent" under the Credit Agreement.

"Software" means all "software" (as defined in the UCC), including all computer programs, any supporting information provided in connection with a transaction relating to a computer program, all licenses or other rights to use any of such computer programs, and all license fees and royalties arising from such use to the extent permitted by such license or rights.

"Subsidiary Debtor" means any Debtor other than Borrower.

"UCC" means the Uniform Commercial Code in effect in the State of Colorado from time to time.

Section 1.2. Other Definitions. Reference is hereby made to the Credit Agreement for a statement of the terms thereof. All capitalized terms used in this Agreement which are defined in the Credit Agreement and not otherwise defined herein shall have the same meanings herein as set forth therein. All terms used in this Agreement which are defined in the UCC and not otherwise defined herein or in the Credit Agreement shall have the same meanings herein as set forth therein, except where the context otherwise requires. The parties intend that the terms used herein which are defined in the UCC have, at all times, the broadest and most inclusive meanings possible. Accordingly, if the UCC shall in the future be amended or held by a court to define any term used herein more broadly or inclusively than the UCC in effect on the date hereof, then such term, as used herein, shall be given such broadened meaning. If the UCC shall in the future be amended or held by a court to define any term used herein more narrowly, or less inclusively, than the UCC in effect on the date hereof, such amendment or holding shall be disregarded in defining terms used herein.

Section 1.3. Attachments. All exhibits or schedules which may be attached to this Agreement are a part hereof for all purposes.

Section 1.4. Amendment of Defined Instruments. Unless the context otherwise requires or unless otherwise provided herein, references in this Agreement to a particular agreement, instrument or document (including, but not limited to, references in Section 2.1) also refer to and include all renewals, extensions, amendments, modifications, supplements or restatements of any such agreement, instrument or document, provided that nothing contained in this Section shall be construed to authorize any Person to execute or enter into any such renewal, extension, amendment, modification, supplement or restatement.

Section 1.5. References and Titles. All references in this Agreement to Exhibits, Articles, Sections, subsections, and other subdivisions refer to the Exhibits, Articles, Sections, subsections and other subdivisions of this Agreement unless expressly provided otherwise. Titles appearing at the beginning of any subdivision are for convenience only and do not constitute any part of any such subdivision and shall be disregarded in construing the language contained in this Agreement. The words "this Agreement", "herein", "hereof", "hereby", "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. The phrases "this Section" and "this subsection" and similar phrases refer only to the Sections or subsections hereof in which the phrase occurs. The word "or" is not exclusive, and the word "including" (in all of its forms) means "including without limitation". Pronouns in masculine, feminine and neuter gender shall be construed to include any other gender, and words in the singular form shall be construed to include the plural and vice versa unless the context otherwise requires.

## ARTICLE II

## Security Interest

Section 2.1. Grant of Security Interest. As collateral security for all of the Secured Obligations, each Debtor hereby pledges and assigns to Secured Party and grants to Secured Party a continuing security interest, for the benefit of Lenders, in and to all right, title and interest of such Debtor in and to any and all of the following property, whether now owned or existing or hereafter acquired or arising and regardless of where located:

(a) all Receivables.

(b) all General Intangibles.

(c) all Documents.

(d) all Instruments.

(e) all Inventory.

(f) all Equipment.

(g) all Deposit Accounts.

(h) all Investment Property.

(i) All books and records (including, without limitation, customer lists, marketing information, credit files, price lists, operating records, vendor and supplier price lists, sales literature, computer software, computer



hardware, computer disks and tapes and other storage media, printouts and other materials and records) of such Debtor pertaining to any of the Collateral.

(j) All moneys and property of any kind of such Debtor in the possession or under the control of Secured Party.

(k) All Proceeds of any and all of the foregoing Collateral.

In each case, the foregoing shall be covered by this Agreement, whether Debtors' ownership or other rights therein are presently held or hereafter acquired and howsoever Debtors' interests therein may arise or appear (whether by ownership, security interest, claim or otherwise).

Section 2.2. Secured Obligations Secured. The security interest created hereby in the Collateral constitutes continuing collateral security for all of the following obligations, indebtedness and liabilities, whether now existing or hereafter incurred or arising:

(a) Credit Agreement Indebtedness. The payment by Borrower, as and when due and payable, of all amounts from time to time owing by Borrower under or in respect of the Credit Agreement, the Notes, or any of the other Obligation Documents.

(b) Guaranteed Indebtedness. The payment by any Debtor, when due and payable, of all amounts from time to time owing by such Debtor under or in respect of the Guaranty or any of the other Obligation Documents to which such

Debtor is a party, and the due performance by such Debtor of all of its other respective obligations under or in respect of the Guaranty and such other Obligation Documents.

(c) Other Indebtedness. All loans and future advances made by Lenders to Borrower and all other debts, obligations and liabilities of every kind and character of Borrower now or hereafter existing in favor of Lenders, whether such debts, obligations or liabilities be direct or indirect, primary or secondary, joint or several, fixed or contingent, and whether originally payable to Lenders or to a third party and subsequently acquired by Lenders and whether such debts, obligations or liabilities are evidenced by notes, open account, overdraft, endorsement, security agreement, guaranty or otherwise (it being contemplated that Borrower may hereafter become indebted to Lenders in further sum or sums but Lenders shall have no obligation to extend further indebtedness by reason of this Agreement).

(d) Renewals. All renewals, extensions, amendments, modifications, supplements, or restatements of or substitutions for any of the foregoing.

(e) Performance. The due performance and observance by Debtors of all of their other obligations from time to time existing under or in respect of any of the Obligation Documents.

As used herein, the term "Secured Obligations" refers to all present and future indebtedness, obligations and liabilities of whatever type which are described above in this section, including any interest which accrues after the



commencement of any case, proceeding, or other action relating to the bankruptcy, insolvency, or reorganization of any Debtor. Each Debtor hereby acknowledges that the Secured Obligations are owed to the various Lenders and that each Lender is entitled to the benefits of the Liens given under this Agreement.

It is the intention of each Subsidiary Debtor and Secured Party that this Agreement not constitute a fraudulent transfer or fraudulent conveyance under any state or federal law that may be applied hereto. Each Subsidiary Debtor and, by its acceptance hereof, Secured Party hereby acknowledge and agree that, notwithstanding any other provision of this Agreement: (a) the indebtedness secured hereby by such Subsidiary Debtor shall be limited to the maximum amount of indebtedness that can be incurred or secured by such Subsidiary Debtor without rendering this Agreement subject to avoidance under Section 548 of the United States Bankruptcy Code or any comparable provisions of any applicable state or federal law, and (b) the Collateral pledged by such Subsidiary Debtor hereunder shall be limited to the maximum amount of Collateral that can be pledged by such Subsidiary Debtor without rendering this Agreement subject to avoidance under Section 548 of the United States Bankruptcy Code or any comparable provisions of any applicable state or federal law.

## ARTICLE III

## Representations, Warranties and Covenants

Section 3.1. Representations, Warranties and Covenants. Each of the representations and warranties in the Credit Agreement made by any Debtor or any Restricted Person is true and correct. Unless Secured Party shall otherwise consent in writing, each Debtor will at all times comply with the covenants contained in the Credit Agreement which are applicable to such Debtor for so long as any part of the Secured Obligations or the Commitment is outstanding. In addition, each Debtor hereby represents, warrants and covenants to Secured Party and Lenders as follows:

(a) Name, Place of Business and Formation. Each Debtor is a corporation or limited liability company organized under the laws of the State listed for such Debtor on the first page of this Agreement, which is such Debtor's location pursuant to the UCC. During the past five years, no Debtor has conducted business under any name except the name in which such Debtor has executed this Agreement, which is the exact name as it appears in such Debtor's organizational documents, as amended, as filed with such Debtor's jurisdiction of organization. Each Debtor's principal place of business and chief executive office, and the place where such Debtor kept its books and records concerning the Collateral was for the four month period prior to July 1, 2001 located at such Debtor's address set forth in Section 5.1 below.

(b) Ownership Free of Liens. Each Debtor has good and marketable title to the Collateral, free and clear of all Liens, encumbrances or adverse claims except for the security interest created by this Agreement. No effective

financing statement or other registration or instrument similar in effect covering all or any part of the Collateral is on file in any recording office except any which have been filed in favor of Secured Party relating to this



Agreement. None of the Collateral is in the possession of any Person other than the Debtor owning such Collateral or Secured Party, except for Collateral being transported in the ordinary course of business.

(c) No Conflicts or Consents. Neither the ownership or the intended use of the Collateral by any Debtor, nor the grant of the security interest by Debtors to Secured Party herein, nor the exercise by Secured Party of its rights or remedies hereunder, will (i) conflict with any provision of (a) any domestic or foreign law, statute, rule or regulation, (b) the articles or certificate of incorporation, charter or bylaws of any Debtor, or (c) any agreement, judgment, license, order or permit applicable to or binding upon any Debtor, or (ii) result in or require the creation of any Lien, charge or encumbrance upon any assets or properties of any Debtor or of any Related Person. Except as expressly contemplated in the Obligation Documents, no consent, approval, authorization or order of, and no notice to or filing with any court, governmental authority or third party is required in connection with the grant by Debtors of the security interest herein, or the exercise by Secured Party of its rights and remedies hereunder.

(d) Security Interest. Each Debtor has and will have at all times full right, power and authority to grant a security interest in the Collateral owned by such Debtor to Secured Party as provided herein, free and clear of any Lien, adverse claim, or encumbrance. This Agreement creates a valid and binding security interest in favor of Secured Party in the Collateral, which security interest secures all of the Secured Obligations.

(e) Change of Name, Location, or Structure; Additional Filings. Each Debtor recognizes that financing statements pertaining to the Collateral have been or may be filed with the secretary of state (or equivalent governmental official) of the state in which such Debtor is organized. Without limitation of any other covenant herein, no Debtor will cause or permit any change to be made in its name, identity or corporate or limited liability company structure, or any change to be made to its jurisdiction of organization, unless such Debtor shall have first (1) notified Secured Party of such change at least forty-five (45) days prior to the effective date of such change, (2) taken all action requested by Secured Party for the purpose of further confirming and protecting Secured Party's security interests and rights under this Agreement and the perfection and priority thereof, and (3) if requested by Secured Party, provided to Secured Party a legal opinion to its satisfaction confirming that such change will not adversely affect in any way Secured Party's security interests and rights under this Agreement or the perfection or priority thereof. In any notice furnished by any Debtor pursuant to this subsection, such Debtor will expressly state that the notice is required by this Agreement and contains facts that may require additional filings of financing statements or other notices for the purposes of continuing perfection of Secured Party's security interest in the Collateral.

(f) Further Assurances. Debtors will, at their expense as from time to time reasonably requested by Secured Party, promptly execute and deliver all further instruments, agreements, filings and registrations, and take all further action, in order: (i) to confirm and validate this Agreement and Secured Party's rights and remedies hereunder, (ii) to correct any errors or omissions in the descriptions herein of the Secured Obligations or the Collateral or in any other provisions hereof, (iii) to perfect, register and protect the security interests



and rights created or purported to be created hereby or to maintain or upgrade in rank the priority of such security interests and rights, (iv) to enable Secured Party to exercise and enforce its rights and remedies hereunder in respect of the Collateral, or (v) to otherwise give Secured Party the full benefits of the rights and remedies described in or granted under this Agreement. As part of the foregoing Debtors will, whenever reasonably requested by Secured Party (1) execute and file any financing statements, continuation statements, and other filings or registrations relating to Secured Party's security interests and rights hereunder, and any amendments thereto, and (2) mark their books and records relating to any Collateral to reflect that such Collateral is subject to this Agreement and the security interests hereunder. To the extent reasonably requested by Secured Party from time to time, Debtors will obtain from any material account debtor or other obligor on the Collateral the acknowledgment of such account debtor or obligor that such Collateral is subject to this Agreement.

(g) Inspection of Collateral. Debtors will keep adequate records

concerning the Collateral and will permit Secured Party and all representatives appointed by Secured Party, including independent accountants, agents, attorneys, appraisers and any other persons, to inspect any of the Collateral and the books and records of or relating to the Collateral at any time during normal business hours, and to make photocopies and photographs thereof, and to write down and record any information which such representatives obtain.

(h) Information. Upon request from time to time by Secured Party, Debtors will furnish to Secured Party (i) any information concerning any covenant, provision or representation contained herein or any other matter in connection with the Collateral or such Debtor's business, properties, or financial condition, and (ii) statements and schedules identifying and describing the Collateral and other reports and information requested in connection with the Collateral, all in reasonable detail.

(i) Ownership, Liens, Possession and Transfers. Each Debtor will maintain good and marketable title to all Collateral owned by such Debtor, free and clear of all Liens, encumbrances or adverse claims except for the security interest created by this Agreement, and no Debtor will grant or allow any such Liens, encumbrances or adverse claims to exist. No Debtor will grant or allow to remain in effect, and Debtors will cause to be terminated, any financing statement or other registration or instrument similar in effect covering all or any part of the Collateral, except any which have been filed in favor of Secured Party relating to this Agreement. Debtors will defend Secured Party's right, title and special property and security interest in and to the Collateral against the claims of any Person. Each Debtor (i) will insure that all of the Collateral owned by such Debtor -- whether goods, Documents, Instruments, or otherwise -- is and remains in the possession of such Debtor or Secured Party (or a bailee selected by Secured Party who is holding such Collateral for the benefit of Secured Party), except for goods being transported in the ordinary course of business, and (ii) will not sell, assign (by operation of law or otherwise), transfer, exchange, lease or otherwise dispose of any of the Collateral, except in the ordinary course of its business.



(j) Impairment of Security Interest. No Debtor will take or fail to take any action which would in any manner impair the value or enforceability of Secured Party's security interest in any Collateral.

(k) Commercial Tort Claims. If any Debtor shall at any time hold or acquire a Commercial Tort Claim, such Debtor shall immediately notify Secured Party in writing of the details thereof and grant to Secured Party in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance acceptable to Secured Party.

## ARTICLE IV.

## Remedies, Powers and Authorizations

### Section 4.1. Normal Provisions Concerning the Collateral.

(a) Authorization to File Financing Statements. Each Debtor hereby irrevocably authorizes Secured Party at any time and from time to time to file, without the signature of such Debtor, in any jurisdiction any amendments to existing financing statements and any initial financing statements and amendments thereto that (a) indicate the Collateral (i) as "all assets of Debtor and all proceeds thereof, and all rights and privileges with respect thereto" or words of similar effect, regardless of whether any particular asset comprised in the Collateral falls within the scope of Article 9 of the UCC, or (ii) as being of an equal or lesser scope or with greater detail; (b) contain any other information required by subchapter E of Article 9 of the UCC for the sufficiency or filing office acceptance of any financing statement or amendment, including whether such Debtor is an organization, the type of organization and any organization identification number issued to such Debtor; and (c) are necessary to properly effectuate the transactions described in the Loan Documents, as determined by Secured Party in its discretion. Each Debtor agrees to furnish any such information to Secured Party promptly upon request. Each Debtor further agrees that a carbon, photographic or other reproduction of this Agreement or any financing statement describing any Collateral is sufficient as a financing statement and may be filed in any jurisdiction by Secured Party.

(b) Power of Attorney. Each Debtor hereby appoints Secured Party as such Debtor's attorney-in-fact and proxy, with full authority in the place and stead of such Debtor and in the name of such Debtor or otherwise, from time to time in Secured Party's discretion, to take any action and to execute any

instrument which Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement including any action or instrument: (i) to obtain and adjust any insurance required to be paid to Secured Party pursuant hereto; (ii) to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral; (iii) to receive, indorse and collect any drafts or other Instruments or Documents; (iv) to enforce any obligations included among the Collateral; and (v) to file any claims or take any action or institute any proceedings which Secured Party may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce the rights of such



Debtor or Secured Party with respect to any of the Collateral. Each Debtor hereby acknowledges that such power of attorney and proxy are coupled with an interest, are irrevocable, and are to be used by Secured Party for the sole benefit of Lenders.

(c) Performance by Secured Party. If any Debtor fails to perform any agreement or obligation contained herein, Secured Party may itself perform, or cause performance of, such agreement or obligation, and the expenses of Secured Party incurred in connection therewith shall be payable by such Debtor under Section 4.5.

(d) Bailees. If any Collateral is at any time in the possession or control of any warehouseman, bailee or any of any Debtor's agents or processors, such Debtor shall, upon the request of Secured Party, notify such warehouseman, bailee, agent or processor of Secured Party's rights hereunder and instruct such Person to hold all such Collateral for Secured Party's account subject to Secured Party's instructions. (No such request by Secured Party shall be deemed a waiver of any provision hereof which was otherwise violated by such Collateral being held by such Person prior to such instructions by such Debtor.)

(e) Collection. Secured Party shall have the right at any time, upon the occurrence and during the continuance of a Default or an Event of Default, to notify (or to require Debtors to notify) any and all obligors under any Receivables, General Intangibles, Instruments, or other rights to payment included among the Collateral of the assignment thereof to Secured Party under this Agreement and to direct such obligors to make payment of all amounts due or to become due to Debtors thereunder directly to Secured Party and, upon such notification and at the expense of Debtors and to the extent permitted by law, to enforce collection of any such Receivables, General Intangibles, Instruments, or other rights to payment and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as Debtors could have done. After any Debtor receives notice that Secured Party has given (and after Secured Party has required any Debtor to give) any notice referred to above in this subsection:

(i) all amounts and proceeds (including instruments and writings) received by Debtors in respect of such Receivables, General Intangibles, Instruments, or other rights to payment shall be received in trust for the benefit of Secured Party hereunder, shall be segregated from other funds of Debtors and shall be forthwith paid over to Secured Party in the same form as so received (with any necessary indorsement) to be, at Secured Party's discretion, either (A) held as cash collateral and released to Debtors upon the remedy of all Defaults and Events of Default, or (B) while any Event of Default is continuing, applied as specified in Section 4.3, and

(ii) Debtors will not adjust, settle or compromise the amount or payment of any such Receivable, General Intangible, Instrument, or other right to payment or release wholly or partly any account debtor or obligor thereof or allow any credit or discount thereon.

Section 4.2. Event of Default Remedies. If an Event of Default shall have occurred and be continuing, Secured Party may from time to time in its discretion, without limitation and without notice except as expressly provided below:



(a) exercise in respect of the Collateral, in addition to any other rights and remedies provided for herein, under the other Obligation Documents, or otherwise available to it, all the rights and remedies of a secured party on default under the UCC (whether or not the UCC applies to the affected Collateral);

(b) require Debtors to, and each Debtor hereby agrees that it will at its expense and upon request of Secured Party forthwith, assemble all or part of the Collateral as directed by Secured Party and make it (together with all books, records and information of such Debtor relating thereto) available to Secured Party at a place to be designated by Secured Party which is reasonably

convenient to both parties;

(c) prior to the disposition of any Collateral, (i) to the extent permitted by applicable law, enter, with or without process of law and without breach of the peace, any premises where any of the Collateral is or may be located, and without charge or liability to Secured Party seize and remove such Collateral from such premises, (ii) have access to and use Debtors' books, records, and information relating to the Collateral, and (iii) store or transfer any of the Collateral without charge in or by means of any storage or transportation facility owned or leased by Debtors, process, repair or recondition any of the Collateral or otherwise prepare it for disposition in any manner and to the extent Secured Party deems appropriate and, in connection with such preparation and disposition, use without charge any copyright, trademark, trade name, patent or technical process used by Debtors;

(d) reduce its claim to judgment or foreclose or otherwise enforce, in whole or in part, the security interest created hereby by any available judicial procedure;

(e) dispose of, at its office, on the premises of Debtors or elsewhere, all or any part of the Collateral, as a unit or in parcels, by public or private proceedings, and by way of one or more contracts (it being agreed that the sale of any part of the Collateral shall not exhaust Secured Party's power of sale, but sales may be made from time to time, and at any time, until all of the Collateral has been sold or until the Secured Obligations have been paid and performed in full), and at any such sale it shall not be necessary to exhibit any of the Collateral;

(f) buy (or allow one or more of the Lenders to buy) the Collateral, or any part thereof, at any public sale in accordance with the UCC;

(g) buy (or allow one or more of the Lenders to buy) the Collateral, or any part thereof, at any private sale if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, in accordance with the UCC; and

(h) apply by appropriate judicial proceedings for appointment of a receiver for the Collateral, or any part thereof, and each Debtor hereby consents to any such appointment.



Each Debtor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days' notice to such Debtor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

Section 4.3. Application of Proceeds. If any Event of Default shall have occurred and be continuing, Secured Party may in its discretion apply any cash held by Secured Party as Collateral, and any cash proceeds received by Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral, to any or all of the following in such order as Secured Party may (subject to the rights of Lenders under the Credit Agreement) elect:

(a) To the repayment of the reasonable costs and expenses, including reasonable attorneys' fees and legal expenses, incurred by Secured Party in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any Collateral, (iii) the exercise or enforcement of any of the rights of Secured Party hereunder, or (iv) the failure of any Debtor to perform or observe any of the provisions hereof;

(b) To the payment or other satisfaction of any Liens, encumbrances, or adverse claims upon or against any of the Collateral;

(c) To the reimbursement of Secured Party for the amount of any obligations of any Debtor or any Other Liable Party paid or discharged by Secured Party pursuant to the provisions of this Agreement or the other Obligation Documents, and of any expenses of Secured Party payable by any Debtor hereunder or under the other Obligation Documents;

(d) To the satisfaction of any other Secured Obligations;

(e) By holding the same as Collateral;

(f) To the payment of any other amounts required by applicable law (including any provision of the UCC); and

(g) By delivery to Debtors or to whoever shall be lawfully entitled to

receive the same or as a court of competent jurisdiction shall direct.

Section 4.4. Deficiency. In the event that the proceeds of any sale, collection or realization of or upon Collateral by Secured Party are insufficient to pay all Secured Obligations and any other amounts to which Secured Party is legally entitled, Debtors shall be liable for the deficiency, together with interest thereon as provided in the governing Obligation Documents or (if no interest is so provided) at such other rate as shall be fixed by applicable law, together with the costs of collection and the reasonable fees of



any attorneys employed by Secured Party or Lenders to collect such deficiency.

Section 4.5. Indemnity and Expenses. In addition to, but not in qualification or limitation of, any similar obligations under other Obligation Documents:

(a) Debtors will indemnify Secured Party and each Lender from and against any and all claims, losses and liabilities growing out of or resulting from this Agreement (including enforcement of this Agreement), WHETHER OR NOT SUCH CLAIMS, LOSSES AND LIABILITIES ARE IN ANY WAY OR TO ANY EXTENT CAUSED BY OR ARISING OUT OF SUCH INDEMNIFIED PARTY'S OWN NEGLIGENCE, except to the extent such claims, losses or liabilities are proximately caused by such indemnified party's individual gross negligence or willful misconduct.

(b) Debtors will upon demand pay to Secured Party the amount of any and all reasonable costs and expenses, including the reasonable fees and disbursements of Secured Party's counsel and of any experts and agents, which Secured Party may incur in connection with (i) the transactions which give rise to this Agreement, (ii) the preparation of this Agreement and the perfection and preservation of this security interest created under this Agreement, (iii) the administration of this Agreement; (iv) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any Collateral; (v) the exercise or enforcement of any of the rights of Secured Party hereunder; or (vi) the failure by any Debtor to perform or observe any of the provisions hereof, except expenses resulting from Secured Party's individual gross negligence or willful misconduct.

Section 4.6. Non-Judicial Remedies. In granting to Secured Party the power to enforce its rights hereunder without prior judicial process or judicial hearing, each Debtor expressly waives, renounces and knowingly relinquishes any legal right which might otherwise require Secured Party to enforce its rights by judicial process. In so providing for non-judicial remedies, Debtors recognize and concede that such remedies are consistent with the usage of trade, are responsive to commercial necessity, and are the result of a bargain at arm's length. Nothing herein is intended, however, to prevent Secured Party from resorting to judicial process at its option.

Section 4.7. Other Recourse. Each Debtor waives any right to require Secured Party or any Lender to proceed against any other Person, to exhaust any Collateral or other security for the Secured Obligations, to have any Other Liable Party or any other Debtor joined with such Debtor in any suit arising out of the Secured Obligations or this Agreement, or to pursue any other remedy in Secured Party's power. Each Debtor further waives any and all notice of acceptance of this Agreement and of the creation, modification, rearrangement, renewal or extension for any period of any of the Secured Obligations of any Other Liable Party or any other Debtor from time to time. Each Debtor further waives any defense arising by reason of any disability or other defense of any Other Liable Party or any other Debtor or by reason of the cessation from any cause whatsoever of the liability of any Other Liable Party or any other Debtor. This Agreement shall continue irrespective of the fact that the liability of any



Other Liable Party or any other Debtor may have ceased and irrespective of the validity or enforceability of any other Obligation Document to which such Debtor, any Other Liable Party or any other Debtor may be a party, and notwithstanding any death, incapacity, reorganization, or bankruptcy of any Other Liable Party or any other Debtor or any other event or proceeding affecting any Other Liable Party or any other Debtor. Until all of the Secured Obligations shall have been paid in full, no Debtor shall have right to subrogation and each Debtor waives the right to enforce any remedy which Secured Party or any Lender has or may hereafter have against any Other Liable Party or any other Debtor, and waives any benefit of and any right to participate in any other security whatsoever now or hereafter held by Secured Party. Each Debtor authorizes Secured Party and each Lender, without notice or demand, without any reservation of rights against such Debtor, and without in any way affecting such Debtor's liability hereunder or on the Secured Obligations, from time to time to (a) take or hold any other property of any type from any other Person as security for the Secured Obligations, and exchange, enforce, waive and release

any or all of such other property, (b) apply the Collateral or such other property and direct the order or manner of sale thereof as Secured Party may in its discretion determine, (c) renew, extend for any period, accelerate, modify, compromise, settle or release any of the obligations of any Other Liable Party or any other Debtor in respect to any or all of the Secured Obligations or other security for the Secured Obligations, (d) waive, enforce, modify, amend or supplement any of the provisions of any Obligation Document with any Person other than such Debtor, and (e) release or substitute any Other Liable Party or any other Debtor.

Section 4.8. Limitation on Duty of Secured Party in Respect of Collateral. Beyond the exercise of reasonable care in the custody thereof, Secured Party shall have no duty as to any Collateral in its possession or control or in the possession or control of any agent or bailee or as to the preservation of rights against prior parties or any other rights pertaining thereto. Secured Party shall be deemed to have exercised reasonable care in the custody of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which it accords its own property, and shall not be liable or responsible for any loss or damage to any of the Collateral, or for any diminution in the value thereof, by reason of the act or omission of any warehouseman, carrier, forwarding agency, consignee or other agent or bailee selected by Secured Party in good faith.

Section 4.9. Appointment of Collateral Agents. At any time or times, in order to comply with any legal requirement in any jurisdiction, Secured Party may appoint any bank or trust company or one or more other Persons, either to act as co-agent or co-agents, jointly with Secured Party, or to act as separate agent or agents on behalf of the Lenders, with such power and authority as may be necessary for the effectual operation of the provisions hereof and may be specified in the instrument of appointment. In so doing Secured Party may, in the name and on behalf of Debtors, give to such co-agent or separate agent indemnities and other protections similar to those provided in Section 4.5.



## ARTICLE V.

## Miscellaneous

Section 5.1. Notices. Any notice or communication required or permitted hereunder shall be given in writing, sent by (a) personal delivery, (b) expedited delivery service with proof of delivery, (c) registered or certified United States mail, postage prepaid, or (d) telegram or facsimile (i) for Secured Party and Borrower, at the address set forth for such Person in the Credit Agreement, and (ii) for each Debtor (other than Borrower), at the address set forth for such Person on its signature page hereto, or to such other address or to the attention of such other individual as hereafter shall be designated in writing by the applicable party sent in accordance herewith. Any such notice or communication shall be deemed to have been given either at the time of personal delivery or, in the case of delivery service or mail, as of the date of first attempted delivery at the address and in the manner provided herein, or in the case of telegram, telex or facsimile, upon receipt.

Section 5.2. Amendments. No amendment of any provision of this Agreement shall be effective unless it is in writing and signed by each Debtor and Secured Party, and no waiver of any provision of this Agreement, and no consent to any departure by Debtors therefrom, shall be effective unless it is in writing and signed by Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given and to the extent specified in such writing. In addition, all such amendments and waivers shall be effective only if given with the necessary approvals of Lenders as required in the Credit Agreement.

Section 5.3. Preservation of Rights. No failure on the part of Secured Party or any Lender to exercise, and no delay in exercising, any right hereunder or under any other Obligation Document shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. Neither the execution nor the delivery of this Agreement shall in any manner impair or affect any other security for the Secured Obligations. The rights and remedies of Secured Party provided herein and in the other Obligation Documents are cumulative and are in addition to, and not exclusive of, any rights or remedies provided by law or otherwise. The rights of Secured Party under any Obligation Document against any party thereto are not conditional or contingent on any attempt by Secured Party to exercise any of its rights under any other Obligation Document against such party or against any other Person.

Section 5.4. Unenforceability. Any provision of this Agreement which is

prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or invalidity without invalidating the remaining portions hereof or thereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 5.5. Survival of Agreements. All representations and warranties of Debtors herein, and all covenants and agreements herein shall survive the execution and delivery of this Agreement, the execution and delivery of any



other Obligation Documents and the creation of the Secured Obligations.

Section 5.6. Other Liable Parties; Joint and Several Liability. Neither this Agreement nor the exercise by Secured Party or the failure of Secured Party to exercise any right, power or remedy conferred herein or by law shall be construed as relieving any Other Liable Party from liability on the Secured Obligations or any deficiency thereon. All undertakings, warranties and covenants made by Debtors herein and all rights, powers and authorities given to or conferred upon Agent and Lenders herein are made or given jointly and severally by Debtors.

Section 5.7. Binding Effect and Assignment. This Agreement creates a continuing security interest in the Collateral and (a) shall be binding on Debtors and their respective successors and permitted assigns and (b) shall inure, together with all rights and remedies of Secured Party hereunder, to the benefit of Secured Party and Lenders and their respective successors, transferees and assigns. Without limiting the generality of the foregoing, Secured Party and any Lender may (except as otherwise provided in the Credit Agreement) pledge, assign or otherwise transfer any or all of their respective rights under any or all of the Obligation Documents to any other Person, and such other Person shall thereupon become vested with all of the benefits in respect thereof granted herein or otherwise. None of the rights or duties of Debtors hereunder may be assigned or otherwise transferred without the prior written consent of Secured Party.

Section 5.8. Termination. It is contemplated by the parties hereto that there may be times when no Secured Obligations are outstanding, but notwithstanding such occurrences, this Agreement shall remain valid and shall be in full force and effect as to subsequent outstanding Secured Obligations. Upon the satisfaction in full of the Secured Obligations and the termination or expiration of the Credit Agreement and any other commitment of Lenders to extend credit to Borrower, then upon written request for the termination hereof delivered by Debtors to Secured Party this Agreement and the security interest created hereby shall terminate and all rights to the Collateral shall revert to Debtors. Secured Party will thereafter, upon Debtors' request and at Debtors' expense, (a) return to Debtors such of the Collateral in Secured Party's possession as shall not have been sold or otherwise disposed of or applied pursuant to the terms hereof, and (b) execute and deliver to Debtors such documents as Debtor shall reasonably request to evidence such termination.

Section 5.9. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF COLORADO APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, EXCEPT AS REQUIRED BY MANDATORY PROVISIONS OF LAW AND EXCEPT TO THE EXTENT THAT THE PERFECTION AND THE EFFECT OF PERFECTION OR NON-PERFECTION OF THE SECURITY INTEREST CREATED HEREBY HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL, ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF COLORADO.

Section 5.10. Final Agreement. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES HERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES HERETO.



Section 5.11. Counterparts; Fax. This Agreement may be separately executed in any number of counterparts, all of which when so executed shall be deemed to constitute one and the same Agreement. This Agreement may be validly executed and delivered by facsimile or other electronic transmission.

Section 5.12. "Loan Document". This Agreement is a "Loan Document", as defined in the Credit Agreement, and, except as expressly provided herein to the contrary, this Agreement is subject to all provisions of the Credit Agreement governing such Loan Documents.

IN WITNESS WHEREOF, each Debtor has executed and delivered this Agreement as of the date first above written.

ST. MARY LAND & EXPLORATION COMPANY

By: /s/ MILAM RANDOLPH PHARO
---
Milam Randolph Pharo
Vice President - Land and Legal

ST. MARY OPERATING COMPANY

By: /s/ MILAM RANDOLPH PHARO
---
Milam Randolph Pharo
Vice President - Land and Legal

Address: 1776 Lincoln Street
Suite 1100
Denver, Colorado 80202
Fax: (303) 861-0934

ST. MARY ENERGY COMPANY

By: /s/ MILAM RANDOLPH PHARO
---
Milam Randolph Pharo
Vice President - Land and Legal

Address: 1776 Lincoln Street
Suite 1100
Denver, Colorado 80202
Fax: (303) 861-0934

NANCE PETROLEUM CORPORATION

By: /s/ RONALD B. SANTI
---
Ronald B. Santi
Vice President - Land

Address: 550 N. 31st Street
Suite 500
Box 7168
Billings, Montana 59103
Fax:
---

ST. MARY MINERALS INC.

By: /s/ RICHARD C. NORRIS
---
Richard C. Norris
Vice President - Finance

Address: 1776 Lincoln Street
Suite 1100
Denver, Colorado 80202
Fax: (303) 861-0934

PARISH CORPORATION

By: /s/ RICHARD C. NORRIS
---
Richard C. Norris
Vice President - Finance

Address: 1776 Lincoln Street
Suite 1100
Denver, Colorado 80202
Fax: (303) 861-0934

FOUR WINDS MARKETING, LLC

By: ST. MARY LAND & EXPLORATION COMPANY, as Manager

By: /s/ MILAM RANDOLPH PHARO
---
Milam Randolph Pharo
Vice President - Land and Legal

Address: 1776 Lincoln Street
Suite 1100
Denver, Colorado 80202
Fax: (303) 861-0934

ROSWELL, L.L.C.

By: ST. MARY LAND & EXPLORATION COMPANY, as a Member

By: /s/ MILAM RANDOLPH PHARO
---
Milam Randolph Pharo
Vice President - Land and Legal

Address: 350 N. St. Paul Street
Dallas, Texas 75201
Fax:
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EXHIBIT 10.2

[Execution]

# STOCK PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT (this "Agreement") is made as of May 1, 2002, by St. Mary Land & Exploration Company, a Delaware corporation (herein called "Debtor"), in favor of Bank of America, N.A., individually and as agent (herein called "Secured Party").

## RECITALS:

Debtor has executed in favor of Agent and Lenders (as hereinafter defined) those certain promissory notes dated June 24, 2000, payable to the order of Lenders in the aggregate principal amount of $200,000,000 (such promissory notes, as from time to time amended, and all promissory notes given in substitution, renewal or extension therefor or thereof, in whole or in part, being herein collectively called the "Note").

The Note was executed pursuant to a Credit Agreement dated June 30, 1998 (herein, as from time to time amended, supplemented or restated, called the "Credit Agreement"), by and between Borrower, Agent and Lenders, pursuant to which Lenders have agreed to advance funds to Borrower under the Note.

Debtor is executing and delivering this Agreement to Secured Party pursuant to the terms of the Credit Agreement.

The board of directors of Debtor has determined that Debtor's execution, delivery and performance of this Agreement may reasonably be expected to benefit Debtor, directly or indirectly, and are in the best interests of Debtor.

NOW, THEREFORE, in consideration of the premises, of the benefits which will inure to Debtor from Lenders' extensions of credit under the Credit Agreement, and of Ten Dollars and other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, and in order to induce Lenders to extend credit under the Credit Agreement, Debtor hereby agrees with Secured Party for the benefit of each Lender as follows:

## AGREEMENTS

### ARTICLE I -- Definitions and References

Section 1.1. General Definitions. As used herein, the terms "Agreement", "Debtor", "Secured Party", "Note" and "Credit Agreement" shall have the meanings indicated above, and the following terms shall have the following meanings:

"Collateral" means all property, of whatever type, which is described in Section 2.1 as being at any time subject to a security interest granted hereunder to Secured Party.



"Commitment" means the agreement or commitment by Lenders to make loans or otherwise extend credit to Debtor under the Credit Agreement, and any other agreement, commitment, statement of terms or other document contemplating the making of loans or advances or other extension of credit by Lenders to or for the account of Debtor which is now or at any time hereafter intended to be secured by the Collateral under this Agreement.

"Issuer" means any issuer of Pledged Shares and any successor of such Issuer.

"Lenders" means the Persons who are from time to time "Lenders" as defined in the Credit Agreement.

"Obligation Documents" means the Credit Agreement, all other Loan Documents, and all other documents and instruments under, by reason of which, or pursuant to which any or all of the Secured Obligations are evidenced, governed, secured, guarantied, or otherwise dealt with, and all other agreements, certificates, and other documents, instruments and writings heretofore or hereafter delivered in connection herewith or therewith.

"Other Liable Party" means any Person, other than Debtor, who may now

or may at any time hereafter be primarily or secondarily liable for any of the Secured Obligations or who may now or may at any time hereafter have granted to Secured Party or Lenders a Lien upon any property as security for the Secured Obligations.

"Pledged Shares" has the meaning given it in Section 2.1(a).

"Secured Obligations" shall have the meaning given it in Section 2.2.

"UCC" means the Uniform Commercial Code in effect in the State of Colorado on the date hereof.

Section 1.2. Incorporation of Other Definitions. Reference is hereby made to the Credit Agreement for a statement of the terms thereof. All capitalized terms used in this Agreement which are defined in the Credit Agreement and not otherwise defined herein shall have the same meanings herein as set forth therein. All terms used in this Agreement which are defined in the UCC and not otherwise defined herein or in the Credit Agreement shall have the same meanings herein as set forth therein, except where the context otherwise requires.

Section 1.3. Attachments. All exhibits or schedules which may be attached to this Agreement are a part hereof for all purposes.

Section 1.4. Amendment of Defined Instruments. Unless the context otherwise requires or unless otherwise provided herein, references in this Agreement to a particular agreement, instrument or document (including, but not limited to, references in Section 2.1) also refer to and include all renewals, extensions, amendments, modifications, supplements or restatements of any such agreement, instrument or document, provided that nothing contained in this Section shall be construed to authorize any Person to execute or enter into any such renewal, extension, amendment, modification, supplement or restatement.



Section 1.5. References and Titles. All references in this Agreement to Exhibits, Articles, Sections, subsections, and other subdivisions refer to the Exhibits, Articles, Sections, subsections and other subdivisions of this Agreement unless expressly provided otherwise. Titles appearing at the beginning of any subdivision are for convenience only and do not constitute any part of any such subdivision and shall be disregarded in construing the language contained in this Agreement. The words "this Agreement", "herein", "hereof", "hereby", "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. The phrases "this Section" and "this subsection" and similar phrases refer only to the Sections or subsections hereof in which the phrase occurs. The word "or" is not exclusive, and the word "including" (in all of its forms) means "including without limitation". Pronouns in masculine, feminine and neuter gender shall be construed to include any other gender, and words in the singular form shall be construed to include the plural and vice versa unless the context otherwise requires.

## ARTICLE II -- Security Interest

Section 2.1. Grant of Security Interest. As collateral security for all of the Secured Obligations, Debtor hereby pledges and assigns to Secured Party and grants to Secured Party a continuing security interest, for the benefit of each Lender, in and to all right, title and interest of the following:

(a) Pledged Shares. All of the following, whether now or hereafter existing, which are owned by Debtor or in which Debtor otherwise has any rights: all shares of stock of each of Debtor's Subsidiaries, including but not limited to the shares of stock described in Exhibit A hereto, all certificates representing any such shares, all options and other rights, contractual or otherwise, at any time existing with respect to such shares, and all dividends, cash, instruments and other property now or hereafter received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares (any and all such shares, certificates, options, rights, dividends, cash, instruments and other property being herein called the "Pledged Shares").

(b) Proceeds. All proceeds of any and all of the foregoing Collateral.

In each case, the foregoing shall be covered by this Agreement, whether Debtor's

ownership or other rights therein are presently held or hereafter acquired and however Debtor's interests therein may arise or appear (whether by ownership, security interest, claim or otherwise).

Section 2.2. Secured Obligations Secured. The security interest created hereby in the Collateral constitutes continuing collateral security for all of the following obligations, indebtedness and liabilities, whether now existing or hereafter incurred or arising:

(a) Credit Agreement Indebtedness. The payment by Debtor, as and when due and payable, of the "Obligations", as defined in the Credit Agreement, of all amounts from time to time owing by Debtor under or in respect of the Credit Agreement, the Note, or any of the other Obligation Documents, and the due performance by Debtor of all of its other obligations under or in respect of the various Obligation Documents.



(b) Other Indebtedness. All loans and future advances made by Lenders to Debtor and all other debts, obligations and liabilities of every kind and character of Debtor now or hereafter existing in favor of Lenders, whether such debts, obligations or liabilities be direct or indirect, primary or secondary, joint or several, fixed or contingent, and whether originally payable to Lenders or to a third party and subsequently acquired by Lenders and whether such debts, obligations or liabilities are evidenced by notes, open account, overdraft, endorsement, security agreement, guaranty or otherwise (it being contemplated that Debtor may hereafter become indebted to Lenders in further sum or sums but Lenders shall have no obligation to extend further indebtedness by reason of this Agreement).

(c) Renewals. All renewals, extensions, amendments, modifications, supplements, or restatements of or substitutions for any of the foregoing.

As used herein, the term "Secured Obligations" refers to all present and future indebtedness, obligations and liabilities of whatever type which are described above in this section, including any interest which accrues after the commencement of any case, proceeding, or other action relating to the bankruptcy, insolvency, or reorganization of Debtor. Debtor hereby acknowledges that the Secured Obligations are owed to the various Lenders and that each Lender is entitled to the benefits of the Liens given under this Agreement.

## ARTICLE III -- Representations, Warranties and Covenants

Section 3.1. Representations and Warranties. Debtor hereby represents and warrants to Secured Party and Lenders as follows:

(a) Security Interest. Debtor has and will have at all times full right, power and authority to grant a security interest in the Collateral to Secured Party as provided herein, free and clear of any Lien, adverse claim, or encumbrance. This Agreement creates a valid and binding first priority security interest in favor of Secured Party in the Collateral, which security interest secures all of the Secured Obligations.

(b) Perfection. The taking possession by Secured Party of all certificates, instruments and cash constituting Collateral from time to time and the filing of financing statements with the Secretary of State (or equivalent governmental official) of the State in which Debtor is organized will perfect, and establish the first priority of, Secured Party's security interest hereunder in the Collateral securing the Secured Obligations. No further or subsequent filing, recording, registration, other public notice or other action is necessary or desirable to perfect or otherwise continue, preserve or protect such security interest except (i) for continuation statements described in UCC Section 9.515(d), (ii) for filings required to be filed in the event of a change in the name, identity, or corporate structure of Debtor, or (iii) in the event any financing statement filed by Secured Party relating hereto otherwise becomes inaccurate or incomplete.

(c) Pledged Shares. Debtor has delivered to Secured Party all certificates evidencing Pledged Shares. All such certificates are valid and genuine and have not been altered. All shares and other securities constituting the Pledged Shares have been duly authorized and validly issued, are fully paid and non-assessable, and were not issued in violation of the preemptive rights of

any Person or of any agreement by which Debtor or the Issuer thereof is bound. All documentary, stamp or other taxes or fees owing in connection with the issuance, transfer or pledge of Pledged Shares (or rights in respect thereof) have been paid. No restrictions or conditions exists with respect to the transfer, voting or capital of any Pledged Shares. The Pledged Shares constitute the percentage of the class of issued shares of capital stock which is indicated on Exhibit A. No Issuer of any Pledged Shares has any outstanding stock rights, rights to subscribe, options, warrants or convertible securities outstanding or any other rights outstanding whereby any Person would be entitled to have issued to him capital stock of such Issuer. The Pledged Shares do not constitute "margin stock" as such term is defined in Regulation U promulgated by the Board of Governors of the Federal Reserve System.

Section 3.2. Covenants. Unless Secured Party shall otherwise consent in writing, Debtor will at all times (i) comply with the covenants contained in the Credit Agreement which are applicable to Debtor and (ii) comply with the covenants contained in this Section 3.2 so long as any part of the Secured Obligations or the Commitment is outstanding.

(a) Delivery of Pledged Shares. All instruments, certificates, and writings evidencing the Pledged Shares shall be delivered to Secured Party on or prior to the execution and delivery of this Agreement, together with a true and correct copy of the articles of incorporation and bylaws of each Issuer and all amendments and supplements thereto. All other certificates, instruments, or writings hereafter evidencing or constituting Pledged Shares, and all amendments or supplements to the articles of incorporation or bylaws of any Issuer (whether or not authorized hereunder), shall be delivered to Secured Party promptly upon the receipt thereof by or on behalf of Debtor. All such Pledged Shares shall be held by or on behalf of Secured Party pursuant hereto and shall be delivered in suitable form for transfer by delivery with any necessary endorsement or shall be accompanied by fully executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Secured Party.

(b) Proceeds of Pledged Shares. If Debtor shall receive, by virtue of its being or having been an owner of any Pledged Shares, any (i) stock certificate (including any certificate representing a stock dividend or distribution in connection with any increase or reduction of capital, reorganization, reclassification, merger, consolidation, sale of assets, combination of shares, stock split, spinoff or split-off), promissory note or other instrument or writing; (ii) option or right, whether as an addition to, substitution for, or in exchange for, any Pledged Shares, or otherwise; (iii) dividends payable in cash (except such dividends permitted to be retained by Debtor pursuant to Section 4.8 hereof) or in securities or other property, or (iv) dividends or other distributions in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in surplus (except such dividends or distributions permitted to be retained by Debtor pursuant to Section 4.8 hereof), Debtor shall receive the same in trust for the benefit of Secured Party, shall segregate it from Debtor's other property, and shall promptly deliver it to Secured Party in the exact form received, with any necessary endorsement or appropriate stock powers duly executed in blank, to be held by Secured Party as Collateral.

(c) Status of Pledged Shares. The certificates evidencing the Pledged Shares shall at all times be valid and genuine and shall not be altered. The



Pledged Shares at all times shall be duly authorized, validly issued, fully paid, and non-assessable, and shall not be issued in violation of the pre-emptive rights of any Person or of any agreement by which Debtor or the Issuer thereof is bound and shall not be subject to any restrictions with respect to transfer, voting or Capital of such Pledged Shares.

(d) Dilution of Shareholdings. Debtor will not permit the issuance of (i) any additional shares of any class of capital stock of any Issuer (unless immediately upon issuance the same are pledged and delivered to Secured Party pursuant to the terms hereof to the extent necessary to give Secured Party a first priority security interest after such issue in at least the same percentage of such Issuer's outstanding shares as Debtor had before such issue), (ii) any securities convertible voluntarily by the holder thereof or automatically upon the occurrence or non-occurrence of any event or condition into, or exchangeable for, any such shares of capital stock, or (iii) any warrants, options, contracts or other commitments entitling any Person to purchase or otherwise acquire any such shares of capital stock not outstanding as of the date of this Agreement.

(e) Restrictions on Pledged Shares. Debtor will not enter into any agreement creating, or otherwise permit to exist, any restriction or condition upon the transfer, voting or control of any Pledged Shares.

## ARTICLE IV -- Remedies, Powers and Authorizations

### Section 4.1. Provisions Concerning the Collateral.

(a) Additional Filings. Debtor hereby authorizes Secured Party to file, without the signature of Debtor where permitted by law, one or more financing or continuation statements, and amendments thereto, covering or otherwise relating to the Collateral. Without limitation of the foregoing sentence, Debtor hereby authorizes Secured Party to file one or more financing statements without the signature of Debtor which describe the Collateral as "as assets of Debtor" or use words of similar import. Debtor further agrees that a carbon, photographic or other reproduction of this Security Agreement or of any financing statement describing any Collateral is sufficient as a financing statement and may be filed in any jurisdiction by Secured Party.

(b) Power of Attorney. Debtor hereby irrevocably appoints Secured Party as Debtor's attorney-in-fact and proxy, with full authority in the place and stead of Debtor and in the name of Debtor or otherwise, from time to time in Secured Party's discretion, to take any action, and to execute or indorse any instrument, certificate or notice, which Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement including any action or instrument: (i) to request or instruct each Issuer (and each registrar, transfer agent, or similar Person acting on behalf of each Issuer) to register the pledge or transfer of the Collateral to Secured Party; (ii) to otherwise give notification to any Issuer, registrar, transfer agent, financial intermediary, or other Person of Secured Party's security interests hereunder; (iii) to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral; (iv) to receive, indorse and collect any drafts or other instruments or documents; (v) to enforce any obligations included among the Collateral; and



(vi) to file any claims or take any action or institute any proceedings which Secured Party may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce, perfect, or establish the priority of the rights of Secured Party with respect to any of the Collateral. Debtor hereby acknowledges that such power of attorney and proxy are coupled with an interest, and are irrevocable.

(c) Performance by Secured Party. If Debtor fails to perform any agreement or obligation contained herein, Secured Party may itself perform, or cause performance of, such agreement or obligation, and the expenses of Secured Party incurred in connection therewith shall be payable by Debtor under Section 4.5.

(d) Collection Rights. Secured Party shall have the right at any time, upon the occurrence and during the continuance of an Event of Default, to notify (or require Debtor to notify) any or all Persons (including any Issuer) obligated to make payments which are included among the Collateral (whether accounts, general intangibles, dividends, or otherwise) of the assignment thereof to Secured Party under this Agreement and to direct such obligors to make payment of all amounts due or to become due to Debtor thereunder directly to Secured Party and, upon such notification and at the expense of Debtor and to the extent permitted by law, to enforce collection thereof and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as Debtor could have done. After Debtor receives notice that Secured Party has given (and after Secured Party has required Debtor to give) any notice referred to above in this subsection:

(i) all amounts and proceeds (including instruments and writings) received by Debtor in respect of such rights to payments, accounts, or general intangibles shall be received in trust for the benefit of Secured Party hereunder, shall be segregated from other funds of Debtor and shall be forthwith paid over to Secured Party in the same form as so received (with any necessary indorsement) to be, at Secured Party's discretion, either (A) held as cash collateral and released to Debtor upon the remedy of all Defaults or Events of Default, or (B) if any Event of Default shall have occurred and be continuing, applied as specified in Section 4.3, and

(ii) Debtor will not adjust, settle or compromise the amount or payment of any such account or general intangible or release wholly or partly any account debtor or obligor thereof (including any Issuer) or allow any credit or discount thereon.

Section 4.2. Event of Default Remedies. If an Event of Default shall

have occurred and be continuing, Secured Party may from time to time in its discretion, without limitation and without notice except as expressly provided below:

(a) exercise in respect of the Collateral, in addition to any other rights and remedies provided for herein, under the other Obligation Documents or otherwise available to it, all the rights and remedies of a secured party on default under the UCC (whether or not the UCC applies to the affected Collateral);



(b) require Debtor to, and Debtor hereby agrees that it will at its expense and upon request of Secured Party, promptly assemble all books, records and information of Debtor relating to the Collateral at a place to be designated by Secured Party which is reasonably convenient to both parties;

(c) reduce its claim to judgment or foreclose or otherwise enforce, in whole or in part, the security interest created hereby by any available judicial procedure;

(d) dispose of, at its office, on the premises of Debtor or elsewhere, all or any part of the Collateral, as a unit or in parcels, by public or private proceedings, and by way of one or more contracts (it being agreed that the sale of any part of the Collateral shall not exhaust Secured Party's power of sale, but sales may be made from time to time, and at any time, until all of the Collateral has been sold or until the Secured Obligations have been paid and performed in full), and at any such sale it shall not be necessary to exhibit any of the Collateral;

(e) buy (or allow one or more of the Lenders to buy) the Collateral, or any part thereof, at any public sale in accordance with the UCC;

(f) buy (or allow one or more of the Lenders to buy) the Collateral, or any part thereof, at any private sale if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, in accordance with the UCC;

(g) apply by appropriate judicial proceedings for appointment of a receiver for the Collateral, or any part thereof, and Debtor hereby consents to any such appointment; and

(h) at its discretion, retain the Collateral in satisfaction of the Secured Obligations whenever the circumstances are such that Secured Party is entitled to do so under the UCC or otherwise (provided that Secured Party shall in no circumstances be deemed to have retained the Collateral in satisfaction of the Secured Obligations in the absence of an express notice by Secured Party to Debtor that Secured Party has either done so or intends to do so).

Debtor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days' notice to Debtor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

Section 4.3. Application of Proceeds. If any Event of Default shall have occurred and be continuing, Secured Party may in its discretion apply any cash held by Secured Party as Collateral, and any cash proceeds received by Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral, to any or all of the following in such order as Secured Party may (subject to the rights of Lenders under the Credit Agreement) elect:



(a) To the repayment of all costs and expenses, including reasonable attorneys' fees and legal expenses, incurred by Secured Party in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any Collateral, (iii) the exercise or enforcement of any of the rights of Secured Party hereunder, or (iv) the failure of Debtor to perform or observe any of the provisions hereof;

(b) To the payment or other satisfaction of any Liens, encumbrances, or adverse claims upon or against any of the Collateral;

(c) To the reimbursement of Secured Party for the amount of any obligations of Debtor or any Other Liable Party paid or discharged by Secured Party pursuant to the provisions of this Agreement or the other Obligation Documents, and of any expenses of Secured Party payable by Debtor hereunder or

under the other Obligation Documents;

(d) To the satisfaction of any other Secured Obligations;

(e) By holding the same as Collateral;

(f) To the payment of any other amounts required by applicable law (including any provision of the UCC); and

(g) By delivery to Debtor or to whomever shall be lawfully entitled to receive the same or as a court of competent jurisdiction shall direct.

Section 4.4. Deficiency. In the event that the proceeds of any sale, collection or realization of or upon Collateral by Secured Party are insufficient to pay all Secured Obligations and any other amounts to which Secured Party is legally entitled, Debtor shall be liable for the deficiency, together with interest thereon as provided in the governing Obligation Documents or (if no interest is so provided) at such other rate as shall be fixed by applicable law, together with the costs of collection and the reasonable fees of any attorneys employed by Secured Party or Lenders to collect such deficiency.

Section 4.5. Indemnity and Expenses. In addition to, but not in qualification or limitation of, any similar obligations under other Obligation Documents:

(a) Debtor will indemnify Secured Party and each Lender from and against any and all claims, losses and liabilities growing out of or resulting from this Agreement (including enforcement of this Agreement), WHETHER OR NOT SUCH CLAIMS, LOSSES IN AND LIABILITIES ARE IN ANY WAY OR TO ANY EXTENT OWED, IN WHOLE OR IN PART, UNDER ANY CLAIM OR THEORY OF STRICT LIABILITY, OR ARE CAUSED BY OR ARISE OUT OF SUCH INDEMNIFIED PARTY'S OWN NEGLIGENCE, except to the extent such claims, losses or liabilities are proximately caused by such indemnified party's individual gross negligence or willful misconduct.



(b) Debtor will upon demand pay to Secured Party the amount of any and all reasonable costs and expenses, including the reasonable fees and disbursements of Secured Party's counsel and of any experts and agents, which Secured Party may incur in connection with (i) the transactions which give rise to this Agreement, (ii) the preparation of this Agreement and the perfection and preservation of this security interest created under this Agreement, (iii) the administration of this Agreement; (iv) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any Collateral; (v) the exercise or enforcement of any of the rights of Secured Party hereunder; or (vi) the failure by Debtor to perform or observe any of the provisions hereof, except expenses resulting from Secured Party's gross negligence or willful misconduct.

Section 4.6. Non-Judicial Remedies. In granting to Secured Party the power to enforce its rights hereunder without prior judicial process or judicial hearing, Debtor expressly waives, renounces and knowingly relinquishes any legal right which might otherwise require Secured Party to enforce its rights by judicial process. In so providing for non-judicial remedies, Debtor recognizes and concedes that such remedies are consistent with the usage of trade, are responsive to commercial necessity, and are the result of a bargain at arm's length. Nothing herein is intended, however, to prevent Secured Party from resorting to judicial process at its option.

Section 4.7. Other Recourse. Debtor waives any right to require Secured Party or any Lender to proceed against any other Person, to exhaust any Collateral or other security for the Secured Obligations, or to have any Other Liable Party joined with Debtor in any suit arising out of the Secured Obligations or this Agreement, or pursue any other remedy in Secured Party's power. Debtor further waives any and all notice of acceptance of this Agreement and of the creation, modification, rearrangement, renewal or extension for any period of any of the Secured Obligations of any Other Liable Party from time to time. Debtor further waives any defense arising by reason of any disability or other defense of any Other Liable Party or by reason of the cessation from any cause whatsoever of the liability of any Other Liable Party. This Agreement shall continue irrespective of the fact that the liability of any Other Liable Party may have ceased and irrespective of the validity or enforceability of any other Obligation Document to which Debtor or any Other Liable Party may be a party, and notwithstanding any death, incapacity, reorganization, or bankruptcy of any Other Liable Party or any other event or proceeding affecting any Other Liable Party. Until all of the Secured Obligations shall have been paid in full, Debtor shall have no right to subrogation and Debtor waives the right to enforce any remedy which Secured Party or any Lender has or may hereafter have against any Other Liable Party, and waives any benefit of and any right to participate in any other security whatsoever now or hereafter held by Secured Party and each Lender. Debtor authorizes Secured Party and each Lender, without notice or

demand, without any reservation of rights against Debtor, and without in any way affecting Debtor's liability hereunder or on the Secured Obligations, from time to time to (a) take or hold any other property of any type from any other Person as security for the Secured Obligations, and exchange, enforce, waive and release any or all of such other property, (b) apply the Collateral or such other property and direct the order or manner of sale thereof as Secured Party may in its discretion determine, (c) renew, extend for any period, accelerate, modify, compromise, settle or release any of the obligations of any Other Liable Party in respect to any or all of the Secured Obligations or other security for the Secured Obligations, (d) waive, enforce, modify, amend, restate or



supplement any of the provisions of any Obligation Document with any Person other than Debtor, and (e) release or substitute any Other Liable Party.

Section 4.8. Voting Rights, Dividends, Etc. in Respect of Pledged Shares.

(a) So long as no Default or Event of Default shall have occurred and be continuing Debtor may receive and retain any and all dividends or interest paid in respect of the Pledged Shares; provided, however, that any and all

(i) dividends and interest paid or payable other than in cash in respect of, and instruments and other property received, receivable or otherwise distributed in respect of or in exchange for, any Pledged Shares,

(ii) dividends and other distributions paid or payable in cash in respect of any Pledged Shares in connection with a partial or total liquidation or dissolution or in connection with a reduction of capital, capital surplus or paid-in surplus, and

(iii) cash paid, payable or otherwise distributed in redemption of, or in exchange for, any Pledged Shares,

shall be, and shall forthwith be delivered to Secured Party to hold as, Pledged Shares and shall, if received by Debtor, be received in trust for the benefit of Secured Party, be segregated from the other property or funds of Debtor, and be forthwith delivered to Secured Party in the exact form received with any necessary indorsement or appropriate stock powers duly executed in blank, to be held by Secured Party as Collateral.

(b) Upon the occurrence and during the continuance of a Default or an Event of Default:

(i) all rights of Debtor to receive and retain the dividends and interest payments which it would otherwise be authorized to receive and retain pursuant to subsection (a) of this section shall automatically cease, and all such rights shall thereupon become vested in Secured Party which shall thereupon have the sole right to receive and hold as Pledged Shares such dividends and interest payments;

(ii) without limiting the generality of the foregoing, Secured Party may at its option exercise any and all rights of conversion, exchange, subscription or any other rights, privileges or options pertaining to any of the Pledged Shares as if it were the absolute owner thereof, including, without limitation, the right to exchange, in its discretion, any and all of the Pledged Shares upon the merger, consolidation, reorganization, recapitalization or other adjustment of any Issuer, or upon the exercise by any Issuer of any right, privilege or option pertaining to any Pledged Shares, and, in connection therewith, to deposit and deliver any and all of the Pledged Shares with any committee, depository, transfer, agent, registrar or other designated agent upon such terms and conditions as it may determine; and



(iii) all dividends and interest payments which are received by Debtor contrary to the provisions of subsection (b)(i) of this section shall be received in trust for the benefit of Secured Party, shall be segregated from other funds of Debtor, and shall be forthwith paid over to Secured Party as Pledged Shares in the exact form received, to be held by Secured Party as Collateral.

Section 4.9. Private Sale of Pledged Shares. Debtor recognizes that Secured Party may deem it impracticable to effect a public sale of all or any part of the Pledged Shares and that Secured Party may, therefore, determine to make one or more private sales of any such securities to a restricted group of purchasers who will be obligated to agree, among other things, to acquire such securities for their own account, for investment and not with a view to the

distribution or resale thereof. Debtor acknowledges that any such private sale may be at prices and on terms less favorable to the seller than the prices and other terms which might have been obtained at a public sale and, notwithstanding the foregoing, agrees that such private sales shall be deemed to have been made in a commercially reasonable manner and that Secured Party shall have no obligation to delay sale of any such securities for the period of time necessary to permit the Issuer of such securities to register such securities for public sale under the Securities Act of 1933, as amended (the "Securities Act"). Debtor further acknowledges and agrees that any offer to sell such securities which has been (a) publicly advertised on a bona fide basis in a newspaper or other publication of general circulation in the financial community of Denver, Colorado (to the extent that such an offer may be so advertised without prior registration under the Securities Act), or (b) made privately in the manner described above to not less than fifteen (15) bona fide offerees shall be deemed to involve a "public disposition" for the purposes of Section 9.610(c) of the UCC (or any successor or similar, applicable statutory provision), notwithstanding that such sale may not constitute a "public offering" under the Securities Act, and that Secured Party may, in such event, bid for the purchase of such securities.

## ARTICLE V. -- Miscellaneous

Section 5.1. Notices. Any notice or communication required or permitted hereunder shall be given as provided in the Credit Agreement.

Section 5.2. Amendments. No amendment of any provision of this Agreement shall be effective unless it is in writing and signed by Debtor and Secured Party, and no waiver of any provision of this Agreement, and no consent to any departure by Debtor therefrom, shall be effective unless it is in writing and signed by Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given and to the extent specified in such writing. In addition to all such amendments and waivers shall be effective only if given with the necessary approvals of Lenders as required in the Credit Agreement.

Section 5.3. Preservation of Rights. No failure on the part of Secured Party or any Lender to exercise, and no delay in exercising, any right hereunder or under any other Obligation Document shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. Neither the



execution nor the delivery of this Agreement shall in any manner impair or affect any other security for the Secured Obligations. The rights and remedies of Secured Party provided herein and in the other Obligation Documents are cumulative and are in addition to, and not exclusive of, any rights or remedies provided by law. The rights of Secured Party under any Obligation Document against any party thereto are not conditional or contingent on any attempt by Secured Party to exercise any of its rights under any other Obligation Document against such party or against any other Person.

Section 5.4. Unenforceability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or invalidity without invalidating the remaining portions hereof or thereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 5.5. Survival of Agreements. All representations and warranties of Debtor herein, and all covenants and agreements herein shall survive the execution and delivery of this Agreement, the execution and delivery of any other Obligation Documents and the creation of the Secured Obligations.

Section 5.6. Other Liable Party. Neither this Agreement nor the exercise by Secured Party or the failure of Secured Party to exercise any right, power or remedy conferred herein or by law shall be construed as relieving any Other Liable Party from liability on the Secured Obligations or any deficiency thereon. This Agreement shall continue irrespective of the fact that the liability of any Other Liable Party may have ceased or irrespective of the validity or enforceability of any other Obligation Document to which Debtor or any Other Liable Party may be a party, and notwithstanding the reorganization, death, incapacity or bankruptcy of any Other Liable Party, and notwithstanding the reorganization or bankruptcy or other event or proceeding affecting any Other Liable Party.

Section 5.7. Binding Effect and Assignment. This Agreement creates a

continuing security interest in the Collateral and (a) shall be binding on Debtor and its successors and permitted assigns and (b) shall inure, together with all rights and remedies of Secured Party hereunder, to the benefit of Secured Party and Lenders and their respective successors, transferees and assigns. Without limiting the generality of the foregoing, Secured Party and any Lender may (except as otherwise provided in the Credit Agreement) pledge, assign or otherwise transfer any or all of its rights under any or all of the Obligation Documents to any other Person, and such other Person shall thereupon become vested with all of the benefits in respect thereof granted to Secured Party, herein or otherwise. None of the rights or duties of Debtor hereunder may be assigned or otherwise transferred without the prior written consent of Secured Party.

Section 5.8. Termination. It is contemplated by the parties hereto that there may be times when no Secured Obligations are outstanding, but notwithstanding such occurrences, this Agreement shall remain valid and shall be in full force and effect as to subsequent outstanding Secured Obligations. Upon the satisfaction in full of the Secured Obligations, and the termination or expiration of the Credit Agreement and any other commitment of Lenders to extend credit to Debtor, then upon written request for the termination hereof delivered by Debtor to Secured Party this Agreement and the security interest created



hereby shall terminate and all rights to the Collateral shall revert to Debtor. Secured Party will, upon Debtor's request and at Debtor's expense, (a) return to Debtor such of the Collateral as shall not have been sold or otherwise disposed of or applied pursuant to the terms hereof; and (b) execute and deliver to Debtor such documents as Debtor shall reasonably request to evidence such termination.

SECTION 5.9. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF COLORADO APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, EXCEPT AS REQUIRED BY MANDATORY PROVISIONS OF LAW AND EXCEPT TO THE EXTENT THAT THE PERFECTION AND THE EFFECT OF PERFECTION OR NON-PERFECTION OF THE SECURITY INTEREST CREATED HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL, ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN SUCH STATE.

SECTION 5.10. FINAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES HERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES HERETO.

Section 5.11. Counterparts. This Agreement may be separately executed in any number of counterparts, all of which when so executed shall be deemed to constitute one and the same Agreement.

Section 5.12. "Loan Document". This Agreement is a "Loan Document", as defined in the Credit Agreement, and, except as expressly provided herein to the contrary, this Agreement is subject to all provisions of the Credit Agreement governing such Loan Documents.

*[The remainder of this page is intentionally left blank.]



IN WITNESS WHEREOF, Debtor has caused this Agreement to be executed and delivered this Agreement by its officer thereunto duly authorized, as of the date first above written.

ST MARY LAND & EXPLORATION COMPANY

By: /s/ MILAM RANDOLPH PHARO
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Milam Randolph Pharo
Vice President - Land and Legal

EXHIBIT A

## Description of Interests in Issuers

| Issuer | Stock Certificate Number | # of Shares | % of Class |
|---|---|---|---|
| St. Mary Operating Company | 029 | 891 | 100% |
| St. Mary Energy Company | 001 | 100 | 100% |
| Nance Petroleum Corporation | 34 | 20,000 | |
| | 15 | 5,000 | 100% (aggregate) |
| St. Mary Minerals Inc. | 1 | 5,000 | 100% |
| Parish Corporation | 4 | 1,000 | 100% |

together with all other shares of stock issued by any Issuer now owned or hereafter owned by Debtor

EXHIBIT 10.3

[Execution]

# LLC PLEDGE AGREEMENT

THIS PLEDGE AGREEMENT (this "Agreement") is made as of May 1, 2002, by St. Mary Land & Exploration Company, a Delaware corporation (herein called "Debtor"), in favor of Bank of America, N.A., individually and as agent (herein called "Secured Party").

## RECITALS:

1. Debtor has executed in favor of Agent and Lenders (as hereinafter defined) those certain promissory notes dated June 24, 2000, payable to the order of Lenders in the aggregate principal amount of $200,000,000 (such promissory notes, as from time to time amended, and all promissory notes given in substitution, renewal or extension therefor or thereof, in whole or in part, being herein collectively called the "Note").

2. The Note was executed pursuant to a Credit Agreement dated June 30, 1998 (herein, as from time to time amended, supplemented or restated, called the "Credit Agreement"), by and between Borrower, Agent and Lenders, pursuant to which Lenders have agreed to advance funds to Borrower under the Note.

3. Debtor is executing and delivering this Agreement to Secured Party pursuant to the terms of the Credit Agreement.

4. The board of directors of Debtor has determined that Debtor's execution, delivery and performance of this Agreement may reasonably be expected to benefit Debtor, directly or indirectly, and are in the best interests of Debtor.

NOW, THEREFORE, in consideration of the premises, of the benefits which will inure to Debtor from Lenders' extensions of credit under the Credit Agreement, and of Ten Dollars and other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, and in order to induce Lenders to extend credit under the Credit Agreement, Debtor hereby agrees with Secured Party for the benefit of each Lender as follows:

## AGREEMENTS

### ARTICLE I -- Definitions and References

Section 1.1. General Definitions. As used herein, the terms "Agreement", "Debtor", "Secured Party", "Note" and "Credit Agreement" shall have the meanings indicated above, and the following terms shall have the following meanings:

"Collateral" means all property, of whatever type, which is described in Section 2.1 as being at any time subject to a security interest granted hereunder to Secured Party.

"Commitment" means the agreement or commitment by Lenders to make loans or otherwise extend credit to Debtor under the Credit Agreement, and any other agreement, commitment, statement of terms or other document contemplating the making of loans or advances or other extension of credit by Lenders to or for the account of Debtor which is now or at any time hereafter intended to be secured by the Collateral under this Agreement.

"Lenders" means the Persons who are from time to time "Lenders" as defined in the Credit Agreement.

"LLC" means any limited liability company which is included within the term "Limited Liability Company" pursuant to Section 2.1(a), and any successor of any such limited liability company.

"LLC Agreements", "LLC Rights", and "LLC Rights to Payments" have the meanings given them in Section 2.1(a).

"Obligation Documents" means the Credit Agreement, all other Loan Documents, and all other documents and instruments under, by reason of which, or pursuant to which any or all of the Secured Obligations are evidenced, governed, secured, guarantied, or otherwise dealt with, and all other agreements,

certificates, and other documents, instruments and writings heretofore or hereafter delivered in connection herewith or therewith.

"Other Liable Party" means any Person, other than Debtor, who may now or may at any time hereafter be primarily or secondarily liable for any of the Secured Obligations or who may now or may at any time hereafter have granted to Secured Party or Lenders a Lien upon any property as security for the Secured Obligations.

"Other LLC Rights" has the meaning given it in Section 2.1(a).

"Secured Obligations" shall have the meaning given to it in Section 2.2.

"UCC" means the Uniform Commercial Code in effect in the State of Colorado on the date hereof.

Section 1.2. Incorporation of Other Definitions. Reference is hereby made to the Credit Agreement for a statement of the terms thereof. All capitalized terms used in this Agreement which are defined in the Credit Agreement and not otherwise defined herein shall have the same meanings herein as set forth therein. All terms used in this Agreement which are defined in the UCC and not otherwise defined herein or in the Credit Agreement shall have the same meanings herein as set forth therein, except where the context otherwise requires.

Section 1.3. Attachments. All exhibits or schedules which may be attached to this Agreement are a part hereof for all purposes.

Section 1.4. Amendment of Defined Instruments. Unless the context otherwise requires or unless otherwise provided herein, references in this Agreement to a particular agreement, instrument or document (including, but not



limited to, references in Section 2.1) also refer to and include all renewals, extensions, amendments, modifications, supplements or restatements of any such agreement, instrument or document, provided that nothing contained in this Section shall be construed to authorize any Person to execute or enter into any such renewal, extension, amendment, modification, supplement or restatement.

Section 1.5. References and Titles. All references in this Agreement to Exhibits, Articles, Sections, subsections, and other subdivisions refer to the Exhibits, Articles, Sections, subsections and other subdivisions of this Agreement unless expressly provided otherwise. Titles appearing at the beginning of any subdivision are for convenience only and do not constitute any part of any such subdivision and shall be disregarded in construing the language contained in this Agreement. The words "this Agreement", "herein", "hereof", "hereby", "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular subdivision unless expressly so limited. The phrases "this Section" and "this subsection" and similar phrases refer only to the Sections or subsections hereof in which the phrase occurs. The word "or" is not exclusive, and the word "including" (in all of its forms) means "including without limitation". Pronouns in masculine, feminine and neuter gender shall be construed to include any other gender, and words in the singular form shall be construed to include the plural and vice versa unless the context otherwise requires.

## ARTICLE II -- Security Interest

Section 2.1. Grant of Security Interest. As collateral security for all of the Secured Obligations, Debtor hereby pledges and assigns to Secured Party and grants to Secured Party a continuing security interest for the benefit of each Lender in and to all right, title and interest of the following:

(a) LLC Rights. All of the following (herein collectively called the "LLC Rights"), whether now or hereafter existing, which are owned by Debtor or in which Debtor otherwise has any rights:

(i) all units of limited liability company ownership interests and all proceeds, interest, profits, and other payments or rights to payment attributable to Debtor's interests in each limited liability company (whether one or more, herein called the "LLCs") described in Exhibit A hereto, and all distributions, cash, instruments and other property now or hereafter received, receivable or otherwise made with

respect to or in exchange for any interest of Debtor in any LLC, including interim distributions, returns of capital, loan repayments, and payments made in liquidation of any LLC, and whether or not the same arise or are payable under any LLC agreement or certificate forming any LLC or any other agreement governing any LLC or the relations among the members of any LLC (any and all such proceeds, interest, profits, payments, rights to payment, distributions, cash, instruments, other property, interim distributions, returns of capital, loan repayments, and payments made in liquidation being herein called the "LLC Rights to Payments", and any and all such LLC agreements, certificates, and other agreements being herein called the "LLC Agreements"); and



(ii) all other interests and rights of Debtor in any of the LLCs, whether under the LLC Agreements or otherwise, including without limitation any right to cause the dissolution of any LLC or to appoint or nominate a successor to Debtor as a member in any LLC (all such other interests and rights being herein called the "Other LLC Rights").

(b) Proceeds. All proceeds of any and all of the foregoing Collateral.
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In each case, the foregoing shall be covered by this Agreement, whether Debtor's ownership or other rights therein are presently held or hereafter acquired and however Debtor's interests therein may arise or appear (whether by ownership, security interest, claim or otherwise).

The granting of the foregoing security interest does not make Secured Party a successor to Debtor as a member of any LLC, and neither Secured Party nor any of its successors or assigns hereunder shall be deemed to have become a member of any LLC by accepting this Agreement or exercising any right granted herein unless and until such time, if any, when Secured Party or any such successor or assign expressly becomes a member of any LLC after a foreclosure upon Other LLC Rights. Anything herein to the contrary notwithstanding (except to the extent, if any, that Secured Party or any of its successors or assigns hereafter expressly becomes a member of any LLC), neither Secured Party nor any of its successors or assigns shall be deemed to have assumed or otherwise become liable for any debts or obligations of any LLC or of Debtor to or under any LLC, and the above definition of "Other LLC Rights" shall be deemed modified, if necessary, to prevent any such assumption or other liability.

Section 2.2. Secured Obligations Secured. The security interest created
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hereby in the Collateral constitutes continuing collateral security for all of the following obligations, indebtedness and liabilities, whether now existing or hereafter incurred or arising:

(a) Credit Agreement Indebtedness. The payment by Debtor , as and when
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due and payable, of the "Obligations", as defined in the Credit Agreement, of all amounts from time to time owing by Debtor under or in respect of the Credit Agreement, the Note, or any of the other Obligation Documents, and the due performance by Debtor of all of its other obligations under or in respect of the various Obligation Documents.

(b) Other Indebtedness. All loans and future advances made by Lenders
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to Debtor and all other debts, obligations and liabilities of every kind and character of Debtor now or hereafter existing in favor of Lenders, whether such debts, obligations or liabilities be direct or indirect, primary or secondary, joint or several, fixed or contingent, and whether originally payable to Lenders or to a third party and subsequently acquired by Lenders and whether such debts, obligations or liabilities are evidenced by notes, open account, overdraft, endorsement, security agreement, guaranty or otherwise (it being contemplated that Debtor may hereafter become indebted to Lenders in further sum or sums but Lenders shall have no obligation to extend further indebtedness by reason of this Agreement).

(c) Renewals. All renewals, extensions, amendments, modifications,
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supplements, or restatements of or substitutions for any of the foregoing.



As used herein, the term "Secured Obligations" refers to all present and future indebtedness, obligations, and liabilities of whatever type which are described above in this section, including any interest which accrues after the commencement of any case, proceeding, or other action relating to the bankruptcy, insolvency, or reorganization of Debtor. Debtor hereby acknowledges that the Secured Obligations are owed to the various Lenders and that each Lender is entitled to the benefits of the Liens given under this Agreement.

ARTICLE III -- Representations, Warranties and Covenants

Section 3.1. Representations and Warranties. Debtor hereby represents and warrants to Secured Party and Lenders as follows:

(a) Security Interest. Debtor has and will have at all times full right, power and authority to grant a security interest in the Collateral to Secured Party as provided herein, free and clear of any Lien, adverse claim, or encumbrance. This Agreement creates a valid and binding first priority security interest in favor of Secured Party in the Collateral, which security interest secures all of the Secured Obligations.

(b) Perfection. The taking possession by Secured Party of all certificates, instruments and cash constituting Collateral from time to time and the filing of financing statements with the Secretary of State (or equivalent governmental official) of the State in which Debtor is organized will perfect, and establish the first priority of, Secured Party's security interest hereunder in the Collateral securing the Secured Obligations. No further or subsequent filing, recording, registration, other public notice or other action is necessary or desirable to perfect or otherwise continue, preserve or protect such security interest except (i) for continuation statements described in UCC Section 9.515(d), (ii) for filings required to be filed in the event of a change in the name, identity, or corporate structure of Debtor, or (iii) in the event any financing statement filed by Secured Party relating hereto otherwise becomes inaccurate or incomplete.

(c) LLC Rights. All units and other securities constituting the LLC Rights have been duly authorized and validly issued, are fully paid and non-assessable, and were not issued in violation of the preemptive rights of any person or of any agreement by which Debtor or any LLC is bound. All documentary, stamp or other taxes or fees owing in connection with the issuance, transfer or pledge of the LLC Rights (or rights in respect thereof) have been paid. No restrictions or conditions exist with respect to the transfer, voting or capital of any LLC Rights. Except as disclosed to Secured Party in writing on or prior to the date hereof, no LLC has any outstanding rights to subscribe, options, warrants or convertible securities outstanding or any other rights outstanding whereby any person would be entitled to have issued to it units of ownership interest in any LLC. Debtor has taken or concurrently herewith is taking all actions necessary to perfect Secured Party's security interest in the LLC Rights, including any registrations, filings or notices which may be necessary or advisable under Article 8 of the UCC as in effect in the state or states in which any LLC was organized. No other Person has any such registration in effect. Debtor owns the interests in each LLC which are described on Exhibit A. No LLC has made any calls for capital which have not been fully paid by Debtor and by each other member of such LLC. Debtor is not in default under any of the LLC Agreements, nor is any other member of any LLC. Neither the making of this



Agreement nor the exercise of any rights or remedies of Secured Party hereunder will cause a default under any of the LLC Agreements or otherwise adversely affect or diminish any of the LLC Rights. Debtor's rights under the LLC Agreements are enforceable in accordance with their terms, except as such enforcement may be limited by bankruptcy, insolvency or similar laws of general application relating to the enforcement of creditors' rights.

Section 3.2. Covenants. Unless Secured Party shall otherwise consent in writing, Debtor will at all times (i) comply with the covenants contained in the Credit Agreement which are applicable to Debtor and (ii) comply with the covenants contained in this Section 3.2 so long as any part of the Secured Obligations or the Commitment is outstanding.

(a) LLC Rights. Debtor will maintain its ownership of the interests in each LLC listed on Exhibit A. Debtor will timely honor all calls under any LLC Agreement to provide capital to any LLC, and Debtor will not otherwise default in performing any of Debtor's obligations under any LLC Agreement or allow any LLC Rights to be adversely affected or diminished. Debtor will promptly inform Secured Party of any such failure to honor a capital call, default, adverse effect, or diminution. Debtor will promptly inform Secured Party of any such failure to honor a capital call or default by another member of any LLC. The LLC Rights shall at all times be duly authorized and validly issued and shall not be issued in violation of the pre-emptive rights of any Person or of any agreement by which Debtor or the LLC thereof is bound.

(b) Delivery of Certificates. All certificates, instruments, or writings evidencing the LLC Rights shall be delivered to Secured Party on or

prior to the execution and delivery of this Agreement, together with a true and correct copy of each LLC Agreement and all amendments and supplements thereto. All other certificates, instruments, or writings hereafter evidencing or constituting LLC Rights, and all amendments or supplements to any LLC Agreement (whether or not authorized hereunder), shall be delivered to Secured Party promptly upon the receipt thereof by or on behalf of Debtor. All such certificates, instruments, or writings shall be held by or on behalf of Secured Party pursuant hereto and shall be delivered in suitable form for transfer by delivery with any necessary endorsement or shall be accompanied by fully executed instruments of transfer or assignment in blank, all in form and substance satisfactory to Secured Party.

(c) Proceeds of LLC Rights. If Debtor shall receive, by virtue of its being or having been an owner of any LLC Rights, any (i) certificate, instrument, deed, bill of sale, promissory note, or other instrument or writing (including any given in connection with any increase or reduction of capital, reorganization, reclassification, merger, consolidation, sale of assets, liquidation, or partial liquidation); (ii) option or right, whether as an addition to, substitution for, or in exchange for, any LLC Rights, or otherwise; or (iii) distributions payable in cash (except distributions permitted to be retained by Debtor pursuant to Section 4.8 hereof) or in securities or other property, Debtor shall receive the same in trust for the benefit of Secured Party, shall segregate it from Debtor's other property, and shall promptly deliver it to Secured Party in the exact form received, with any necessary endorsement or instruments of transfer duly executed in blank, to be held by Secured Party as Collateral.

(d) Notices from LLC. Debtor will promptly deliver to Secured Party a copy of each notice or other communication received by Debtor from any LLC in respect of any LLC Rights.



(e) Diminution of LLC Rights. Debtor will not adjust, settle, compromise, amend or modify any of the LLC Rights or the LLC Agreements. Debtor will not permit the creation of any additional interests in any LLC (unless immediately upon creation the same are pledged to Secured Party pursuant to the terms hereof to the extent necessary to give Secured Party a first priority security interest in total LLC Rights after such creation which are in the aggregate at least the same percentage of the outstanding rights of the same kind in any LLC as were subject hereto before such issue), whether such additional interests are presently vested or will vest upon the payment of money or the occurrence or nonoccurrence of any other condition. Debtor will not enter into any agreement (other than the Obligation Documents) creating, or otherwise permit to exist, any restriction or condition upon the transfer or exercise of any LLC Rights.

(f) Status of LLC Rights. Any certificates evidencing the LLC Rights shall at all times be valid and genuine and shall not be altered. The LLC Rights at all times shall be duly authorized, validly issued, fully paid, and non-assessable, and shall not be issued in violation of the preemptive rights of any person or of any agreement by which Debtor or any LLC is bound and shall not be subject to any restrictions with respect to transfer, voting or capital of such LLC Rights.

(g) Restrictions on LLC Rights. Debtor will not enter into any agreement creating, or otherwise permit to exist, any restriction or condition upon the transfer, voting or control of any LLC Rights.

## ARTICLE IV -- Remedies, Powers and Authorizations

### Section 4.1. Provisions Concerning the Collateral.

(a) Additional Filings. Debtor hereby authorizes Secured Party to file, without the signature of Debtor where permitted by law, one or more financing or continuation statements, and amendments thereto, covering or otherwise relating to the Collateral. Debtor further agrees that a carbon, photographic or other reproduction of this Security Agreement or of any financing statement describing any Collateral is sufficient as a financing statement and may be filed in any jurisdiction by Secured Party.

(b) Power of Attorney. Debtor hereby irrevocably appoints Secured Party as Debtor's attorney-in-fact and proxy, with full authority in the place and stead of Debtor and in the name of Debtor or otherwise, from time to time in Secured Party's discretion, to take any action, and to execute or indorse any

instrument, certificate or notice, which Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement including any action or instrument: (i) to request or instruct each LLC (and each registrar, transfer agent, or similar Person acting on behalf of each LLC) to register the pledge or transfer of the Collateral to Secured Party; (ii) to otherwise give notification to any LLC, registrar, transfer agent, financial intermediary, or other Person of Secured Party's security interests hereunder; (iii) to ask, demand, collect, sue for, recover, compound, receive and give acquittance and receipts for moneys due and to become due under or in respect of any of the Collateral; (iv) to receive, indorse and collect any drafts or other instruments or documents; (v) to enforce any obligations included among the Collateral; and (vi) to file any



claims or take any action or institute any proceedings which Secured Party may deem necessary or desirable for the collection of any of the Collateral or otherwise to enforce, perfect, or establish the priority of the rights of Secured Party with respect to any of the Collateral. Debtor hereby acknowledges that such power of attorney and proxy are coupled with an interest, and are irrevocable.

(c) Performance by Secured Party. If Debtor fails to perform any agreement or obligation contained herein, Secured Party may itself perform, or cause performance of, such agreement or obligation, and the expenses of Secured Party incurred in connection therewith shall be payable by Debtor under Section 4.5.

(d) Collection Rights. Secured Party shall have the right at any time, upon the occurrence and during the continuance of an Event of Default, to notify (or require Debtor to notify) any or all Persons (including any LLC) obligated to make payments which are included among the Collateral (whether accounts, general intangibles, dividends, distribution rights, LLC Rights to Payment, or otherwise) of the assignment thereof to Secured Party under this Agreement and to direct such obligors to make payment of all amounts due or to become due to Debtor thereunder directly to Secured Party and, upon such notification and at the expense of Debtor and to the extent permitted by law, to enforce collection thereof and to adjust, settle or compromise the amount or payment thereof, in the same manner and to the same extent as Debtor could have done. After Debtor receives notice that Secured Party has given (and after Secured Party has required Debtor to give) any notice referred to above in this subsection:

(i) all amounts and proceeds (including instruments and writings) received by Debtor in respect of such accounts, general intangibles, dividends, distribution rights, or LLC Rights to Payments shall be received in trust for the benefit of Secured Party hereunder, shall be segregated from other funds of Debtor and shall be forthwith paid over to Secured Party in the same form as so received (with any necessary indorsement) to be, at Secured Party's discretion, either (A) held as cash collateral and released to Debtor upon the remedy of all Defaults or Events of Default or (B) if any Event of Default shall have occurred and be continuing, applied as specified in Section 4.3, and

(ii) Debtor will not adjust, settle or compromise the amount or payment of any such account or general intangible or LLC Right to Payments or release wholly or partly any account debtor or obligor thereof (including any LLC) or allow any credit or discount thereon.

Section 4.2. Event of Default Remedies. If an Event of Default shall have occurred and be continuing, Secured Party may from time to time in its discretion, without limitation and without notice except as expressly provided below:

(a) exercise in respect of the Collateral, in addition to any other rights and remedies provided for herein, under the other Obligation Documents or otherwise available to it, all the rights and remedies of a secured party on default under the UCC (whether or not the UCC applies to the affected Collateral);



(b) require Debtor to, and Debtor hereby agrees that it will at its expense and upon request of Secured Party, promptly assemble all books, records and information of Debtor relating to the Collateral at a place to be designated by Secured Party which is reasonably convenient to both parties;

(c) reduce its claim to judgment or foreclose or otherwise enforce, in whole or in part, the security interest created hereby by any available judicial procedure;

(d) dispose of, at its office, on the premises of Debtor or elsewhere, all or any part of the Collateral, as a unit or in parcels, by public or private proceedings, and by way of one or more contracts (it being agreed that the sale

of any part of the Collateral shall not exhaust Secured Party's power of sale, but sales may be made from time to time, and at any time, until all of the Collateral has been sold or until the Secured Obligations have been paid and performed in full), and at any such sale it shall not be necessary to exhibit any of the Collateral;

(e) buy (or allow one or more of the Lenders to buy) the Collateral, or any part thereof, at any public sale in accordance with the UCC;

(f) buy (or allow one or more of the Lenders to buy) the Collateral, or any part thereof, at any private sale if the Collateral is of a type customarily sold in a recognized market or is of a type which is the subject of widely distributed standard price quotations, in accordance with the UCC;

(g) apply by appropriate judicial proceedings for appointment of a receiver for the Collateral, or any part thereof, and Debtor hereby consents to any such appointment; and

(h) at its discretion, retain the Collateral in satisfaction of the Secured Obligations whenever the circumstances are such that Secured Party is entitled to do so under the UCC or otherwise (provided that Secured Party shall in no circumstances be deemed to have retained the Collateral in satisfaction of the Secured Obligations in the absence of an express notice by Secured Party to Debtor that Secured Party has either done so or intends to do so).

Debtor agrees that, to the extent notice of sale shall be required by law, at least ten (10) days' notice to Debtor of the time and place of any public sale or the time after which any private sale is to be made shall constitute reasonable notification. Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned.

Section 4.3. Application of Proceeds. If any Event of Default shall have occurred and be continuing, Secured Party may in its discretion apply any cash held by Secured Party as Collateral, and any cash proceeds received by Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral, to any or all of the following in such order as Secured Party may (subject to the rights of Lenders under the Credit Agreement) elect:



(a) To the repayment of all costs and expenses, including reasonable attorneys' fees and legal expenses, incurred by Secured Party in connection with (i) the administration of this Agreement, (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any Collateral, (iii) the exercise or enforcement of any of the rights of Secured Party hereunder, or (iv) the failure of Debtor to perform or observe any of the provisions hereof;

(b) To the payment or other satisfaction of any Liens, encumbrances, or adverse claims upon or against any of the Collateral;

(c) To the reimbursement of Secured Party for the amount of any obligations of Debtor or any Other Liable Party paid or discharged by Secured Party pursuant to the provisions of this Agreement or the other Obligation Documents, and of any expenses of Secured Party payable by Debtor hereunder or under the other Obligation Documents;

(d) To the satisfaction of any other Secured Obligations;

(e) By holding the same as Collateral;

(f) To the payment of any other amounts required by applicable law (including any provision of the UCC); and

(g) By delivery to Debtor or to whomever shall be lawfully entitled to receive the same or as a court of competent jurisdiction shall direct.

Section 4.4. Deficiency. In the event that the proceeds of any sale, collection or realization of or upon Collateral by Secured Party are insufficient to pay all Secured Obligations and any other amounts to which Secured Party is legally entitled, Debtor shall be liable for the deficiency, together with interest thereon as provided in the governing Obligation Documents or (if no interest is so provided) at such other rate as shall be fixed by applicable law, together with the costs of collection and the reasonable fees of any attorneys employed by Secured Party or Lenders to collect such deficiency.

Section 4.5. Indemnity and Expenses. In addition to, but not in

qualification or limitation of, any similar obligations under other Obligation Documents:

(a) Debtor will indemnify Secured Party and each Lender from and against any and all claims, losses and liabilities growing out of or resulting from this Agreement (including enforcement of this Agreement), WHETHER OR NOT SUCH CLAIMS, LOSSES AND LIABILITIES ARE IN ANY WAY OR TO ANY EXTENT OWED, IN WHOLE OR IN PART, UNDER ANY CLAIM OR THEORY OF STRICT LIABILITY OR ARE CAUSED BY OR ARISE OUT OF SUCH INDEMNIFIED PARTY'S OWN NEGLIGENCE, except to the extent such claims, losses or liabilities are proximately caused by such indemnified party's individual gross negligence or willful misconduct.



(b) Debtor will upon demand pay to Secured Party the amount of any and all reasonable costs and expenses, including the reasonable fees and disbursements of Secured Party's counsel and of any experts and agents, which Secured Party may incur in connection with (i) the transactions which give rise to this Agreement, (ii) the preparation of this Agreement and the perfection and preservation of this security interest created under this Agreement, (iii) the administration of this Agreement; (iv) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any Collateral; (v) the exercise or enforcement of any of the rights of Secured Party hereunder; or (vi) the failure by Debtor to perform or observe any of the provisions hereof, except expenses resulting from Secured Party's gross negligence or willful misconduct.

Section 4.6. Non-Judicial Remedies. In granting to Secured Party the power to enforce its rights hereunder without prior judicial process or judicial hearing, Debtor expressly waives, renounces and knowingly relinquishes any legal right which might otherwise require Secured Party to enforce its rights by judicial process. In so providing for non-judicial remedies, Debtor recognizes and concedes that such remedies are consistent with the usage of trade, are responsive to commercial necessity, and are the result of a bargain at arm's length. Nothing herein is intended, however, to prevent Secured Party from resorting to judicial process at its option.

Section 4.7. Other Recourse. Debtor waives any right to require Secured Party or any Lender to proceed against any other Person, to exhaust any Collateral or other security for the Secured Obligations, or to have any Other Liable Party joined with Debtor in any suit arising out of the Secured Obligations or this Agreement, or pursue any other remedy in Secured Party's power. Debtor further waives any and all notice of acceptance of this Agreement and of the creation, modification, rearrangement, renewal or extension for any period of any of the Secured Obligations of any Other Liable Party from time to time. Debtor further waives any defense arising by reason of any disability or other defense of any Other Liable Party or by reason of the cessation from any cause whatsoever of the liability of any Other Liable Party. This Agreement shall continue irrespective of the fact that the liability of any Other Liable Party may have ceased and irrespective of the validity or enforceability of any other Obligation Document to which Debtor or any Other Liable Party may be a party, and notwithstanding any death, incapacity, reorganization, or bankruptcy of any Other Liable Party or any other event or proceeding affecting any Other Liable Party. Until all of the Secured Obligations shall have been paid in full, Debtor shall have no right to subrogation and Debtor waives the right to enforce any remedy which Secured Party or any Lender has or may hereafter have against any Other Liable Party, and waives any benefit of and any right to participate in any other security whatsoever now or hereafter held by Secured Party and each Lender. Debtor authorizes Secured Party and each Lender, without notice or demand, without any reservation of rights against Debtor, and without in any way affecting Debtor's liability hereunder or on the Secured Obligations, from time to time to (a) take or hold any other property of any type from any other Person as security for the Secured Obligations, and exchange, enforce, waive and release any or all of such other property, (b) apply the Collateral or such other property and direct the order or manner of sale thereof as Secured Party may in its discretion determine, (c) renew, extend for any period, accelerate, modify, compromise, settle or release any of the obligations of any Other Liable Party in respect to any or all of the Secured Obligations or other security for the Secured Obligations, (d) waive, enforce, modify, amend, restate, or supplement any of the provisions of any Obligation Document with any Person



other than Debtor, and (e) release or substitute any Other Liable Party.

Section 4.8. Exercise of LLC Rights.

(a) So long as no Default or Event of Default shall have occurred and be continuing, Debtor may receive and retain any and all distributions of profits paid in cash in respect of the LLC Rights to Payments; provided, however, that any and all other payments in respect of the LLC Rights to

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Payments shall be, and shall forthwith be delivered to Secured Party to hold as, Collateral and shall, if received by Debtor, be received in trust for the benefit of Secured Party, be segregated from the other property or funds of Debtor, and be forthwith delivered to Secured Party in the exact form received with any necessary indorsement or instruments of transfer duly executed in blank, to be held by Secured Party as Collateral.

(b) Upon the occurrence and during the continuance of a Default or an Event of Default, all rights of Debtor to receive and retain any distributions of profits or other payments of any kind in respect of LLC Rights to Payments which Debtor would otherwise be authorized to receive and retain pursuant to subsection (a) of this section shall automatically cease, and all such rights shall thereupon become vested in Secured Party which shall thereupon have the sole right to receive and hold as Collateral all such distributions and payments, and all distributions of profits and other payments of any kind in respect of LLC Rights to Payments which are nonetheless received by Debtor shall be received in trust for the benefit of Secured Party, shall be segregated from other funds of Debtor, and shall be forthwith paid over to Secured Party in the exact form received, to be held by Secured Party as Collateral.

Section 4.9. Private Sale of LLC Rights. Debtor recognizes that Secured
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Party may deem it impracticable to effect a public sale of all or any part of the LLC Rights and that Secured Party may, therefore, determine to make one or more private sales of LLC Rights to a restricted group of purchasers who will be obligated to agree, among other things, to acquire the same for their own account, for investment and not with a view to the distribution or resale thereof. Debtor acknowledges that any such private sale may be at prices and on terms less favorable to the seller than the prices and other terms which might have been obtained at a public sale and, notwithstanding the foregoing, agrees that such private sales shall be deemed to have been made in a commercially reasonable manner and that Secured Party shall have no obligation to delay sale of any LLC Rights for the period of time necessary to permit their registration for public sale under the Securities Act of 1933, as amended (the "Securities Act"), to the extent, if any, that it is applicable thereto. Debtor further acknowledges and agrees that any offer to sell any LLC Rights which has been (a) publicly advertised on a bona fide basis in a newspaper or other publication of general circulation in the financial community of Denver, Colorado (to the extent that such an offer may be so advertised without prior registration under the Securities Act), or (b) made privately in the manner described above to not less than fifteen (15) bona fide offerees shall be deemed to involve a "public disposition" for the purposes of Section 9.610(c) of the UCC (or any successor or similar, applicable statutory provision), notwithstanding that such sale may not constitute a "public offering" under the Securities Act and that Secured Party may, in such event, bid for the purchase of such LLC Rights.



## ARTICLE V. -- Miscellaneous

Section 5.1. Notices. Any notice or communication required or permitted
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hereunder shall be given as provided in the Credit Agreement.

Section 5.2. Amendments. No amendment of any provision of this
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Agreement shall be effective unless it is in writing and signed by Debtor and Secured Party, and no waiver of any provision of this Agreement, and no consent to any departure by Debtor therefrom, shall be effective unless it is in writing and signed by Secured Party, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given and to the extent specified in such writing. In addition to all such amendments and waivers shall be effective only if given with the necessary approvals of Lenders as required in the Credit Agreement.

Section 5.3. Preservation of Rights. No failure on the part of Secured
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Party or any Lender to exercise, and no delay in exercising, any right hereunder or under any other Obligation Document shall operate as a waiver thereof; nor shall any single or partial exercise of any such right preclude any other or further exercise thereof or the exercise of any other right. Neither the execution nor the delivery of this Agreement shall in any manner impair or affect any other security for the Secured Obligations. The rights and remedies of Secured Party provided herein and in the other Obligation Documents are cumulative and are in addition to, and not exclusive of, any rights or remedies provided by law. The rights of Secured Party under any Obligation Document against any party thereto are not conditional or contingent on any attempt by Secured Party to exercise any of its rights under any other Obligation Document against such party or against any other Person.

Section 5.4. Unenforceability. Any provision of this Agreement which is
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prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction,

be ineffective to the extent of such prohibition or invalidity without invalidating the remaining portions hereof or thereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 5.5. Survival of Agreements. All representations and warranties of Debtor herein, and all covenants and agreements herein shall survive the execution and delivery of this Agreement, the execution and delivery of any other Obligation Documents and the creation of the Secured Obligations.

Section 5.6. Other Liable Party. Neither this Agreement nor the exercise by Secured Party or the failure of Secured Party to exercise any right, power or remedy conferred herein or by law shall be construed as relieving any Other Liable Party from liability on the Secured Obligations or any deficiency thereon. This Agreement shall continue irrespective of the fact that the liability of any Other Liable Party may have ceased or irrespective of the validity or enforceability of any other Obligation Document to which Debtor or any Other Liable Party may be a party, and notwithstanding the reorganization, death, incapacity or bankruptcy of any Other Liable Party, and notwithstanding the reorganization or bankruptcy or other event or proceeding affecting any Other Liable Party.



Section 5.7. Binding Effect and Assignment. This Agreement creates a continuing security interest in the Collateral and (a) shall be binding on Debtor and its successors and permitted assigns and (b) shall inure, together with all rights and remedies of Secured Party hereunder, to the benefit of Secured Party and Lenders and their respective successors, transferees and assigns. Without limiting the generality of the foregoing, Secured Party and any Lender may (except as otherwise provided in the Credit Agreement) pledge, assign or otherwise transfer any or all of its rights under any or all of the Obligation Documents to any other Person, and such other Person shall thereupon become vested with all of the benefits in respect thereof granted to Secured Party, herein or otherwise. None of the rights or duties of Debtor hereunder may be assigned or otherwise transferred without the prior written consent of Secured Party.

Section 5.8. Termination. It is contemplated by the parties hereto that there may be times when no Secured Obligations are outstanding, but notwithstanding such occurrences, this Agreement shall remain valid and shall be in full force and effect as to subsequent outstanding Secured Obligations. Upon the satisfaction in full of the Secured Obligations and the termination or expiration of the Credit Agreement and any other commitment of Lenders to extend credit to Debtor, then upon written request for the termination hereof delivered by Debtor to Secured Party this Agreement and the security interest created hereby shall terminate and all rights to the Collateral shall revert to Debtor. Secured Party will, upon Debtor's request and at Debtor's expense, (a) return to Debtor such of the Collateral as shall not have been sold or otherwise disposed of or applied pursuant to the terms hereof; and (b) execute and deliver to Debtor such documents as Debtor shall reasonably request to evidence such termination.

SECTION 5.9. GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF COLORADO APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, EXCEPT AS REQUIRED BY MANDATORY PROVISIONS OF LAW AND EXCEPT TO THE EXTENT THAT THE PERFECTION AND THE EFFECT OF PERFECTION OR NON-PERFECTION OF THE SECURITY INTEREST CREATED HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL, ARE GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN SUCH STATE.

SECTION 5.10. FINAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES HERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES HERETO.

Section 5.11. Counterparts. This Agreement may be separately executed in any number of counterparts, all of which when so executed shall be deemed to constitute one and the same Agreement.



Section 5.12. "Loan Document". This Agreement is a "Loan Document", as defined in the Credit Agreement, and, except as expressly provided herein to the contrary, this Agreement is subject to all provisions of the Credit Agreement governing such Loan Documents.

*[The remainder of this page is intentionally left blank]



IN WITNESS WHEREOF, Debtor has caused this Agreement to be executed and delivered this Agreement by its officer thereunto duly authorized, as of the date first above written.

ST. MARY LAND & EXPLORATION COMPANY

By: /s/ MILAM RANDOLPH PHARO
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Milam Randolph Pharo
Vice President - Land and Legal

EXHIBIT A

Description of Interests in Limited Liability Companies

| Limited Liability Company | Interest |
|---|---|
| Box Church Gas Gathering, LLC | 58.6754% |
| Four Winds Marketing, LLC | 100% |
| Roswell, L.L.C. | 100% |

together with all other limited liability company interests now owned or hereafter owned by any Debtor in any Limited Liability Company.

EXHIBT 10.4

[Execution]

# GUARANTY

THIS GUARANTY is made as of May 1, 2002, by St. Mary Operating Company, a Colorado corporation, St. Mary Energy Company, a Delaware corporation, Nance Petroleum Corporation, a Montana corporation, St. Mary Minerals, Inc. a Colorado corporation, Parish Corporation, a Colorado corporation, Four Winds Marketing LLC, a Colorado limited liability company and Roswell LLC, a Texas limited liability company (collectively herein called "Guarantors" and each a "Guarantor"), in favor of Bank of America, N.A., individually and as agent for Lenders, as such term is defined in the Credit Agreement described below (in such capacity "Agent").

## RECITALS:

1. St. Mary Land & Exploration Company, a Delaware corporation ("Borrower"), has executed in favor of Agent and Lenders those certain promissory notes dated June 24, 2000, payable to the order of Lenders in the aggregate principal amount of $200,000,000 (such promissory notes, as from time to time amended, and all promissory notes given in substitution, renewal or extension therefor or thereof, in whole or in part, being herein collectively called the "Note").

2. The Note was executed pursuant to a Credit Agreement dated June 30, 1998 (herein, as from time to time amended, supplemented or restated, called the "Credit Agreement"), by and between Borrower, Agent and Lenders, pursuant to which Lenders have agreed to advance funds to Borrower under the Note.

3. It is a condition precedent to Lenders' obligations to advance funds pursuant to the Credit Agreement that Guarantors shall execute and deliver to Agent a satisfactory guaranty of Borrower's obligations under the Note and the Credit Agreement.

4. Borrower owns directly one hundred percent (100 %) of the outstanding equity interests of each Guarantor.

5. Borrower, Guarantors, and the other direct and indirect subsidiaries of Borrower are mutually dependent on each other in the conduct of their respective businesses under a holding company structure, with the credit needed from time to time by each often being provided by another or by means of financing obtained by one such affiliate with the support of the others for their mutual benefit and the ability of each to obtain such financing being dependent on the successful operations of the others.

6. The board of directors of each Guarantor has determined that such Guarantor's execution, delivery and performance of this Guaranty may reasonably be expected to benefit such Guarantor, directly or indirectly, and are in the best interests of such Guarantor.

NOW, THEREFORE, in consideration of the premises, of the benefits which will inure to each Guarantor from Lenders' advances of funds to Borrower under the Credit Agreement, and of Ten Dollars and other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, and in order to induce Lenders to advance funds under the Credit Agreement, each Guarantor hereby agrees with Agent, for the benefit of Agent and Lenders as follows:

## AGREEMENTS:

Section 1. Definitions. Reference is hereby made to the Credit Agreement for all purposes. All terms used in this Guaranty which are defined in the Credit Agreement and not otherwise defined herein shall have the same meanings when used herein. All references herein to this Guaranty, any Obligation Document, Loan Document, or other document or instrument refer to the same as from time to time amended, supplemented or restated. As used herein the following terms shall have the following meanings:

"Agent" means the Person who, at the time in question, is the "Agent" under the Credit Agreement. Whenever there is only one Lender under the Credit Agreement, "Agent" shall also refer to such Lender in such capacity as the only Lender.

"Lenders" means Bank of America, N.A. and all other Persons who at any time are "Lenders" under the Credit Agreement.

"Obligations" means collectively all of the indebtedness, obligations, and undertakings which are guaranteed by Guarantor and described in subsections (a) and (b) of Section 2.

"Obligation Documents" means the Note, the Credit Agreement, the Loan Documents (other than this Guaranty), all other documents and instruments under, by reason of which, or pursuant to which any or all of the Obligations are evidenced, governed, secured, or otherwise dealt with, and all other documents, instruments, agreements, certificates, legal opinions and other writings heretofore or hereafter delivered in connection herewith or therewith.

"Obligors" means Borrower, each Guarantor and any other endorsers, guarantors or obligors, primary or secondary, of any or all of the Obligations.

"Security" means any rights, properties, or interests of Agent or Lenders, under the Obligation Documents or otherwise, which provide recourse or other benefits to Agent or Lenders in connection with the Obligations or the non-payment or non-performance thereof, including collateral (whether real or personal, tangible or intangible) in which Agent or Lenders have rights under or pursuant to any Obligation Documents, guaranties of the payment or performance of any Obligation, bonds, surety agreements, keep-well agreements, letters of credit, rights of subrogation, rights of offset, and rights pursuant to which other claims are subordinated to the Obligations.

"Security Agreement" means that certain Security Agreement of even date herewith from Borrower and Guarantors in favor of Agent for the benefit of Lenders.



Section 2. Guaranty.

(a) Each Guarantor hereby, jointly and severally, irrevocably, absolutely, and unconditionally guarantees to Agent and each Lender the prompt, complete, and full payment when due, and no matter how the same shall become due, of:

(i) the Note, including all principal, all interest thereon and all other sums payable thereunder; and

(ii) All other sums payable under the other Obligation Documents, whether for principal, interest, fees or otherwise; and

(iii) Any and all other indebtedness or liabilities which Borrower may at any time owe to Agent or any Lender, whether incurred heretofore or hereafter or concurrently herewith, voluntarily or involuntarily, whether owed alone or with others, whether fixed, contingent, absolute, inchoate, liquidated or unliquidated, whether such indebtedness or liability arises by notes, discounts, overdrafts, open account indebtedness or in any other manner whatsoever, and including interest, attorneys' fees and collection costs as may be provided by law or in any instrument or agreement evidencing any such indebtedness or liability.

Without limiting the generality of the foregoing, each Guarantor's liability hereunder shall extend to and include all post-petition interest, expenses, and other duties and liabilities of Borrower described above in this subsection (a), or below in the following subsection (b), which would be owed by Borrower but for the fact that they are unenforceable or not allowable due to the existence of a bankruptcy, reorganization, or similar proceeding involving Borrower.

(b) Each Guarantor hereby, jointly and severally, irrevocably, absolutely, and unconditionally guarantees to Agent and each Lender the prompt, complete and full performance, when due, and no matter how the same shall become due, of all obligations and undertakings of Borrower to Agent or such Lender under, by reason of, or pursuant to any of the Obligation Documents.

(c) If Borrower shall for any reason fail to pay any Obligation, as and when such Obligation shall become due and payable, whether at its stated maturity, as a result of the exercise of any power to accelerate, or otherwise, each Guarantor will, upon demand by Agent, pay such Obligation in full to Agent for the benefit of Agent or the Lender to whom such Obligation is owed. If Borrower shall for any reason fail to perform promptly any Obligation, Guarantors will, upon demand by Agent, cause such Obligation to be performed or, if specified by Agent, provide sufficient funds, in such amount and manner as Agent shall in good faith determine, for the prompt, full and faithful performance of such Obligation by Agent or such other Person as Agent shall designate.

(d) If Borrower or Guarantors fail to pay or perform any Obligation as described in the immediately preceding subsections (a), (b), or (c) Guarantors will incur the additional obligation to pay to Agent, and Guarantors will forthwith upon demand by Agent pay to Agent, the amount of any and all expenses,



including fees and disbursements of Agent's counsel and of any experts or agents retained by Agent, which Agent may incur as a result of such failure.

(e) As between Guarantors and Agent or Lenders, this Guaranty shall be considered a primary and liquidated liability of Guarantor.

(f) The liability of each Guarantor hereunder shall be limited to the maximum amount of liability that can be incurred without rendering this Guaranty, as it relates to such Guarantor, voidable under applicable law relating to fraudulent conveyance or fraudulent transfer, and not for any greater amount.

Section 3 Unconditional Guaranty; Joint and Several Liability.

(a) No action which Agent or any Lender may take or omit to take in connection with any of the Obligation Documents, any of the Obligations (or any other indebtedness owing by Borrower to Agent or any Lender), or any Security, and no course of dealing of Agent or any Lender with any Obligor or any other Person, shall release or diminish any Guarantor's obligations, liabilities, agreements or duties hereunder, affect this Guaranty in any way, or afford any Guarantor any recourse against Agent or any Lender, regardless of whether any such action or inaction may increase any risks to or liabilities of Agent or any Lender or any Obligor or increase any risk to or diminish any safeguard of any Security. Without limiting the foregoing, each Guarantor hereby expressly agrees that Agent and Lenders may, from time to time, without notice to or the consent of such Guarantor, do any or all of the following:

(i) Amend, change or modify, in whole or in part, any one or more of the Obligation Documents and give or refuse to give any waivers or other indulgences with respect thereto.

(ii) Neglect, delay, fail, or refuse to take or prosecute any action for the collection or enforcement of any of the Obligations, to foreclose or take or prosecute any action in connection with any Security or Obligation Document, to bring suit against any Obligor or any other Person, or to take any other action concerning the Obligations or the Obligation Documents.

(iii) Accelerate, change, rearrange, extend, or renew the time, rate, terms, or manner for payment or performance of any one or more of the Obligations (whether for principal, interest, fees, expenses, indemnifications, affirmative or negative covenants, or otherwise).

(iv) Compromise or settle any unpaid or unperformed Obligation or any other obligation or amount due or owing, or claimed to be due or owing, under any one or more of the Obligation Documents.

(v) Take, exchange, amend, eliminate, surrender, release, or subordinate any or all Security for any or all of the Obligations, accept additional or substituted Security therefor, and perfect or fail to perfect Agent's or Lenders' rights in any or all Security.



(vi) Discharge, release, substitute or add Obligors.

(vii) Apply all monies received from Obligors or others, or from any Security for any of the Obligations, as Agent or Lenders may determine to be in their best interest, without in any way being required to marshall Security or assets or to apply all or any part of such monies upon any particular Obligations.

(b) No action or inaction of any Obligor or any other Person, and no change of law or circumstances, shall release or diminish Guarantors' obligations, liabilities, agreements, or duties hereunder, affect this Guaranty in any way, or afford Guarantors any recourse against Agent or any Lender. Without limiting the foregoing, the obligations, liabilities, agreements, and duties of each Guarantor under this Guaranty shall not be released, diminished, impaired, reduced, or affected by the occurrence of any or all of the following from time to time, even if occurring without notice to or without the consent of such Guarantor:

(i) Any voluntary or involuntary liquidation, dissolution, sale of all or substantially all assets, marshalling of assets or liabilities, receivership, conservatorship, assignment for the benefit of creditors, insolvency, bankruptcy, reorganization, arrangement, or

composition of any Obligor or any other proceedings involving any Obligor or any of the assets of any Obligor under laws for the protection of debtors, or any discharge, impairment, modification, release, or limitation of the liability of, or stay of actions or lien enforcement proceedings against, any Obligor, any properties of any Obligor, or the estate in bankruptcy of any Obligor in the course of or resulting from any such proceedings.

(ii) The failure by Agent or any Lender to file or enforce a claim in any proceeding described in the immediately preceding subsection (i) or to take any other action in any proceeding to which any Obligor is a party.

(iii) The release by operation of law of any Obligor from any of the Obligations or any other obligations to Agent or any Lender.

(iv) The invalidity or unenforceability of any of the Obligation Documents, in whole or in part, or any defense or excuse for failure to perform on account of force majeure, act of God, casualty, impossibility, impracticability, or other defense or excuse whatsoever.

(v) The failure of any Obligor or any other Person to sign any guaranty or other instrument or agreement within the contemplation of any Obligor, Agent or any Lender.

(vi) The fact that any Guarantor may have incurred directly part of the Obligations or is otherwise primarily liable therefor.

(vii) Without limiting any of the foregoing, any fact or event (whether or not similar to any of the foregoing) which in the absence of this provision would or might constitute or afford a legal or equitable discharge or release of or defense to a guarantor or surety other than the actual payment and performance by Guarantors under this Guaranty.



(c) Agent and Lenders may invoke the benefits of this Guaranty before pursuing any remedies against any Obligor or any other Person and before proceeding against any Security now or hereafter existing for the payment or performance of any of the Obligations. Agent and Lenders may maintain an action against any one or more Guarantors on this Guaranty without joining any other Obligor therein and without bringing a separate action against any other Obligor.

(d) If any payment to Agent or any Lender by any Obligor is held to constitute a preference or a voidable transfer under applicable state or federal laws, or if for any other reason Agent or any Lender is required to refund such payment to the payor thereof or to pay the amount thereof to any other Person, such payment to Agent or such Lender shall not constitute a release of any Guarantor from any liability hereunder, and each Guarantor agrees to pay such amount to Agent or such Lender on demand and agrees and acknowledges that this Guaranty shall continue to be effective or shall be reinstated, as the case may be, to the extent of any such payment or payments. Any transfer by subrogation which is made as contemplated in Section 6 prior to any such payment or payments shall (regardless of the terms of such transfer) be automatically voided upon the making of any such payment or payments, and all rights so transferred shall thereupon revert to and be vested in Agent and Lenders.

(e) This is a continuing guaranty and shall apply to and cover all Obligations and renewals and extensions thereof and substitutions therefor from time to time.

(f) The obligation of each Guarantor hereunder shall be several and also joint with all other Guarantors, each Guarantor with all other Guarantors and also each Guarantor with any one or more other Guarantors, and may be enforced at the option of Agent and/or Lenders against each Guarantor severally, any two or more Guarantors jointly, or some Guarantor's severally and some Guarantor's jointly. Each Guarantor acknowledges that the effectiveness of this Guaranty is not conditioned on any or all of the Obligations being guaranteed by anyone else, including the other Guarantors.

Section 4. Waiver. Each Guarantor hereby waives, with respect to the Obligations, this Guaranty, and the Obligation Documents:

(a) notice of the incurrence of any Obligation by Borrower, and notice of any kind concerning the assets, liabilities, financial condition, creditworthiness, businesses, prospects, or other affairs of Borrower (it being understood and agreed that: (i) each Guarantor shall take full responsibility for informing itself of such matters, (ii) neither Agent nor any Lender shall have any responsibility of any kind to inform any Guarantor of such matters, and (iii) Agent and Lenders are hereby authorized to assume that Guarantors, by virtue of their relationships with Borrower which are independent of this Guaranty, has full and complete knowledge of such matters whenever Lenders

extend credit to Borrower or take any other action which may change or increase Guarantors' liabilities or losses hereunder).

(b) notice that Agent, any Lender, any Obligor, or any other Person has taken or omitted to take any action under this Guaranty, any Obligation Document or any other agreement or instrument relating thereto or relating to any Obligation.



(c) notice of acceptance of this Guaranty and all rights of Guarantors under any State law discharging Guarantors from liability hereunder for failure to sue on this Guaranty.

(d) default, demand, presentment for payment, and notice of default, demand, dishonor, nonpayment, or nonperformance.

(e) notice of intention to accelerate, notice of acceleration, protest, notice of protest, notice of any exercise of remedies (as described in the following Section 5 or otherwise), and all other notices of any kind whatsoever.

Section 5. Exercise of Remedies. Agent and each Lender shall have the right to enforce, from time to time, in any order and at Agent's or such Lender's sole discretion, any rights, powers and remedies which Agent or such Lender may have under this Guaranty or the Obligation Documents or otherwise, including judicial foreclosure, the exercise of rights of power of sale, the taking of a deed or assignment in lieu of foreclosure, the appointment of a receiver to collect rents, issues and profits, the exercise of remedies against personal property, or the enforcement of any assignment of leases, rentals, oil or gas production, or other properties or rights, whether real or personal, tangible or intangible; and Guarantors shall be liable to Agent and each Lender hereunder for any deficiency resulting from the exercise by Agent or any Lender of any such right or remedy even though any rights which Guarantors may have against Borrower or others may be destroyed or diminished by exercise of any such right or remedy. No failure on the part of Agent or any Lender to exercise, and no delay in exercising, any right hereunder or under any Obligation Document shall operate as a waiver thereof; nor shall any single or partial exercise of any right preclude any other or further exercise thereof or the exercise of any other right. The rights, powers and remedies of Agent and each Lender provided herein and in the Obligation Documents are cumulative and are in addition to, and not exclusive of, any other rights, powers or remedies provided by law or in equity. The rights of Agent and each Lender hereunder are not conditional or contingent on any attempt by Agent or any Lender to exercise any of its rights under any Obligation Document against any Obligor or any other Person.

Section 6. Limited Subrogation.

(a) Until all of the Obligations have been paid and performed in full Guarantors shall have no right to exercise any right of subrogation, reimbursement, indemnity, exoneration, contribution or any other claim which it may now or hereafter have against or to any Obligor or any Security in connection with this Guaranty (including any right of subrogation under any state law), and Guarantors hereby waive any rights to enforce any remedy which Guarantor may have against Borrower and any right to participate in any Security until such time. If any amount shall be paid to Guarantors on account of any such subrogation or other rights, any such other remedy, or any Security at any time when all of the Obligations and all other expenses guaranteed pursuant hereto shall not have been paid in full, such amount shall be held in trust for the benefit of Agent, shall be segregated from the other funds of Guarantors and shall forthwith be paid over to Agent to be held by Agent as collateral for, or then or at any time thereafter applied in whole or in part by Agent against, all or any portion of the Obligations, whether matured or unmatured, in such order as Agent shall elect.



(b) If Guarantors shall make payment to Agent of all or any portion of the Obligations and if all of the Obligations shall be finally paid in full, Agent will, at Guarantors' request and expense, execute and deliver to Guarantors (without recourse, representation or warranty) appropriate documents necessary to evidence the transfer by subrogation to Guarantors of an interest in the Obligations resulting from such payment by Guarantors; provided that such transfer shall be subject to Section 3(d) above and that without the consent of Agent (which Agent may withhold in its discretion) Guarantors shall not have the right to be subrogated to any claim or right against any Obligor which has become owned by Agent or any Lender, whose ownership has otherwise changed in the course of enforcement of the Obligation Documents, or which Agent otherwise has released or wishes to release from its Obligations.

Section 7. Successors and Assigns. Guarantors' rights or obligations hereunder may not be assigned or delegated, but this Guaranty and such obligations shall pass to and be fully binding upon the successors of

Guarantors, as well as Guarantors. This Guaranty shall apply to and inure to the benefit of Agent and Lenders and their successors or assigns. Without limiting the generality of the immediately preceding sentence, Agent and each Lender may assign, grant a participation in, or otherwise transfer any Obligation held by it or any portion thereof, and Agent and each Lender may assign or otherwise transfer its rights or any portion thereof under this Guaranty and any Obligation Document, to any other Person, and such other Person shall thereupon become entitled to all of the benefits in respect thereof granted to Agent or such Lender hereunder unless otherwise expressly provided by Agent or such Lender in connection with such assignment or transfer.

Section 8. Subordination and Offset. Guarantors hereby subordinate and make inferior to the Obligations any and all indebtedness now or at any time hereafter owed by Borrower to Guarantors on the terms set forth in this Section. Guarantors agree that after the occurrence of any Default or Event of Default they will neither permit Borrower to repay such indebtedness or any part thereof nor accept payment from Borrower of such indebtedness or any part thereof without the prior written consent of Agent and Lenders. If any Guarantor receives any such payment without the prior written consent of Agent and Lenders, the amount so paid shall be held in trust for the benefit of Lenders, shall be segregated from the other funds of such Guarantor, and shall forthwith be paid over to Agent to be held by Agent as collateral for, or then or at any time thereafter applied in whole or in part by Agent against, all or any portions of the Obligations, whether matured or unmatured, in such order as Agent shall elect. Each Guarantor hereby grants to Lenders a right of offset to secure the payment of the Obligations and such Guarantor's obligations and liabilities hereunder, which right of offset shall be upon any and all monies, securities and other property (and the proceeds therefrom) of such Guarantor now or hereafter held or received by or in transit to Agent or any Lender from or for the account of such Guarantor, whether for safekeeping, custody, pledge, transmission, collection or otherwise, and also upon any and all deposits (general or special), credits and claims of such Guarantor at any time existing against Agent or any Lender. Upon the occurrence of any Default or Event of Default Agent and each Lender is hereby authorized at any time and from time to time, without notice to Guarantors, to offset, appropriate and apply any and all items hereinabove referred to against the Obligations and Guarantors' obligations and liabilities hereunder irrespective of whether or not Agent or such Lender shall have made any demand under this Guaranty and although such obligations and liabilities may be contingent or unmatured. Agent and each Lender agrees promptly to notify Guarantors after any such offset and application made by Agent or such Lender, provided that the failure to give such



notice shall not affect the validity of such offset and application. The rights of Agent and each Lender under this section are in addition to, and shall not be limited by, any other rights and remedies (including other rights of offset) which Agent and Lenders may have.

Section 9. Representations and Warranties. Each Guarantor hereby represents and warrants to Agent and each Lender as follows:

(a) The Recitals at the beginning of this Guaranty are true and correct in all respects.

(b) Such Guarantor is a corporation or limited liability company, as applicable, duly organized, validly existing and in good standing under the laws of the state of its incorporation or organization, as set forth in the Recitals to this Guaranty; and such Guarantor has all requisite power and authority to execute, deliver and perform this Guaranty.

(c) The execution, delivery and performance by such Guarantor of this Guaranty have been duly authorized by all necessary corporate action and do not and will not contravene its certificate or articles of incorporation or bylaws.

(d) The execution, delivery and performance by such Guarantor of this Guaranty do not and will not contravene any law or governmental regulation or any contractual restriction binding on or affecting such Guarantor or any of its Affiliates or properties, and do not and will not result in or require the creation of any lien, security interest or other charge or encumbrance upon or with respect to any of its properties.

(e) No authorization or approval or other action by, and no notice to or filing with, any governmental authority or other regulatory body or third party is required for the due execution, delivery and performance by such Guarantor of this Guaranty.

(f) This Guaranty is a legal, valid and binding obligation of such Guarantor, enforceable against such Guarantor in accordance with its terms except as limited by bankruptcy, insolvency or similar laws of general application relating to the enforcement of creditors' rights.

(g) There is no action, suit or proceeding pending or, to the knowledge

of such Guarantor, threatened against or otherwise affecting such Guarantor before any court, arbitrator or governmental department, commission, board, bureau, agency or instrumentality which may materially and adversely affect such Guarantor's financial condition or its ability to perform its obligations hereunder.

Section 10. No Oral Change. No amendment of any provision of this Guaranty shall be effective unless it is in writing and signed by Guarantors and Lenders, and no waiver of any provision of this Guaranty, and no consent to any departure by Guarantors therefrom, shall be effective unless it is in writing and signed by Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

Section 11. Invalidity of Particular Provisions. If any term or provision of this Guaranty shall be determined to be illegal or unenforceable all other terms and provisions hereof shall nevertheless remain effective and



shall be enforced to the fullest extent permitted by applicable law.

Section 12. Headings and References. The headings used herein are for purposes of convenience only and shall not be used in construing the provisions hereof. The words "this Guaranty," "this instrument," "herein," "hereof," "hereby" and words of similar import refer to this Guaranty as a whole and not to any particular subdivision unless expressly so limited. The phrases "this section" and "this subsection" and similar phrases refer only to the subdivisions hereof in which such phrases occur. The word "or" is not exclusive, and the word "including" (in its various forms) means "including without limitation". Pronouns in masculine, feminine and neuter genders shall be construed to include any other gender, and words in the singular form shall be construed to include the plural and vice versa, unless the context otherwise requires.

Section 13. Term. This Guaranty shall be irrevocable until all of the Obligations have been completely and finally paid and performed, no Lender has any obligation to make any loans or other advances to Borrower, and all obligations and undertakings of Borrower under, by reason of, or pursuant to this Guaranty and the Obligation Documents have been completely performed, and this Guaranty is thereafter subject to reinstatement as provided in Section 3(d). All extensions of credit and financial accommodations heretofore or hereafter made by Agent or Lenders to Borrower shall be conclusively presumed to have been made in acceptance hereof and in reliance hereon.

Section 14. Excess Payment. To the extent that after payment in full of the Obligations and termination of Lenders' commitments to advance funds to Borrower, a court of competent jurisdiction enters a final judgment determining that the aggregate amount of the Obligations received by the Lenders is in excess of the amount which they were entitled to receive, each Guarantor shall be entitled to recover its allocable portion of such excess.

Section 15. Notices. Any notice or communication required or permitted hereunder shall be given as provided in the Security Agreement.

Section 16. Limitation on Interest. Agent, Lenders and Guarantor intend to contract in strict compliance with applicable usury law from time to time in effect, and the provisions of the Credit Agreement limiting the interest for which Guarantors are obligated are expressly incorporated herein by reference.

Section 17. Loan Document. This Guaranty is a Loan Document, as defined in the Credit Agreement, and is subject to the provisions of the Credit Agreement governing Loan Documents. Guarantors hereby ratify, confirm and approve the Credit Agreement and the other Loan Documents and, in particular, any provisions thereof which relate to Guarantor.

Section 18. Counterparts; Fax. This Guaranty may be executed in any number of counterparts, each of which when so executed shall be deemed to constitute one and the same Guaranty. This Agreement may be validly executed and delivered by facsimile or other electronic transmission.



SECTION 19. GOVERNING LAW. THIS GUARANTY IS TO BE PERFORMED IN THE STATE OF COLORADO AND SHALL BE GOVERNED BY AND CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE LAWS OF SUCH STATE WITHOUT REGARD TO PRINCIPLES OF CONFLICTS

OF LAW. GUARANTOR HEREBY IRREVOCABLY SUBMITS ITSELF TO THE NON-EXCLUSIVE JURISDICTION OF THE STATE AND FEDERAL COURTS OF SUCH STATE. EACH GUARANTOR HEREBY IRREVOCABLY DESIGNATES AND APPOINTS CT CORPORATION SYSTEM, AS AGENT OF SUCH GUARANTOR TO RECEIVE SERVICE OF ALL PROCESS BROUGHT AGAINST SUCH GUARANTOR WITH RESPECT TO ANY SUCH PROCEEDING IN ANY SUCH COURT IN COLORADO, SUCH SERVICE BEING HEREBY ACKNOWLEDGED BY SUCH GUARANTOR TO BE EFFECTIVE AND BINDING SERVICE IN EVERY RESPECT. COPIES OF ANY SUCH PROCESS SO SERVED SHALL ALSO, IF PERMITTED BY LAW, BE SENT BY REGISTERED MAIL TO SUCH GUARANTOR AT ITS ADDRESS SET FORTH BELOW, BUT THE FAILURE OF SUCH GUARANTOR TO RECEIVE SUCH COPIES SHALL NOT AFFECT IN ANY WAY THE SERVICE OF SUCH PROCESS AS AFORESAID. EACH GUARANTOR SHALL FURNISH TO AGENT A CONSENT OF CT CORPORATION SYSTEM AGREEING TO ACT HEREUNDER PRIOR TO THE EFFECTIVE DATE OF THIS AGREEMENT. NOTHING HEREIN SHALL AFFECT THE RIGHT OF AGENT TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR SHALL LIMIT THE RIGHT OF AGENT TO BRING PROCEEDINGS AGAINST ANY GUARANTOR IN THE COURTS OF ANY OTHER JURISDICTION. IF FOR ANY REASON CT CORPORATION SYSTEM SHALL RESIGN OR OTHERWISE CEASE TO ACT AS ANY GUARANTOR'S AGENT, SUCH GUARANTOR HEREBY IRREVOCABLY AGREES TO IMMEDIATELY DESIGNATE AND APPOINT A NEW AGENT ACCEPTABLE TO AGENT TO SERVE IN SUCH CAPACITY AND, IN SUCH EVENT, SUCH NEW AGENT SHALL BE DEEMED TO BE SUBSTITUTED FOR CT CORPORATION SYSTEM FOR ALL PURPOSES HEREOF AND (A) PROMPTLY DELIVER TO AGENT THE WRITTEN CONSENT (IN FORM AND SUBSTANCE SATISFACTORY TO AGENT) OF SUCH NEW AGENT AGREEING TO SERVE IN SUCH CAPACITY.

SECTION 20. FINAL AGREEMENT. THIS WRITTEN AGREEMENT AND THE OTHER LOAN DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES HERETO AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES HERETO. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES HERETO.

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IN WITNESS WHEREOF, Guarantors have executed and delivered this Guaranty as of the date first written above.

ST. MARY OPERATING COMPANY

By: /s/ MILAM RANDOLPH PHARO
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Milam Randolph Pharo
Vice President - Land and Legal

ST. MARY ENERGY COMPANY

By: /s/ MILAM RANDOLPH PHARO
---
Milam Randolph Pharo
Vice President - Land and Legal

NANCE PETROLEUM CORPORATION

By: /s/ RONALD B. SANTI
---
Ronald B. Santi
Vice President - Land

ST. MARY MINERALS, INC.

By: /s/ RICHARD C. NORRIS
---
Richard C. Norris
Vice President - Finance

PARISH CORPORATION

By: /s/ RICHARD C. NORRIS
---
Richard C. Norris
Vice President - Finance

FOUR WINDS MARKETING, LLC

By: ST. MARY LAND & EXPLORATION COMPANY, as Manager

By: /s/ MILAM RANDOLPH PHARO
---
Milam Randolph Pharo
Vice President - Land and Legal

ROSWELL, L.L.C.

By: ST. MARY LAND & EXPLORATION COMPANY, as a Member

By: /s/ MILAM RANDOLPH PHARO
---
Milam Randolph Pharo
Vice President - Land and Legal