Seeking Alpha α

Unit Corporation Q4 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator instructions) Your first question comes from the line of Marshall Adkins, your line is open.

Marshall Adkins – Raymond James

Good morning guys. Could you give me just some insight on where you see the rig count going, you mentioned I think I heard 55 working rigs right now, help me to understand where the costs are going and where rates are going right now and kind of where you think they may go over the next quarter or so. I know oil can't go through the end of the year because it is a moving target but just kind of directionally where you see things heading short term on rates, rig count, costs, etc?

Larry Pinkston

Marshall, you know the right of decrease on our rig utilization is starting to slow down, we are not getting calls from the operator cancelling wells like we were through November, December and January so it is slowing down the rate of decrease, I think utilization is going to continue to decrease gradually from what we see right now through the first quarter rates are coming down not to the magnitude we have seen, utilization fall but they are coming down. I don't know what the amount over the next four, five months is going to be to come down, a lot of our operators were telling us, as we are on our E&P side that everybody is starting the year off very slow expecting the second half of the year to be much more active than the first half of the year of course that is all contingent on what the commodity price is in the meantime but a lot of people are at their budgets that are not committed at this point but the rate of decrease, utilization is going to come down at least through the first quarter not nearly to the magnitude of what we saw in the fourth quarter in January that it is going to come on down.

Marshall Adkins – Raymond James

You mentioned your cut cost but historically rarely do we ever see anyone be able to cut cost fast enough on the way down to avoid the cost per rig actually seems to increase as utilization falls quickly, what is happening with you guys?

Larry Pinkston

At the end what happens is you have a certain amount of fixed cost, indirect cost that continue to go on no matter whether you are running 50 rigs or 80 rigs or you start spreading those kind of cost factors over a few number of rigs running and it increases your per day cost. On the direct cost side, we had the labor rate decrease for the two major sections of our rig market about $350 a day and that happened at the end of December so none of that was reflected in the fourth quarter. We are bringing out all of our old files on these kind of times, we are looking at things like getting a downtime insurance rate on when our rigs are down versus playing full stream, property tax reductions and all those kind of things take a little bit of time. First quarter rig cost per day, we always see cost in the first quarter a little bit higher because of the all the taxes that roll over other than being all set by the $350 a day, those kind of costs are going to be higher in the first quarter than they were in the fourth quarter but costs are coming down. Our vendors are reducing cost, not to the magnitude we would like to see them yet but the costs are coming down not to the magnitude that we have seen a decrease in day rates.