

Deferred tax assets and liabilities included in the consolidated balance sheets are as follows:

	September 30,	2004	2003
		(In thousands)	
Other current assets		\$ 4,346	\$ 1,935
Deferred income taxes		(194,573)	(183,672)
Total		<u>\$ (190,277)</u>	<u>\$ (181,737)</u>

As of September 30, 2004, the Company's federal and state net operating loss carryforwards for income tax purposes were approximately \$43 million and \$66 million, respectively. If not utilized, the federal net operating loss carryforwards will expire in fiscal 2024, and the state net operating loss carryforwards will begin to expire in fiscal 2008.

Effective income tax rates on income from continuing operations as compared to the U.S. Federal income tax rate are as follows:

	Years Ended September 30,	2004	2003	2002
U.S. Federal income tax rate		35%	35%	35%
Effect of foreign taxes		18	4	7
State income taxes		—	4	2
Other		2	—	—
Effective income tax rate		<u>55%</u>	<u>43%</u>	<u>44%</u>

## NOTE 6 SHAREHOLDERS' EQUITY

In December 2001, the board of directors authorized the repurchase of up to 2,000,000 shares per calendar year of the Company's common stock in the open market or private transactions. The repurchased shares will be held in treasury and used for general corporate purposes including use in the Company's benefit plans. The Company did not repurchase any shares in fiscal 2004, 2003, or 2002.

The Company has several plans providing for common-stock based awards to employees and to non-employee directors. The plans permit the granting of various types of awards including stock options and restricted stock. Restricted stock may be granted for no consideration other than prior and future services. The purchase price per share for stock options may not be less than market price of the underlying stock on the date of grant. Stock options expire ten years after grant.

In March 2001, the Company adopted the 2000 Stock Incentive Plan (the "Stock Incentive Plan"). The Stock Incentive Plan was effective December 6, 2000 and will terminate December 6, 2010. Under this plan, the Company is authorized to grant options for up to 3,000,000 shares of the Company's common stock at an exercise price not less than the fair market value of the common stock on the date of grant. Up to 450,000 shares of the total authorized may be granted to participants as restricted stock awards. There were no restricted stock grants in fiscal 2004, 2003, or 2002.

On September 30, 2002, the Company distributed 100 percent of the common stock of Cimarex Energy Co. to the Company's shareholders. The distribution was recorded as a dividend and resulted in a decrease to consolidated shareholders' equity of approximately \$152.2 million. Any options held by Cimarex employees at the distribution date were automatically forfeited per the terms of the Company's stock incentive plans. Both vested and unvested options held by remaining participants at September 30, 2002 were adjusted (the number of options and exercise price) to reflect the change in the value of Company common stock as the result of the spinoff of Cimarex. The adjustment was made in such a way that the aggregate intrinsic value of the options and the ratio of the exercise price per share to the market value per share remained the same.