

Form 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period ended September 30, 1995
OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 1-9260

UNIT CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	73-1283193
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1000 Kensington Tower I, 7130 South Lewis, Tulsa, Oklahoma 74136
(Address of principal executive offices)
(Zip Code)

(918) 493-7700
(Registrant's telephone number, including area code)

None
(Former name, former address and former fiscal year,
if changed since last report)

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 issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.20 par value	20,976,090
Class	Outstanding at November 1, 1995

UNIT CORPORATION

INDEX

PART I. Financial Information:	Number
Item 1 - Financial Statements (Unaudited)	
Consolidated Condensed Balance Sheets September 30, 1995 and December 31, 1994	2
Consolidated Condensed Statements of Operations Three and Nine Months Ended September 30, 1995 and 1994	3
Consolidated Condensed Statements of Cash Flows Nine Months Ended September 30, 1995 and 1994	4
Notes to Consolidated Condensed Financial Statements	5
Report of Review by Independent Accountants	7
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	8
PART II. Other Information:	
Item 1 - Legal Proceedings	14
Item 2 - Changes in Securities	14
Item 3 - Defaults Upon Senior Securities	14
Item 4 - Submission of Matters to a Vote of Security Holders	14
Item 5 - Other Information	14
Item 6 - Exhibits and Reports on Form 8-K	14
Signatures	15

Item 1.	Financial Statements	
	UNIT CORPORATION AND SUBSIDIARIES	
	CONSOLIDATED CONDENSED BALANCE SHEETS	
	September 30,	December 31,
	1995	1994
	-----	-----
ASSETS	(Unaudited)	
- - - - -	(In thousands)	
Current Assets:		
Cash and cash equivalents	\$ 1,076	\$ 2,749
Accounts receivable	9,759	16,369
Other	2,955	2,720
	-----	-----
Total current assets	13,790	21,838
	-----	-----
Property and Equipment:		
Total cost	256,328	244,405
Less accumulated depreciation, depletion, amortization and impairment	162,275	153,862
	-----	-----
Net property and equipment	94,053	90,543
	-----	-----
Other Assets	176	40
	-----	-----
Total Assets	\$ 108,019	\$ 112,421

LIABILITIES AND SHAREHOLDERS' EQUITY		

Current Liabilities:		
Current portion of long-term debt	\$ 40	\$ 496
Current portion of natural gas purchaser prepayments (Note 2)	-	1,580
Accounts payable	6,462	14,593
Accrued liabilities	4,245	3,172
	-----	-----
Total current liabilities	10,747	19,841
	-----	-----
Natural Gas Purchaser Prepayments (Note 2)	2,417	2,149
	-----	-----
Long-Term Debt	40,400	37,824
	-----	-----
Shareholders' Equity:		
Preferred stock, \$1.00 par value, 5,000,000 shares authorized, none issued	-	-
Common stock \$.20 par value, 40,000,000 shares authorized, 20,976,090 and 20,910,190 shares issued, respectively	4,194	4,182
Capital in excess of par value	50,172	50,086
Retained earnings (deficit)	277	(1,581)
Treasury stock, at cost, 68,441 and 25,100 shares, respectively	(188)	(80)
	-----	-----
Total shareholders' equity	54,455	52,607
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 108,019	\$ 112,421
	=====	=====

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

2

UNIT CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1995	1994	1995	1994
	-----	-----	-----	-----
	(In thousands except per share amounts)			
Revenues:				
Contract drilling	\$ 6,003	\$ 4,624	\$ 14,074	\$ 12,741
Oil and natural gas	7,160	6,413	22,236	19,970
Natural gas marketing and processing	-	9,374	13,566	30,567
Other	932	755	1,642	819
	-----	-----	-----	-----
Total revenues	14,095	21,166	51,518	64,097
	-----	-----	-----	-----
Expenses:				
Contract drilling:				
Operating costs	5,260	4,126	13,034	11,435
Depreciation	624	569	1,656	1,553
Oil and natural gas:				
Operating costs	3,052	2,320	8,601	6,607
Depreciation, depletion and amortization	2,506	2,127	7,604	6,106
Natural gas marketing and processing	-	9,179	13,434	30,365
General and administrative	942	838	2,840	2,677
Interest	813	412	2,388	1,114
Other - net	13	-	91	-
	-----	-----	-----	-----
Total expenses	13,210	19,571	49,648	59,857
	-----	-----	-----	-----
Income Before Income Taxes	885	1,595	1,870	4,240
Income Tax Expense	4	5	12	14
	-----	-----	-----	-----
Net Income	\$ 881	\$ 1,590	\$ 1,858	\$ 4,226
	=====	=====	=====	=====
Net Income Per Common Share	\$.04	\$.07	\$.09	\$.20
	=====	=====	=====	=====
Weighted Average Shares Outstanding	20,896	20,910	20,884	20,904

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

3

UNIT CORPORATION AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	1995	1994
	-----	-----
	(In thousands)	
Cash Flows From Operating Activities:		
Net income	\$ 1,858	\$ 4,226
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	9,492	8,016
Other-net	(511)	(686)
Changes in operating assets and liabilities increasing (decreasing) cash:		
Accounts receivable	6,610	1,508
Accounts payable	(9,806)	(2,501)
Natural gas purchaser prepayments (Note 2)	(1,312)	(1,348)
Other-net	838	101
	-----	-----
Net cash provided by operating activities	7,169	9,316
	-----	-----
Cash Flows From (Used In) Investing Activities:		
Capital expenditures	(14,931)	(10,167)
Proceeds from disposition of assets	4,335	1,764
Other-net	(136)	(52)
	-----	-----
Net cash used in investing activities	(10,732)	(8,455)
	-----	-----
Cash Flows From (Used In) Financing Activities:		
Net borrowings (payments) under line of credit	3,100	(1,700)
Payments of notes payable and long-term debt	(980)	(382)
Other-net	(230)	-
	-----	-----
Net cash provided by (used in) financing activities	1,890	(2,082)
	-----	-----
Net Decrease in Cash and Cash Equivalents	(1,673)	(1,221)
	-----	-----
Cash and Cash Equivalents, Beginning of Year	2,749	3,756
	-----	-----
Cash and Cash Equivalents, End of Period	\$ 1,076	\$ 2,535
	=====	=====

Supplemental Disclosure of Cash Flow Information:

Cash paid during the nine months ended September 30, for:

Interest	\$ 2,101	\$ 1,088
Income taxes	\$ -	\$ 2

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

4

NOTE 1 - BASIS OF PREPARATION AND PRESENTATION

In the opinion of the Company, the accompanying unaudited consolidated condensed financial statements contain all adjustments necessary (all adjustments are of a normal recurring nature) to present fairly the financial position of Unit Corporation as of September 30, 1995 and the results of its operations for the three and nine month periods ended September 30, 1995 and 1994 and cash flows for the nine months ended September 30, 1995 and 1994. Results for the three and nine months ended September 30, 1995 are not necessarily indicative of the results to be realized during the full year. The year end consolidated condensed balance sheet data was derived from audited financial statements but does not include all disclosures required by generally accepted accounting principles. The financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 1994.

NOTE 2 - NATURAL GAS PURCHASER PREPAYMENTS

In March 1988, the Company entered into a settlement agreement with a natural gas purchaser. During early 1991, the Company and the natural gas purchaser superseded the original agreement with a new settlement agreement effective retroactively to January 1, 1991. Under these settlement agreements, the Company has a prepayment balance of \$2.4 million at September 30, 1995 representing proceeds received from the purchaser as prepayment for natural gas. This amount is net of natural gas recouped and net of certain amounts disbursed to other owners (such owners, collectively with the Company are referred to as the "Committed Interest") for their proportionate share of the prepayments. The September 30, 1995 prepayment balance is subject to recoupment in volumes of natural gas for a period ending the earlier of recoupment or December 31, 1997 (the "Recoupment Period"). The prepayment amounts are being recorded as liabilities and reflected in revenues as recoupment occurs. The portion of the prepayments that are estimated to be recouped in the next twelve months has been included in current liabilities. Based on the purchasers deliverability requested at September 30, 1995, the Company does not anticipate any recoupment of the prepayment balance during the next twelve months. Additionally, the purchaser is obligated to make monthly payments on behalf of the Committed Interest in an amount calculated as a percentage of the Committed Interest's share of the deliverability of the wells subject to the settlement agreement, up to a maximum of \$211,000 or a minimum of \$110,000 per month for the year 1995 and up to a maximum of \$180,000 or a minimum of \$90,000 per month for the year 1996. Both the maximum and minimum monthly payments decline annually through the Recoupment Period. At December 31, 1997, the Committed Interest's prepayment balance, if any, that has not been fully recouped in natural gas is subject to a cash repayment limited to a maximum of \$3 million to be made in equal payments over a five year period. At the end of the Recoupment Period, the terms of the settlement agreement and the natural gas purchase contracts which are subject to the settlement agreement will terminate. As disclosed in the Company's

Form 10-K for the year ended December 31, 1994 the purchaser of the natural gas had notified the Company of its intention to assert claims against the Company to recover certain taxes, interest and penalties it has or may have to pay to the Oklahoma Tax Commission ("OTC") relating to the prepayments. In July 1995, the Company and the purchaser agreed to make a immaterial payment to the OTC to resolve the OTC's assessments.

NOTE 3 - INCOME TAXES

Income tax expense for the three and nine month periods ended September 30, 1995 and 1994 differs from income tax expense computed by applying the statutory rate due principally to the utilization of the Company's net operating loss carryforward.

REPORT OF REVIEW BY INDEPENDENT ACCOUNTANTS

To the Board of Directors and Shareholders
Unit Corporation

We have reviewed the accompanying consolidated condensed balance sheet of Unit Corporation and subsidiaries as of September 30, 1995, and the related consolidated condensed statements of operations for the three and nine month periods ended September 30, 1995 and 1994 and cash flows for the nine month periods ended September 30, 1995 and 1994. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical review procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the consolidated balance sheet of Unit Corporation and subsidiaries at December 31, 1994, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for the year then ended (not presented herein); and our report dated February 22, 1995 expressed an unqualified opinion on those consolidated financial statements. In our opinion,

the information set forth in the accompanying consolidated condensed balance sheet at December 31, 1994, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

COOPERS & LYBRAND L. L. P.

Tulsa, Oklahoma
November 8, 1995

7

Item 2. Management's Discussion and Analysis of Financial Condition and
Results of Operations

FINANCIAL CONDITION

The Company entered into a new credit agreement (the "Credit Agreement") on August 3, 1995 providing for a total commitment of \$75,000,000. The Credit Agreement consists of a revolving credit facility through August 31, 1997 and a term loan thereafter, maturing on August 31, 2001. Borrowings under the revolving credit facility are limited to a borrowing base which is subject to a semi-annual redetermination. The latest borrowing base determination as of August 1, 1995 established that \$50 million of the commitment is available to the Company. At September 30, 1995, borrowings under the Credit Agreement totaled \$40.4 million and the average interest rate paid by the Company in the third quarter of 1995 had risen to 8.1 percent compared to the average interest rate of 7.5 percent in the third quarter of 1994. A 1/2 of 1 percent facility fee is charged for any unused portion of the borrowing base.

The Company's shareholders' equity at September 30, 1995 was \$54.5 million resulting in a ratio of long-term debt-to-equity of .74 to 1. The Company's primary source of liquidity and capital resources in the near- and long-term will consist of cash flow from operating activities and available borrowings under the Credit Agreement. Net cash provided by operating activities for the first nine months of 1995 was \$7.2 million as compared to \$9.3 million for the first nine months of 1994. The decrease was due primarily to lower spot market natural gas prices received by the Company for its natural gas production during 1995.

During September 1995, the Company received \$850,000 from a settlement reached by two of the Company's subsidiaries in certain litigation brought against the Federal Deposit Insurance Corporation and other parties.

On August 9, 1995 the Company completed its acquisition of all the outstanding stock of Willis Drilling Co. ("Willis") a wholly owned subsidiary of DI Energy, Inc. The sole assets of Willis consisted of the oil and natural gas properties previously owned by DI Energy, Inc. Total cost of this acquisition was \$4.2 million.

Through the first nine months of 1995, the Company made capital expenditures of \$14.9 million as compared to \$10.2 million in 1994. Approximately 95 percent of the 1995 expenditures have been for the Company's exploration and production segment. Approximately 55 percent of the exploration and production expenditures were for development drilling and workover costs with the remainder being for producing property acquisitions. Currently, the Company anticipates it will spend approximately \$4 million during the remainder of 1995 on capital expenditures including oil and natural gas acquisitions. However, the ultimate amount of such expenditures will be governed by a number of factors, including future prices for oil and natural gas production. These expenditures, if made, are anticipated to be within the constraints of available cash to be provided by operating activities and the Company's Credit Agreement. A large portion of the Company's capital expenditures are discretionary; therefore, current operations should not be adversely affected by any inability to obtain funds outside of the Company's current Credit Agreement.

8

The Company has 2.873 million common stock warrants outstanding. The warrants entitle the holders to purchase one share of common stock at a price of \$4.375 per share. The warrants, subject to certain restrictions, are callable by the Company, in whole or in part, at \$.50 per warrant. By a Second Amendment to the Warrant Agreement between the Company and the Warrant Agent, dated May 9, 1994, the term of the warrants was extended until August 30, 1996.

The Company continued to receive monthly payments on behalf of itself and other parties (collectively the "Committed Interest") from a natural gas purchaser pursuant to a settlement agreement, as amended (the "Settlement Agreement"). As a result of the Settlement Agreement, the September 30, 1995 prepayment balance of \$2.4 million paid by the purchaser for natural gas not taken (the "Prepayment Balance") is subject to recoupment in volumes of natural gas through a period ending on the earlier of recoupment or December 31, 1997 (the "Recoupment Period"). Additionally, the purchaser is obligated to make monthly payments on behalf of the Committed Interest based on their share of the natural gas deliverability of the wells subject to the Settlement Agreement, up to a maximum of \$211,000 or a minimum of \$110,000 per month for the year 1995 and up to a maximum of \$180,000 or a minimum of \$90,000 per month for the year 1996. Both the maximum and minimum monthly payments decline annually through the Recoupment Period. If natural gas is taken during a month, the value of such natural gas is credited toward the monthly amount the purchaser is required to pay. In the event the purchaser takes volumes of natural gas valued in excess of its monthly payment obligations, the excess is applied to reduce any then outstanding Prepayment Balance. The Company currently believes that sufficient natural gas deliverability is available to enable the Committed Interest to receive substantially all of the maximum monthly payments during 1995. At the end of the Recoupment Period the Settlement Agreement and the natural gas purchase contracts which are subject to the Settlement Agreement will terminate. If the Prepayment Balance is not fully recouped in natural gas by December 31, 1997 then the unrecouped portion is subject to cash repayment, limited to a maximum of \$3 million, payable in equal annual installments, without interest, over a five year period. Under the Settlement Agreement, the purchaser is entitled to make a monthly determination of the volumes to be purchased from the wells subject to the Settlement Agreement. Pursuant to the terms of the Settlement Agreement, the purchaser has requested that effective October 1, 1995 and continuing through December 31, 1995, the Company will deliver 65 percent of the maximum required deliverability from the wells subject to the Settlement Agreement. For the period prior to October 1, the Company had delivered 100 percent of the maximum required by the Settlement Agreement which was approximately 75 percent of the total deliverability of the subject wells. First and second quarter 1994 deliverability was 80 percent of the total deliverability of the wells subject to the Settlement Agreement and was 75 percent in the third quarter of 1994. Because these month-to-month determinations, up to certain maximum levels, are made by the purchaser, the Company is unable to predict with certainty future natural gas sales from these wells. In addition, future revenues to be received by the Company would be impacted by the failure of the purchaser to meet its obligations, financially or otherwise, under the terms of the Settlement Agreement or by the ability of the wells to maintain certain projected deliverability requirements. In the event the wells are unable to maintain such deliverability, the monthly payments to be received by the Company under the Settlement Agreement would be decreased. The price per Mcf under the Settlement Agreement is substantially higher than current spot

market prices. The impact of the higher price received under the Settlement Agreement increased pre-tax income by approximately \$1,250,000 and \$1,330,000 in the first nine months of 1995 and 1994, respectively. As disclosed in the Company's Form 10-K for the year ended December 31, 1994, the purchaser of the natural gas had notified the Company of its intention to assert claims against the Company to recover certain taxes, interest and penalties it has or may have to pay to the Oklahoma Tax Commission ("OTC") relating to the prepayments made by the purchaser to the Company. In July 1995, the Company and the purchaser agreed to make a immaterial payment to the OTC to resolve the OTC's assessments.

Average oil prices received by the Company in the third quarter of 1995 were 1 percent per barrel higher than oil prices received in the third quarter of 1994. Average spot market natural gas prices, however, were 15 percent lower per Mcf than the average spot market natural gas prices received in the same quarter of 1994. Oil prices within the industry remain largely dependent upon world market developments for crude oil. Prices for natural gas are influenced by weather conditions and supply imbalances, particularly in the domestic market, and by world wide oil price levels. Since natural gas comprises

approximately 78 percent of the Company's reserves, large declines in spot market natural gas prices have a significant adverse effect on the value of the Company's reserves. Such decreases also adversely effect the Company's revenues and cash flow. Likewise, declines in natural gas or oil prices could adversely effect the semi-annual borrowing base determination under the Company's Credit Agreement since this determination is calculated on the value of the Company's oil and natural gas reserves.

The Company's ability to utilize its full complement of drilling rigs, should economic conditions improve in the future, will be restricted due to the lack of qualified labor and the availability and cost of drill pipe and certain supporting equipment. The Company's ability to utilize its drilling rigs at any given time is dependent on a number of factors, including but not limited to, the price of both oil and natural gas, the availability of labor and the Company's ability to supply the type of equipment required. The Company's management expects that these factors will continue to influence the Company's rig utilization throughout 1995 and into 1996.

In the third quarter of 1994, the Company's Board of Directors authorized the Company to purchase up to 1,000,000 shares of the Company's outstanding common stock on the open market. Since that time, 115,100 shares were repurchased at prices ranging from \$2 1/2 to \$3 3/8 per share. During the first quarter of 1995, 46,659 of the purchased shares were reissued as the Company's matching contribution to its 401(K) Employee Thrift Plan. At September 30, 1995, 68,441 treasury shares were held by the Company.

RESULTS OF OPERATIONS

- - - - -

Third Quarter 1995 versus Third Quarter 1994

- - - - -

The Company reported net income of \$881,000 in the third quarter of 1995 as compared to net income of \$1,590,000 for the third quarter of 1994. While the Company continued to increase natural gas production through producing property acquisitions and developmental drilling, substantially lower natural gas prices prohibited corresponding increases to net income. The impact on

10

net income from lower natural gas prices was offset by the receipt of \$850,000 in September 1995 from a settlement reached by two of the Company's subsidiaries in certain litigation brought against the Federal Deposit Insurance Corporation and other parties. The litigation resulted from a prior lien foreclosure action which claimed that the Company's interest in several oil and natural gas wells was subject to a prior mortgage lien.

Oil and natural gas revenues increased 12 percent in the third quarter of 1995 as compared to the third quarter of 1994. As a result of the Company's producing property acquisitions and development drilling program, oil and natural gas production increased by 27 and 22 percent, respectively, between the two quarters. Average oil prices received by the Company increased 1 percent during the quarter while average natural gas prices dropped by 14 percent. The reduction in the average natural gas price was caused primarily by a \$.23 drop in average spot market prices. The Company continues to sell a limited amount of its production through the Settlement Agreement, which provides for prices higher than current spot market prices, as discussed above. The impact of the higher price received under the Settlement Agreement increased pre-tax income by approximately \$510,000 and \$465,000 in the third quarters of 1995 and 1994, respectively.

Oil and natural gas operating margins (revenues less operating costs) decreased from 64 percent in the third quarter of 1994 to 57 percent in the third quarter of 1995. This reduction resulted from the lower natural gas prices received in the third quarter of 1995. Total operating costs increased 32 percent due to the additional costs associated with production of oil and natural gas from new wells drilled and acquired over the period. Depreciation, depletion and amortization ("DD&A") increased 18 percent due to increased production between the comparative quarters. The Company's average DD&A rate for the third quarter of 1995 was \$3.95 compared with \$3.98 in the third quarter of 1994.

Contract drilling revenues increased 30 percent for the comparative quarters due to increased rig utilization. Rig utilization averaged 12.4 rigs in the third quarter of 1995 and averaged 10.4 rigs in the third quarter of 1994.

Contract drilling operating margins (revenues less operating costs) were

12 percent in the third quarter of 1995 and 11 percent in the third quarter of 1994. The Company has 2 of its 3 South Texas rigs under contract. While providing higher day rates, the South Texas rigs have also experienced higher expenses per day.

The Company's ability to utilize its drilling rigs and maintain positive drilling profit margins at any given time will be dependent on a number of factors, including but not limited to, the price of both oil and natural gas, the availability of the Company's rigs in the area of the proposed wells, competition from other drilling contractors, the availability of labor and drilling supplies at competitive prices and the Company's ability to supply the equipment required. The Company's management expects that these factors will continue to influence the Company's rig utilization during the remainder of 1995 and into 1996.

As previously reported, effective April 1, 1995, the Company completed a business combination between the Company's natural gas marketing operations and a third party also involved in natural gas marketing activities forming a

11

new company called GED Gas Services, L.L.C. ("GED"). The Company owns a 34 percent interest in GED. The combination does not adversely affect the operations of the Company's drilling and oil and natural gas exploration segments or the profitability of the Company as a whole, although it has resulted in a significant reduction in the Company's total revenues and associated costs. For the year ended December 31, 1994, revenues and costs associated with the Company's natural gas marketing operations were \$43.7 million and \$43.6 million, respectively.

General and administrative expense increased 12 percent between the comparative quarters. The increase came in part from additional employee related costs and from additional office space requirements due to the Company's growth.

Interest expense increased 97 percent over the comparative quarters as a result of increases in the average interest rate from 7.5 percent in the third quarter of 1994 to 8.1 percent in the third quarter of 1995 and a 43 percent increase in the average long-term bank debt due, in large part, to borrowings associated with the Company's producing property acquisitions completed in December 1994 and January through August of 1995.

Nine Months 1995 versus Nine Months 1994 - - - - -

Net income for the first nine months of 1995 was \$1,858,000 as compared to \$4,226,000 for the first nine months of 1994. Lower natural gas prices coupled with increased rig start up costs and adverse second quarter weather conditions in the drilling segment's area of operation caused the reduction in net income. The impact on net income from lower natural gas prices was partially offset by the receipt of \$850,000 in September from the settlement of certain litigation as discussed above.

Oil and natural gas revenues increased 11 percent in the first nine months of 1995 as compared to the first nine months of 1994. As a result of the Company's producing property acquisitions and development drilling program, oil and natural gas production increased by 35 and 26 percent, respectively, between the comparative periods. Average oil prices received by the Company increased 11 percent during the first nine months while the average natural gas prices dropped by 21 percent. The reduction in natural gas prices was caused by both a \$.35 drop in average spot market prices as well as a decline in production from wells covered by the Settlement Agreement, which provides for prices higher than current spot market prices, as discussed above. The impact of the higher price received under the Settlement Agreement increased pre-tax income by approximately \$1,250,000 and \$1,330,000 in the first nine months of 1995 and 1994, respectively.

Oil and natural gas operating margins (revenues less operating costs) declined from 67 percent in the first nine months of 1994 to 61 percent in the first nine months of 1995. Lower natural gas spot market prices received in 1995 caused the reduction in operating margin. Total operating costs increased 30 percent due to the additional costs associated with oil and natural gas production from new wells acquired. Margins were also reduced due to the shutting in of production on certain natural gas properties in the months of February and March due to low spot market natural gas prices.

Depreciation, depletion and amortization ("DD&A") increased 25 percent due to increased production between the comparative periods. The Company's average DD&A rate for the first nine months of 1995 was \$3.96 compared with \$4.01 in the first nine months of 1994.

Contract drilling revenues increased 10 percent for the comparative nine month periods as rig utilization increased from an average of 9.7 rigs operating in the first nine months of 1994 to 10.1 rigs in the first nine months of 1995. Higher revenues in 1995, to a lesser extent, were also achieved due to increased revenue received per day from the three rigs which were moved to South Texas after the second quarter of 1994.

Contract drilling operating margins (revenue less operating costs) were 7 percent in the first nine months of 1995 as compared to 10 percent in the first nine months of 1994. The rigs in South Texas, while providing higher day rates, also experience higher expenses per day. This coupled with initial start up costs and bad weather in the second quarter limited improvements in operating margins in the first nine months of 1995.

As mentioned above, effective April 1, 1995, the Company completed a business combination between the Company's marketing operations and a third party also involved in natural gas marketing activities forming a new company called GED Gas Services, L.L.C. Although this combination will not have a significant impact on net income it will significantly reduce the Company's total revenues and associated costs from gas marketing.

Interest expense increased 114 percent due to increases in the average interest rate from 6.8 percent in the first nine months of 1994 compared to 8.6 percent in the first nine months of 1995 combined with a 76 percent increase in average long-term bank debt outstanding during the comparative periods due to producing property acquisitions in December 1994 and January thru August 1995.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

- - - - -

Not applicable

Item 2. Changes in Securities

- - - - -

Not applicable

Item 3. Defaults Upon Senior Securities

- - - - -

Not applicable

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

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

15 Letter re: Unaudited Interim Financial Information

27 Financial Data Schedule

(b) No reports on Form 8-K were filed during the quarter ended September 30, 1995.

14

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 thereunto duly authorized.

UNIT CORPORATION

Date: November 8, 1995

By: /s/ John G. Nikkel

JOHN G. NIKKEL
President, Chief Operating
Officer and Director

Date: November 8, 1995

By: /s/ Larry D. Pinkston

LARRY D. PINKSTON
Vice President, Chief
Financial Officer
and Treasurer

