RANGE RESOURCES CORP
Form 8-K/A
August 17, 2004

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K/A

(Amendment No. 2 to Current Report on Form 8-K filed on June 25, 2004)

CURRENT REPORT

Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported):
June 23, 2004

RANGE RESOURCES CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**0-9592**	**34-1312571**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

777 Main Street, Suite 800 Ft. Worth, Texas	**76102**
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: (817) 870-2601

(Former name or former address, if changed since last report): Not applicable

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Item 2 - Acquisition or Disposition of Assets

On June 23, 2004 Range Resources Corporation (the Company) consummated the acquisition of the 50% of Great Lakes Energy Partners L.L.C. that it did not previously own pursuant to a Purchase and Sale Agreement by and between the Company and FirstEnergy Corporation. A Current Report on Form 8-K was filed on June 25, 2004 and amended pursuant to Form 8-K/A on July 15, 2004 to report this transaction.

Item 7 - Financial Statements, Pro Forma Financial Information and Exhibits

(a) Financial Statements of Businesses Acquired

Audited consolidated balance sheets of Great Lakes Energy Partners L.L.C. as of December 31, 2003 and 2002 and the related statements of income, members equity, accumulated other comprehensive income (loss) and comprehensive (loss) and cash flows for the three years ended December 31, 2003, 2002 and 2001 are included herein.

Unaudited consolidated balance sheet of Range Resources Corporation as of March 31, 2004 and the related statements of income, and cash flows for the three months ended March 31, 2004 and 2003 are included herein.

(b) Pro Forma Financial Information

Unaudited pro forma condensed statement of operations of Range Resources Corporation for the year ended December 31, 2003 and for the six months ended June 30, 2004 are included herein.

(c) Exhibits

Exhibit Number	Description
**2.1	Purchase and Sale Agreement by and between Range Resources Corporation and FirstEnergy Corporation, dated June 1, 2004 (incorporated by reference to Exhibit 2.1 to the Company s Form 8-K/A (File No. 001-12209) as filed with the SEC on July 15, 2004)
*23.1	Consent of KPMG LLP
*23.2	Consent of Ernst & Young LLP
**99.1	Press Release dated June 24, 2004 (incorporated by reference to Exhibit 99.1 to the Company s Form 8-K as filed with the SEC on June 25, 2004)

* Filed herewith

** Previously filed

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Certain information included in this report contains certain statements (other than statements of historical fact) that constitute 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. When used herein, the words budget, budgeted, assumes, shoul goal, anticipates, expects, believes, seeks, plans, estimates, intends, projects or targets and similar convey the uncertainty of future events or outcomes are intended to identify forward-looking statements. Where any forward-looking statement includes a statement of the assumptions or bases underlying such forward-looking statement, we caution that while we believe these assumptions or bases to be reasonable and to be made in good faith, assumed facts or bases almost always vary from actual results and the difference between assumed facts or bases and the actual results could be material, depending on the circumstances. It is important to note that our actual results could differ materially from those projected by such forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable and such forward-looking statements are based upon the best data available at the date this report is filed with the SEC, we cannot assure you that such expectations will prove correct. Factors that could cause our results to differ materially from the results discussed in such forward-looking statements include, but are not limited to, the following: production variance from expectations, volatility of oil and gas prices, hedging results, the need to develop and replace reserves, the substantial capital expenditures required to fund operations, exploration risks, environmental risks, uncertainties about estimates of reserves, competition, litigation, government regulation, political risks, our ability to implement our business strategy, costs and results of drilling new projects, mechanical and other inherent risks associated with oil and gas production, weather, availability of drilling equipment and changes in interest rates. All such forward-looking statements in this document are expressly qualified in their entirety by the cautionary statements in this paragraph, and the Company undertakes no obligation to publicly update or revise any forward-looking statements.

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.

RANGE RESOURCES CORPORATION

By: /s/ ROGER S. MANNY
Roger S. Manny
Chief Financial Officer

Date: August 17, 2004

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Report of Independent Registered Public Accounting Firm

Management Committee of
Great Lakes Energy Partners, L.L.C.

We have audited the accompanying consolidated balance sheets of Great Lakes Energy Partners, L.L.C. and subsidiaries (a Delaware limited liability company) (the Company) as of December 31, 2002 and 2003, and the related consolidated statements of income, members equity, accumulated other comprehensive income (loss) and comprehensive income (loss) and cash flows for the two years ended December 31, 2003. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Great Lakes Energy Partners, L.L.C. and subsidiaries as of December 31, 2002 and 2003, and the consolidated results of their operations and their cash flows for each of the two years in the period ended December 31, 2003, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 10 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations,* effective January 1, 2003.

ERNST & YOUNG LLP
February 11, 2004

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Report of Independent Registered Public Accounting Firm

Management Committee of
Great Lakes Energy Partners, L.L.C.:

We have audited the accompanying consolidated statements of income, members equity, accumulated other comprehensive income (loss) and comprehensive income (loss) and cash flows for the year ended December 31, 2001 of Great Lakes Energy Partners, L.L.C. and subsidiaries (a Delaware limited liability company) (the Company). These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows for the year ended December 31, 2001 of Great Lakes Energy Partners, L.L.C., in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 5 to the consolidated financial statements, the Company changed its method of accounting for its derivative instruments and hedging activities as of January 1, 2001.

/s/ KPMG LLP
Dallas, Texas
September 17, 2002

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Great Lakes Energy Partners, L.L.C.
Consolidated balance sheets

	December 31,	
(in thousands)	**2002**	**2003**
Assets		
Current assets:		
Cash and equivalents	$ 509	$ 558
Accounts receivable	14,944	15,756
Derivative instruments *(Note 5)*	9	232
Inventory and other	1,251	1,324
	16,713	17,870
Oil and gas properties, successful efforts method *(Note 9)*	527,015	593,422
Accumulated depletion and impairment	(156,549)	(158,196)
	370,466	435,226
Transportation, processing and field assets	55,158	58,003
Accumulated depreciation	(24,302)	(28,533)
	30,856	29,470
Derivative instruments *(Note 5)*	26	500
Other	235	591
	$ 418,296	$ 483,657
Liabilities and members equity		
Current liabilities:		
Accounts payable	$ 9,619	$ 9,924
Revenues payable	3,947	4,260
Accrued liabilities	4,318	4,590
Accrued compensation	2,170	2,457
Derivative instruments *(Note 5)*	15,764	28,149
Short-term debt *(Note 3)*	1	
	35,819	49,380
Senior debt *(Note 3)*	153,000	140,000
Derivative instruments *(Note 5)*	6,376	9,065
Asset retirement obligation *(Note 10)*		32,827

Members equity	241,607	286,471
Accumulated other comprehensive loss	(18,506)	(34,086)
Total members equity	223,101	252,385
	$ 418,296	$ 483,657

See accompanying notes to consolidated financial statements.

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Great Lakes Energy Partners, L.L.C.
Consolidated statements of income

	Year ended December 31,		
(in thousands)	**2001**	**2002**	**2003**
Revenues			
Oil and gas sales	$ 96,376	$ 98,642	$108,641
Transportation and gathering	8,086	8,012	8,140
Interest and other *(Note 11)*	1,008	1,967	673
	105,470	108,621	117,454
Expenses			
Direct operating	16,826	15,991	20,441
Transportation and gathering	4,510	4,219	4,367
Exploration	4,053	4,868	3,862
General and administrative	3,677	3,516	3,753
Interest	13,764	10,155	7,216
Loss on interest rate swaps *(Note 5)*	2,805	551	552
Depletion, depreciation and amortization *(Note 2)*	24,365	28,515	29,137
	70,000	67,815	69,328
Income before cumulative effect of change in accounting principle	35,470	40,806	48,126
Cumulative effect of change in accounting principle *(Note 10)*			3,202
Net income	$ 35,470	$ 40,806	$ 51,328

See accompanying notes to consolidated financial statements.

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Great Lakes Energy Partners, L.L.C.
Consolidated statements of members equity,
accumulated other comprehensive income (loss) and
comprehensive income (loss)

(in thousands)	Members' equity	Accumulated other comprehensive income (loss)	Comprehensive income (loss)
Balance at December 31, 2000	$178,095	$	
Distributions to members *(Note 2)*	(6,300)		
Initial value of:			
Interest rate derivatives		(1,968)	
Oil and gas derivatives		(31,219)	
Change in fair value of derivatives, net of reclassifications to earnings		60,748	
Other comprehensive income		27,561	$ 27,561
Net income	35,470		35,470
Comprehensive income			$ 63,031
Balance at December 31, 2001	207,265	27,561	
Distributions to members *(Note 2)*	(6,464)		
Change in fair value of derivatives, net of reclassifications to earnings		(46,067)	
Other comprehensive loss		(18,506)	$(18,506)
Net income	40,806		40,806
Comprehensive income			$ 22,300
Balance at December 31, 2002	241,607	(18,506)	
Distributions to members *(Note 2)*	(6,464)		
Change in fair value of derivatives, net of reclassifications to earnings		(15,580)	
Other comprehensive loss		(34,086)	$(34,086)
Net income	51,328		51,328

Comprehensive income			$ 17,242
Balance at December 31, 2003	$286,471	$(34,086)	

See accompanying notes to consolidated financial statements.

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Great Lakes Energy Partners, L.L.C.
Consolidated statements of cash flows

	Year ended December 31,		
(in thousands)	**2001**	**2002**	**2003**
Cash flows from operating activities			
Net income	$ 35,470	$ 40,806	$ 51,328
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting principle			(3,202)
Depletion, depreciation and amortization	24,365	28,515	29,137
Change in fair market value of derivative instruments	2,665	934	(1,203)
Amortization of deferred financing costs	1,413	339	260
Gain on sale of properties and assets	(877)	(474)	(653)
Changes in working capital:			
Accounts receivable	2,129	(5,912)	(812)
Inventory and other	(7)	(116)	(73)
Accounts payable	415	1,051	436
Revenues payable	(642)	608	313
Accrued liabilities	3,222	(85)	272
Accrued compensation	184	269	287
Net cash provided by operating activities	68,337	65,935	76,090
Cash flows from investing activities			
Oil and gas properties	(43,181)	(60,010)	(53,712)
Transportation, processing and field assets	(3,506)	(4,198)	(3,182)
Proceeds on sale of assets	3,710	1,991	934
Net cash used in investing activities	(42,977)	(62,217)	(55,960)
Cash flows from financing activities			
Proceeds from indebtedness	12,000	21,000	16,000
Repayments of indebtedness	(31,027)	(18,019)	(29,001)
Debt issuance costs	(250)	(354)	(616)
Distributions to members	(6,300)	(6,464)	(6,464)
Net cash used in financing activities	(25,577)	(3,837)	(20,081)
Change in cash and equivalents	(217)	(119)	49
Cash and equivalents at beginning of year	845	628	509

Cash and equivalents at end of year	$ 628	$ 509	$ 558

See accompanying notes to consolidated financial statements.

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Great Lakes Energy Partners, L.L.C.
Consolidated financial statements
Years ended December 31, 2001, 2002 and 2003

1. Organization and nature of business

Nature of business

Great Lakes Energy Partners, L.L.C. (Great Lakes or the Company) is an independent oil and gas company engaged in the development, exploration and acquisition of properties in the Appalachian Basin. Great Lakes expects to increase production by active development of existing fields and exploitation of deeper formations. At December 31, 2003, Great Lakes had proved reserves of approximately 523 Bcfe (unaudited), with an average reserve life that exceeds 20 years (unaudited). The Company owns interests in over 11,000 oil and natural gas wells (unaudited) and has a leasehold position of nearly one million net acres containing over 1,700 proved drilling locations (unaudited).

Formation of company

In September 1999, Range Resources Corporation (Range) and FirstEnergy Corp. (FirstEnergy) each contributed Appalachian oil and gas properties and associated gas gathering and transportation systems and formed Great Lakes. The amounts contributed were subject to adjustment as provided in the formation agreements. In addition, Range contributed $188.3 million of indebtedness and FirstEnergy contributed $2.0 million in cash. The debt contributed by Range was concurrently refinanced with borrowings under a new debt facility (see Note 3). Contributions to Great Lakes made by FirstEnergy were recorded at historical cost. Contributions to Great Lakes made by Range were recorded at historical cost plus an additional $24 million to reflect the partial gain recognized by Range upon formation of Great Lakes. Range and FirstEnergy each retained a 50% ownership interest in Great Lakes and jointly manage its operations.

Operational risks

Great Lakes operates in an environment with many financial and operating risks. These risks include, but are not limited to, the ability to acquire additional economically recoverable oil and gas reserves, the inherent risks related to the search for, development of and production of oil and gas, the ability to sell oil and gas at prices which will provide attractive rates of return, the highly competitive nature of the industry and worldwide economic conditions. The Company s ability to expand its reserve base and diversify its operations is also dependent upon obtaining the necessary capital through operating cash flow, borrowings under its credit facility or the receipt of capital.

2. Summary of significant accounting policies

Basis of presentation

The accompanying consolidated financial statements include the accounts of Great Lakes and all majority owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

Revenue recognition

Great Lakes recognizes revenues from the sale of its products in the period delivered. Great Lakes also receives fees for providing field related services which are recognized as the related services are provided.

Cash equivalents

For the purposes of the statement of cash flows, the Company considers all highly liquid temporary investments with an initial maturity of 90 days or less to be cash equivalents.

Accounts receivable

The Company s receivables are concentrated in the oil and gas industry. Great Lakes does not view such a concentration as a significantly unusual credit risk. The Company grants credit to customers based on an evaluation of their financial condition and collateral is generally not required. Losses from extending credit are provided for in the financial statements and have historically been within management s expectations. Great Lakes had recorded an allowance for doubtful accounts of approximately $253,000 and $293,000 at December 31, 2002 and 2003, respectively.

Inventory

Inventory is comprised primarily of pipe and supplies valued at the lower of average cost or market.

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Oil and gas properties

Great Lakes follows the successful efforts method of accounting for oil and gas properties. Exploratory costs that result in the discovery of proved reserves and the costs to develop wells are capitalized. In the absence of a determination as to whether the reserves found from an exploratory well can be classified as proved, the costs of drilling such an exploratory well are capitalized but are not carried as an asset for more than one year following the completion of drilling. Geological and geophysical costs, delay rentals and costs to drill unsuccessful exploratory wells are expensed. Depletion is provided on the units-of-production method. Oil is converted to an equivalent unit of natural gas (Mcfe thousand cubic feet equivalent) at the rate of 6 Mcfe per barrel. The depletion rate was $0.81, $0.91 and $0.91 per Mcfe for the years ended December 31, 2001, 2002 and 2003, respectively. Approximately $4.1 million of unproved oil and gas properties were not subject to depletion as of December 31, 2002 and 2003.

Oil and gas properties are assessed periodically for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and the carrying amount of the asset. Great Lakes compares the carrying value of its properties to the estimated present value of the future cash flows of the properties or considers such other information the Company believes is relevant in evaluating the properties fair value. Such other information may include the Company s geological assessment of the area, other acreage purchases in the area, or the properties uniqueness. The present value of future cash flows from such properties has been adjusted for the Company s assessment of risk related to the properties. In assessing the risk associated with the properties, Great Lakes considers the recoverability of unproved reserves. In 2002 and 2003, the Company recorded noncash asset impairment charges of $1.4 million and $1.1 million, respectively, to adjust the carrying value of oil and gas properties to estimated fair value. As a result of declining production and unsuccessful drilling results in certain areas of operations, the Company impaired $734,000 of proved properties and $706,000 of unproved properties in 2002 and $1.1 million of unproved properties in 2003. These impairment charges are presented in the consolidated statements of income as a component of depletion, depreciation and amortization.

Transportation, processing and field assets

Great Lakes gas gathering systems are in proximity to its principal natural gas properties and are valued at cost less accumulated depreciation. Depreciation is calculated on the straight-line method of accounting based on estimated useful lives ranging from 5 to 20 years.

Field assets are valued at cost less accumulated depreciation. Depreciation of field assets is calculated on the straight-line method based on estimated useful lives ranging from 2 to 7 years, except buildings, which are being depreciated over 5 to 16 years.

Other assets

Other assets are comprised primarily of deferred financing costs in connection with the Company s revolving credit facility. These costs are being amortized on the straight-line method over the term of the revolving credit facility.

Gas imbalances

Great Lakes uses the sales method of accounting to account for gas imbalances. Under the sales method, natural gas revenue is recognized based on cash received rather than the proportionate share of gas produced. Gas imbalances at December 31, 2001, 2002 and 2003 were not significant.

401(k) and profit sharing plan

The Company sponsors a defined contribution plan qualified under Section 401(k) of the Internal Revenue Code. The plan allows eligible employees to contribute up to 15% of their compensation, with a discretionary Company match of up to 6% of the employee s compensation. The matching contributions made by the Company totaled approximately $477,000, $550,000 and $604,000 for the years ended December 31, 2001, 2002 and 2003, respectively.

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Accounting for derivatives

On January 1, 2001, the Company adopted Statement of Financial Accounting Standards. (SFAS) No. 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended. As a result of the adoption of SFAS 133, the Company recognizes all derivative financial instruments as either assets or liabilities at fair value. Gains and losses from the Company s hedging activities are recognized in earnings as incurred. Derivative instruments that are not hedges must be adjusted to fair value through net income. Under the provisions of SFAS 133, changes in the fair value of derivative instruments that are fair value hedges are offset against changes in the fair value of the hedged assets, liabilities, or firm commitments, through net income. Changes in the fair value of derivative instruments that are cash flow hedges are recognized in other comprehensive income until such time as the hedged items are recognized in net income. Ineffective portions of a derivative instrument s change in fair value are immediately recognized in net income. Deferred gains and losses on terminated hedges will be recognized as increases or decreases to earnings during the same periods in which the underlying forecasted transactions are recognized in net income.

The relationship between the hedging instruments and the hedged items must be highly effective in achieving the offset of changes in fair values or cash flows attributable to the hedged risk, both at the inception of the contract and on an ongoing basis. The Company considers its hedging arrangements to be highly effective. Ongoing assessments of hedge effectiveness will include verifying and documenting that the critical terms of the hedge and forecasted transaction do not change. The Company measures effectiveness at least on a quarterly basis.

Income taxes

Great Lakes is a limited liability company, and accordingly is not subject to federal income taxes. The taxable income of Great Lakes flows through to its owners as defined in the Company s Members Formation Agreement. Great Lakes may be subject to state taxes depending upon the tax regulations of the states in which it conducts operations.

Member distributions

Great Lakes makes quarterly cash distributions to its members for payment of taxes attributable to the Company s operations. Cash distributions are limited by a financial covenant contained in the Company s revolving credit facility. At December 31, 2002 and 2003, $25.1 million and $43.4 million, respectively, was available for distribution to its members.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent amounts at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain previously reported amounts have been reclassified to conform to the 2003 presentation.

3. Senior debt

Great Lakes had the following debt outstanding as of the dates shown. The interest rate, excluding the impact of interest rate swaps, on amounts outstanding at December 31, 2003 is shown parenthetically.

	December 31	
(in thousands)	**2002**	**2003**
Credit Facility (2.9%)	$153,000	$140,000
Other	1	
	153,001	140,000
Less amounts due within one year	1	
Senior debt, net	$153,000	$140,000

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Great Lakes maintains a $275 million revolving credit facility (the Credit Facility). The Credit Facility is nonrecourse to Range and FirstEnergy and is secured by Great Lakes oil and gas properties. The Credit Facility provides for a borrowing base that is subject to semiannual redeterminations that occur each April and November. At December 31, 2003, the borrowing base on the Credit Facility was $225 million of which $85 million was available. Increases to the borrowing base require approval of all lenders.

The Credit Facility bears interest at various rates depending upon the classification by the lender of the outstanding amounts as either a 30-day or 90-day LIBOR loan or a Base Rate loan. Interest rates on LIBOR loans range from LIBOR plus an applicable margin of 1.5% to 2.0%. At December 31, 2003, the LIBOR margin was 1.75%. Interest rates on Base Rate loans range from the corporate base rate to 0.5% in excess of the Federal Funds Effective rate, whichever is greater, plus an applicable margin ranging from 0.25% to 0.75%. At December 31, 2003, interest on Base Rate loans was derived from the prime rate (4.0%) plus an applicable margin of 0.5%. No amounts were outstanding under Base Rate loans at December 31, 2003.

During 2003, the Credit Facility was amended to extend the maturity date to January 2007. The Company may at any time, without penalty or premium, prepay the Credit Facility. In the event that the total amount outstanding ever exceeds the borrowing base, the Company would be required to repay 50% of such excess within 90 days and the remaining 50% of such excess within 180 days.

A commitment fee is paid quarterly on the undrawn balance at a rate of 0.25% to 0.50%, depending upon the percentage of the borrowing base drawn. At December 31, 2003, the commitment fee rate was 0.375%. The weighted average interest rate, including the effect of interest rate swaps, on borrowings under this facility was 7.6%, 6.8% and 5.7% for the years ended December 31, 2001, 2002 and 2003, respectively.

The Credit Facility contains various financial covenants relating to net worth, working capital and financial ratio requirements, in addition to various nonfinancial covenants. Great Lakes was in compliance with such covenants as of December 31, 2003. Interest paid for the years ended December 31, 2001, 2002 and 2003 totaled $12.6 million, $9.9 million and $8.8 million, respectively.

4. Acquisitions

In December 2002, the Company acquired approximately 950 oil and gas wells and certain field equipment for approximately $16.2 million in cash. The consolidated financial statements include the operating results from the date of acquisition. The Company attributed $16.1 million to oil and gas properties and $81,000 to transportation, processing and field assets.

In February 2003, the Company acquired approximately 230 oil and gas wells and certain field equipment for approximately $3.9 million in cash. The consolidated financial statements include the operating results from the date of acquisition. The Company attributed $4.9 million to oil and gas properties, $80,000 to transportation, processing and field assets, and $1.1 million to long-term liabilities.

5. Financial instruments and hedging activities

The Company s financial instruments include cash and equivalents, accounts receivable, accounts payable and debt obligations. The amounts in the financial statements for cash and equivalents, accounts receivable and payable and short-term debt are considered to be representative of fair value because of the short-term nature of these instruments. The recorded amounts of outstanding borrowings under the Credit Facility approximate fair value as they bear interest at variable rates indexed to LIBOR.

The Company uses derivative financial instruments to reduce its exposure to fluctuations in oil and gas commodity prices and interest rate volatility. The Company does not enter into derivative financial instruments for trading or speculative purposes. These financial instruments, which are primarily in the form of swaps and collars, are generally designated as hedges of underlying exposures associated with forecasted oil and gas sales (oil and gas price swaps and collars) or future cash flows for interest payments on outstanding debt (interest rate swaps). The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of hedging activities. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the swap agreement. However, the counterparties are generally major financial institutions in order to minimize the risk of nonperformance by the counterparty. The creditworthiness of the counterparties is subject to continuing review by management and the Company expects full compliance by the counterparties.

The Company uses oil and gas price swaps and collars to manage the risk that future oil and gas production revenues may be adversely affected by volatility in oil and gas market prices. Under the Company s oil and gas price swap agreements, the Company agrees to pay a specified NYMEX settlement price times a notional volume amount for the contract month being hedged, and to receive a specified fixed oil and gas price times the same notional volume amount. Under the Company s oil and gas price collar agreements, the Company agrees to pay a specified NYMEX settlement price times a notional volume amount for the contract month being hedged, and to receive an oil and gas price within a specific range of prices times the same notional volume amount. Changes in the fair value of the Company s oil and gas swaps and collars are reflected as adjustments to other comprehensive income to the extent the swaps and collars are effective and will be recognized as an adjustment to oil and gas revenue during the period in which the production volumes being hedged are sold. The ineffective portion of the changes in fair value of the Company s oil and gas price swaps is recorded in income in the period incurred. The Company has not experienced ineffectiveness on the gas swap agreements because the natural gas is hedged on the same basis that the gas is sold (NYMEX-based sales contracts). Great Lakes has experienced ineffectiveness on its oil hedges because oil is sold to local refineries at the refineries posted price, which is different from the NYMEX swap price. Historically, there has been a high correlation between the refineries posted price and NYMEX. Oil hedging ineffectiveness was not material to the results of operations for any period presented. During 2001, 2002 and 2003, the Company realized net gains (losses) relating to the cash settlement of these derivatives of approximately $(2.5 million), $12.5 million and $(29.2 million), respectively.

The following table sets forth the Company s notional volumes and pricing on open oil and gas swap agreements at December 31, 2003:

	Year of production		
	2004	**2005**	**2006**
Natural gas:			
Volumes (billions of British thermal units)	16,980	10,050	1,200
Average price to be received	$ 4.03	$ 4.12	$ 4.80
Crude oil:			
Volumes (thousands of barrels)	463	66	
Average price to be received	$ 25.91	$ 25.91	$

The following table sets forth the Company s notional volumes and pricing on open oil and gas collar agreements at December 31, 2003:

	Year of production	
	2004	2005
Natural gas:		
Volumes (billions of British thermal units)	1,800	3,480
Average range of prices to be received	$4.50-$5.74	$ 4.16-$5.85
Crude oil:		
Volumes (thousands of barrels)		24
Average range of prices to be received	$	$24.00-$27.44

The estimated fair value of the Company s oil and gas swaps and collars at December 31, 2003 is a net derivative liability of approximately $35.7 million. At December 31, 2003, approximately $26.9 million of unrealized net losses on oil and gas swaps and collars in accumulated other comprehensive income (loss) are expected to be reclassified into earnings in 2004. The actual amounts that will be reclassified to earnings in 2004 may vary from this amount as a result of changes in market prices. The effect of the amounts being reclassified from accumulated other comprehensive income (loss) to earnings will generally be offset by the recognition of the hedged transactions (e.g., anticipated sales) in earnings, thereby achieving the realization of prices contemplated by the underlying risk management strategies. The Company has partially hedged its exposure to the variability in future cash flows from oil and gas sales through December 31, 2006.

The Company uses interest rate swap agreements to manage the risk that future cash flows associated with interest payments on amounts outstanding under the variable rate Credit Facility may be adversely affected by volatility in market interest rates. Under the Company s interest rate swap agreements, the Company agrees to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to receive in return, a specified variable rate of interest times the same notional principal amount. Changes in the fair value of the Company s interest rate swaps, which qualify for cash flow hedge accounting treatment, are reflected as adjustments to other comprehensive income (loss) to the extent the swaps are effective and will be recognized as an adjustment to interest expense during the period in which the cash flows related to the Company s interest payments are made. The ineffective portion of the changes in fair value of the Company s interest rate swaps is recorded in income in the period incurred. The Company has not experienced ineffectiveness on the interest rate swap agreements because the variable rate debt is hedged on the same basis that the interest payments are made (LIBOR-based interest payments).

Upon adoption of SFAS 133 on January 1, 2001, certain interest rate swap agreements, which contained a feature that granted the counterparty a right to terminate the agreement before their term, did not qualify for cash flow accounting treatment. At the adoption date, the unrecognized fair value of these instruments was a $2.1 million liability, which was recorded on the balance sheet. A corresponding amount was recognized in other comprehensive loss to reflect the transitional adjustment upon adopting the new standard and is being amortized into current earnings as the related interest expense is incurred. Amortization of the initial transition amount recorded in other comprehensive loss reduced income by $558,600, $748,800 and $552,100 in 2001, 2002 and 2003, respectively. Amortization of the remaining transitional amount recorded in other comprehensive loss is expected to reduce income by $199,400 in 2004.

The estimated fair value of the Company s interest rate swaps at December 31, 2003 is a derivative liability of approximately $0.7 million. During 2001, 2002 and 2003, the Company recognized incremental net interest expense for realized net losses on interest rate swaps of approximately $2.1 million, $4.2 million and $3.6 million, respectively. At December 31, 2003, approximately $1.1 million of unrealized net losses on interest rate swaps in accumulated other comprehensive income are expected to be reclassified into earnings in 2004. The actual amounts that will be reclassified into earnings in 2004 may vary as a result of changes in market interest rates.

The following table sets forth the Company s notional principal amounts and LIBOR-based interest rates on open interest rate swap agreements at December 31, 2003:

(in thousands)	Notional amount	Maturities	Receive rate	Pay rate
30-day	$ 25,000	May 2004	1.12%	7.090%
	20,000	May 2004	1.12%	7.090%
	10,000		1.12%	2.375%

		December 2004		
	10,000	December 2004	1.12%	2.300%
	65,000			
90-day	10,000	June 2005	1.15%	1.390%
	20,000	June 2006	1.15%	1.840%
	15,000	June 2006	1.15%	1.815%
	45,000			
Total	$110,000			

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6. Commitments and contingencies

Great Lakes is involved in various legal actions and claims arising in the ordinary course of business. In the opinion of management, such litigation and claims are likely to be resolved without material adverse effect on the Company s financial position, results of operations or cash flows.

In 2000, a royalty interest owner filed a suit asking for a class action certification against Great Lakes in New York, alleging that gas was sold to affiliates and gas marketers at low prices, inappropriate postproduction expenses reduced proceeds to the royalty owners, and that Great Lakes improperly accounted for the royalty owners