

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarter ended June 30, 1995

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transaction period from \_\_\_\_\_ to \_\_\_\_\_  
COMMISSION FILE NUMBER 0-9592

LOMAK PETROLEUM, INC.  
(Exact name of registrant as specified in its charter)

DELAWARE  
(State of incorporation)

34-1312571  
(I.R.S. Employer  
Identification No.)

500 THROCKMORTON STREET, FT. WORTH, TEXAS  
(Address of principal executive offices)

76102  
(Zip Code)

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

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  No

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11,958,729 Common Shares were outstanding on August 7, 1995.

## PART I. FINANCIAL INFORMATION

The financial statements included herein have been prepared in conformity with generally accepted accounting principles and should be read in conjunction with the December 31, 1994 Form 10-K filing. The statements are unaudited but reflect all adjustments which, in the opinion of management, are necessary to fairly present the Company's financial position and the results of operations.

## LOMAK PETROLEUM, INC.

CONSOLIDATED BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	December 31, 1994	June 30, 1995
	-----	-----
		(unaudited)
<b>ASSETS</b>		
Current assets		
Cash and equivalents . . . . .	\$ 4,897	\$ 5,307
Accounts receivable . . . . .	9,431	8,216
Inventory and other . . . . .	1,592	1,417
	-----	-----
	15,920	14,940
	-----	-----
Oil and gas properties, successful efforts method . . . .	133,373	155,110
Accumulated depletion, depreciation and amortization .	(20,409)	(25,866)
	-----	-----
	112,964	129,244
	-----	-----
Gas transportation and field service assets . . . . .	16,125	16,295
Accumulated depreciation . . . . .	(3,241)	(3,257)
	-----	-----
	12,884	13,038
	-----	-----
	\$ 141,768	\$ 157,222
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities		
Accounts payable . . . . .	\$ 8,421	\$ 5,941
Accrued liabilities . . . . .	5,790	3,750
Current portion of debt (Note 5) . . . . .	707	503
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	14,918	10,194
	-----	-----
Senior debt (Note 5) . . . . .	61,885	71,132
Deferred taxes (Note 10) . . . . .	16,390	17,012
Commitments and contingencies (Note 6) . . . . .		
Minority interest . . . . .	5,327	-
Stockholders' equity (Notes 7 and 8)		
Preferred stock, \$1 par, 2,000,000 shares authorized, 7-1/2% convertible preferred, 200,000 issued (liquidation preference \$5,000,000) . . . . .	200	200
Common stock, \$.01 par, 20,000,000 shares authorized, 9,754,010 and 11,928,047 issued . . . . .	97	119
Capital in excess of par value . . . . .	50,495	64,476
Retained earnings (deficit) . . . . .	(7,544)	(5,911)
	-----	-----
	43,248	58,884
	-----	-----
	\$ 141,768	\$ 157,222
	=====	=====

SEE ACCOMPANYING NOTES.

## LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF INCOME  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1995	1994	1995
	(unaudited)		(unaudited)	
Revenues				
Oil and gas sales . . . . .	\$ 6,349	\$ 7,903	\$11,569	\$15,333
Field services . . . . .	2,216	2,350	4,261	4,893
Gas transportation and marketing . . . . .	503	729	908	1,515
Interest and other . . . . .	207	606	243	751
	-----	-----	-----	-----
	9,275	11,588	16,981	22,492
	-----	-----	-----	-----
Expenses				
Direct operating . . . . .	2,640	3,289	4,818	6,438
Field services . . . . .	1,662	1,278	3,271	2,876
Gas transportation and marketing . . . . .	115	191	216	390
Exploration . . . . .	95	145	142	275
General and administrative . . . . .	583	761	1,057	1,519
Interest . . . . .	681	1,242	1,229	2,399
Depletion, depreciation and amortization . . . . .	2,689	3,104	5,016	6,105
	-----	-----	-----	-----
	8,465	10,010	15,749	20,002
	-----	-----	-----	-----
Income before taxes . . . . .	810	1,578	1,232	2,490
Income taxes				
Current . . . . .	64	31	66	47
Deferred . . . . .	-	521	-	622
	-----	-----	-----	-----
	64	552	66	669
	-----	-----	-----	-----
Net income . . . . .	\$ 746	\$ 1,026	\$ 1,166	\$ 1,821
	=====	=====	=====	=====
Net income applicable to common shares . . . . .	\$ 652	\$ 932	\$ 979	\$ 1,633
	=====	=====	=====	=====
Earnings per common share . . . . .	\$ .07	\$ .08	\$ .11	\$ .14
	=====	=====	=====	=====
Weighted average shares outstanding . . . . .	9,118	12,075	8,942	11,315
	=====	=====	=====	=====

SEE ACCOMPANYING NOTES.

## LOMAK PETROLEUM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

	Six Months Ended June 30,	
	1994	1995
	(unaudited)	
Cash flows from operations:		
Net income . . . . .	\$ 1,166	\$ 1,821
Adjustments to reconcile net income to net cash provided by operations:		
Depletion, depreciation and amortization . . . . .	5,016	6,104
Deferred income taxes . . . . .	54	622
Changes in working capital net of effects of purchases of businesses:		
Accounts receivable . . . . .	857	1,280
Inventory and other . . . . .	7	174
Accounts payable . . . . .	116	(2,480)
Accrued liabilities . . . . .	(2,014)	(2,041)
Gain on sale of assets and other . . . . .	(290)	(712)
Net cash provided by operations . . . . .	4,912	4,768
Cash flows from investing:		
Acquisition of businesses, net of cash . . . . .	(7,992)	-
Oil and gas properties . . . . .	(10,967)	(13,729)
Additions to property and equipment . . . . .	(538)	(1,373)
Proceeds on sale of assets . . . . .	1,202	1,741
Net cash used in investing . . . . .	(18,295)	(13,361)
Cash flows from financing:		
Proceeds from indebtedness . . . . .	17,761	9,246
Repayments of indebtedness . . . . .	(249)	(180)
Preferred stock dividends . . . . .	(187)	(187)
Proceeds from common stock issuance . . . . .	548	181
Repurchase of common stock . . . . .	-	(57)
Net cash provided by financing . . . . .	17,873	9,003
Change in cash . . . . .	4,490	410
Cash and equivalents at beginning of period . . . . .	2,019	4,897
Cash and equivalents at end of period . . . . .	\$ 6,509	\$ 5,307
	=====	=====

SEE ACCOMPANYING NOTES.

LOMAK PETROLEUM, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) ORGANIZATION:

Lomak Petroleum, Inc. ("Lomak"), is engaged in the acquisition, development and enhancement of oil and gas properties in the United States. The Company was founded in 1976. Until 1988, Lomak primarily pursued drilling opportunities in the Appalachian Basin. In 1988, the Company shifted its focus to growth through acquisitions and subsequently expanded its core operating areas to include Texas and Oklahoma. In 1993, Lomak began to develop its inventory of development projects. Since 1988, sixty-one acquisitions have been consummated at a total cost of \$138 million.

Lomak's acquisition effort is focused on properties with purchase prices of less than \$30 million within its core areas of operation. Management believes these purchases are less competitive than those involving larger property interests. To the extent purchases continue to be made primarily within existing core areas, efficiencies in operations, drilling, gas marketing and administration should be realized. In 1993, Lomak initiated a program to exploit its inventory of over 500 development projects. In the future, Lomak expects its growth to be driven by a combination of acquisitions and development.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

BASIS OF PRESENTATION

The accompanying financial statements include the accounts of the Company, all majority owned subsidiaries and its pro rata share of the assets, liabilities, income and expenses of certain oil and gas properties. Temporary investments with an initial maturity of ninety days or less are considered cash equivalents.

OIL AND GAS PROPERTIES

The Company follows the successful efforts method of accounting. Exploratory costs which result in the discovery of reserves and the cost of development wells are capitalized. Geological and geographical costs, delay rentals and costs to drill unsuccessful exploratory wells are expensed. Depletion is provided on the unit-of-production method. Gas is converted to equivalent barrels at the rate of six Mcf per barrel. The depletion rates per equivalent barrel produced were \$4.92 and \$4.38 respectively, in the second quarters of 1994 and 1995. Approximately \$12.9 million and \$10.5 million of oil and gas properties were classified as proved undeveloped or unproved and, therefore, not subject to depletion as of December 31, 1994 and June 30, 1995, respectively. These costs are assessed periodically to determine whether their value has been impaired, and if impairment is indicated, the amount of any impairment is charged to expense.

GAS TRANSPORTATION AND FIELD SERVICE ASSETS

The Company owns and operates approximately 500 miles of gas gathering lines in proximity to its principal gas properties. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from four to fifteen years.

The Company receives fees for providing field related services. These fees are recognized as earned. Depreciation is calculated on the straight-line method based on estimated useful lives ranging from one to five years, except for two buildings which were sold in the first six months of 1995. In the third quarter, the Company purchased a new larger office building, to replace the two mentioned above, which will be depreciated over a twenty year period ending in 2015.

In September 1994, the Company sold substantially all of its water hauling and disposal and well servicing assets located in the Appalachian region for \$1.8 million, with the potential to earn an additional \$400,000 million if certain conditions are met. These assets were used in the operations of the Company's brine hauling and disposal and well servicing subsidiaries.

#### NET INCOME PER SHARE

Net income per share is computed by subtracting preferred dividends from net income and dividing by the weighted average number of common and common equivalent shares outstanding. The calculation of fully diluted earnings per share assumes conversion of convertible securities when the result would be dilutive. Outstanding options and warrants are included in the computation of net income per common share when their effect is dilutive.

#### RECLASSIFICATIONS

Certain reclassifications have been made to prior period presentations to conform with current period classifications.

#### (3) ACQUISITIONS AND DEVELOPMENT:

Since 1988, the Company has acquired \$138 million of oil and gas properties and field service assets. During 1994, the Company completed \$63 million of acquisitions. In the first six months of 1995, acquisitions totaling \$8 million were completed excluding the completion of the Red Eagle Resources transaction in February. In July 1995, the Company announced the acquisition of additional properties in Pennsylvania and West Virginia for \$20.2 million. The 1994 and 1995 acquisitions were funded by working capital, advances under a revolving credit facility and the issuance of common stock. These acquisitions are discussed below.

##### 1995 ACQUISITIONS

**Big Lake Area.** The Company purchased interests in 135 wells in the Big Lake area of West Texas for \$1.9 million. The Company also assumed operations of these properties.

**Okeene Area.** The Company purchased interests in 56 wells and a waterflood project for \$4.8 million. The Company assumed operations of these properties.

**Laura LaVelle Area.** The Company purchased interests in 3 wells located in the Gaston field of East Texas for \$455,000.

**Gulf Coast Area.** The Company purchased interest in 2 wells located in the Gulf Coast area of South Texas for \$407,000.

**Ohio Trend Area.** The Company acquired certain interests in Lomak managed partnerships for \$151,000.

## 1994 ACQUISITIONS

Red Eagle Resources Corporation. In December 1994, the Company had acquired effective control of Red Eagle principally through the purchase of two common stockholders' holdings. On February 15, 1995, the remaining stockholders of Red Eagle common stock voted to approve the merger of Red Eagle with a wholly owned subsidiary of the Company in exchange for approximately 2.2 million shares of the Company's common stock. The total purchase price was approximately \$31 million. The additional equity of Red Eagle acquired on February 15, 1995 is reflected as minority interest on the Company's balance sheet at December 31, 1994. Red Eagle's assets included interests in approximately 370 producing wells located primarily in the Okeene Area of Oklahoma's Anadarko Basin. At June 30, 1995, Red Eagle owned interests in 370 wells and managed thirty-three limited partnerships.

Grand Banks Energy Company. The Company purchased Grand Banks for \$3.7 million. Grand Banks' assets included interests in 182 producing wells located in west Texas, essentially all are now operated by the Company. Grand Banks owned an average working interest of 70% in the producing reserves, of which 60% was oil. Approximately 40% of Grand Banks' proved reserves are attributed to the Mills-Strain Unit located in the Sharon Ridge Field of Mitchell County, Texas. The Mills-Strain Unit is a waterflood unit producing from the Clearfork Formation at a depth of approximately 2,000 feet and has a remaining reserve life of over 20 years. The Company also purchased, for \$1.2 million, additional interests in a number of the Grand Banks properties.

Gillring Oil Company. The Company acquired Gillring for \$11.5 million. Gillring's assets included \$5.2 million of working capital and interests in 106 producing oil and gas wells located in south Texas. Gillring owned an average working interest of 80% in the producing reserves of which 80% were gas. The Gillring properties are located principally in two fields producing from the Wilcox and Vicksburg formations ranging in depths from 4,000 to 11,000 feet. Subsequent to the purchase of Gillring, the Company acquired, for \$2.1 million, the limited partner interests and associated debt of a partnership for which Gillring acted as general partner.

Big Lake Area. The Company acquired from three parties interests in 51 producing wells in the Big Lake Area of west Texas for \$1.7 million. The Company became operator of 36 additional wells in connection with this acquisition.

Laura Lavelle Area. The Company purchased interests in 67 wells located in Texas for 8 million. The majority of the acquisition related to the Laura LaVelle Field located in east Texas, where the Company now operates sixty wells.

Meadville Area. Additional interests in 436 wells operated by the Company were purchased for \$3.7 million.

Ohio Trend Area. The Company acquired interests in 49 wells located in southern Ohio for \$1.0 million and certain interests in Lomak managed partnerships for \$289,000.

Okeene Area. The Company acquired interests associated with Red Eagle in 70 wells located in the Anadarko Basin of Oklahoma for \$1.7 million.



## DEVELOPMENT

Beginning in late 1993, the Company instituted a development program to compliment its acquisition activities. Approximately \$3.7 million and \$9.5 million of development expenditures were incurred in 1993 and 1994, respectively. The 1994 activity included the drilling of 71 wells and the recompletion of 20 wells. At year end 1994, over 500 proven recompletion and drilling projects had been identified on the Company's properties. In 1995, \$10-\$12 million is expected to be expended on development activities, of which \$3.5 million was spent in the first six months. During this period, sixteen wells were drilled or recompleted.

The Company intends to continue to expand its asset base through additional acquisitions of oil and gas properties within its areas of operations. As the Company expands its inventory of development projects, a larger portion of its growth will be derived from their exploitation. Lomak has acquired oil and gas in a variety of forms. Besides acquiring direct interests, Lomak has acquired companies and partnerships owning such assets. After acquiring these entities, the Company then takes the action necessary to acquire any remaining interests with the goal of dissolving the acquired entity and owning the assets directly. All acquisitions to date have been accounted for as purchases. Accordingly, the results of operations are included in the accompanying financial statements from the respective dates of acquisition.

## UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following table presents unaudited, pro forma operating results as if the transactions had occurred at the beginning of each period presented. The pro forma operating results include the following acquisitions, all of which were accounted for as purchase transactions; (i) the purchase of Grand Banks Energy Company, (ii) the purchase of Gillring Oil Company, and (iii) the purchase of Red Eagle Resources Corporation.

	Six Months Ended June 30,	
	1994	1995
	(in thousands except per share data)	
Revenues . . . . .	\$ 24,514	\$ 22,492
Net income . . . . .	3,422	1,886
Earnings per share . . . . .	.27	.15

The pro forma operating results have been prepared for comparative purposes only. They do not purport to present actual results had the acquisitions been made at the beginning of each period presented or to necessarily be indicative of future operations. Included in the 1994 pro forma financial information are revenues regarding Red Eagle partnership activities which contributed \$.12 per share. These activities have been discontinued and therefore are not reflected in the 1995 results.

## (4) NOTES RECEIVABLE:

At June 30, 1995, the Company had \$165,000 of notes receivable from three of its officers, which were issued in connection with the exercise of stock options held by them. In July 1995, notes from two of the officers amounting to \$105,000 were repaid. The remaining principal is due beginning in March 1997. Interest on the remaining \$60,000 of notes is payable quarterly at a rate of prime plus one percent.

## (5) INDEBTEDNESS:

The Company had the following debt outstanding as of the dates shown. Interest rates at June 30, 1995 are shown parenthetically and dollar amounts are stated in thousands:

	December 31, 1994	June 30, 1995
	-----	----- (unaudited)
Bank credit facility (7.71%) . . . . .	\$ 61,870	\$ 71,100
Other (5.90% - 9.25%) . . . . .	722	535
	-----	-----
	62,592	71,635
Less amounts due within one year . . . . .	707	503
	-----	-----
Senior debt, net . . . . .	\$ 61,885	\$ 71,132
	=====	=====

The Company maintains a \$150 million revolving bank credit facility. The facility provides for a borrowing base which is subject to semi-annual redeterminations. At August 11, 1995, the borrowing base on the credit facility was \$75 million. Upon completion of a pending acquisition, the borrowing base will increase to \$90 million. The facility bears interest at prime rate or LIBOR plus 1.50% (which reduces to 1.25% in certain circumstances) and is secured by substantially all of the Company's oil and gas properties. Interest is payable quarterly and the loan is payable in sixteen quarterly installments beginning October 1, 1997. A commitment fee of 3/8% of the undrawn balance is payable quarterly. It is the Company's policy to extend the term period of the credit facility annually.

The Company's other debt is comprised of a joint venture credit facility and secured equipment financings. The joint venture credit facility bears interest at prime rate plus 3/4% and is payable in quarterly installments through October 1, 1995. At June 30, 1995 the Company owned 50% of the joint venture and therefore included 50% (or \$372,000) of the amount outstanding under the joint venture credit facility. Until repaid in full in June 1995, the Company was liable for an industrial revenue bond in connection with its office building in Ohio. This bond bore interest at 70% of the prime rate.

The debt agreements contain various covenants relating to net worth, working capital maintenance and financial ratio requirements. Interest paid during the six months ended June 30, 1994 and 1995 totaled \$1.1 million and \$2.4 million, respectively.

## (6) COMMITMENTS AND CONTINGENCIES:

In January 1995, a lawsuit (the "Lawsuit") was filed in the Delaware Court of Chancery, New Castle County, against Red Eagle Resources Corporation, each of the members of the Board of Directors of Red Eagle and the Company. The Plaintiff seeks to represent all holders (the "Class") of Red Eagle common stock, excluding the Red Eagle Directors and Lomak. The Lawsuit seeks, among other remedies, some of which are in the alternative, certification of the Lawsuit as a class action, designation of the Plaintiff as representative of the Class and Plaintiff's counsel as counsel to the Class; declaration that the Red Eagle Directors breached their fiduciary duties owed to the Class; and award of unspecified compensatory damages, prejudgment interest and costs and disbursements of the Lawsuit including counsel fees.

The Company is involved in various other 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.

## (7) PREFERRED SHARES AND WARRANTS:

In June 1993, \$5,000,000 (200,000 shares) of 7.5% cumulative convertible exchangeable preferred stock ("7.5% Preferred") was privately placed. The 7.5% Preferred is convertible, at the option of the holders, into 576,945 shares of common stock, at an average conversion price of \$8.67 per share. Beginning in July 1995, the Company may convert the 7.5% Preferred into common stock if the closing price of the common stock has exceeded \$11.475 per share for at least twenty of the thirty preceding trading days. Beginning in July 1996, the Company may redeem the 7.5% Preferred at a 7.5% premium to liquidation value. Holders of the 7.5% Preferred are entitled to two votes per share on matters presented to the shareholders. At the Company's option, it can exchange the 7.5% Preferred for convertible subordinate notes due July 1, 2003. The notes carry the same conversion and redemption terms as the 7.5% Preferred.

Warrants to acquire 40,000 shares of common stock at a price of \$7.50 per share were outstanding at June 30, 1995. These warrants expire in December 1996.

## (8) STOCK OPTION AND PURCHASE PLANS:

The Company maintains a Stock Option Plan which authorizes the grant of options of up to 1.5 million shares of common stock. Under the plan, incentive and non-qualified options may be issued to officers, key employees and consultants. The plan is administered by the Compensation Committee of the Board. All options issued under the plan vest 30% after one year, 60% after two years and 100% after three years. During the six months ended June 30, 1995 options covering 20,001 shares were exercised at \$3.75 per share. At June 30, 1995, a total of 933,149 options were outstanding under the plan, of which 370,994 options were exercisable. The exercise prices of outstanding options in the plan range from \$3.375 to \$9.375 per share.

In 1994, the stockholders approved the 1994 Outside Directors Stock Option Plan (the "Directors Plan"). The Directors Plan covers a maximum of 200,000 shares and only non-employee directors are eligible under it. At June 30, 1995, 44,000 options were outstanding under the Directors Plan and of which 3,600 were exercisable. The exercise price of the outstanding options is \$7.75 per share.

In 1994, the stockholders approved the 1994 Stock Purchase Plan (the "1994 Plan") which authorizes the sale of up to 500,000 shares of common stock to officers, directors, key employees and consultants. Under the Plan, the right to purchase shares at prices ranging from 50% to 85% of market value may be granted. The Company had a 1989 Stock Purchase Plan (the "1989 Plan") which was identical to the 1994 Plan except that it covered 333,333 shares. Upon adoption of the 1994 Plan, the 1989 Plan was terminated. The plan is administered by the Compensation Committee of the Board. During the six months ended June 30, 1995, the Company sold 37,928 unregistered common shares to officers and outside directors. Through June 30, 1995, a total of 340,000 unregistered shares of common stock had been sold under the stock purchase plans, for a total consideration of approximately \$1.5 million at prices equal to 75% of market value at the time of the sale.

## (9) BENEFIT PLAN:

The Company maintains a 401(K) Plan for the benefit of its employees. The Plan permits employees to make contributions on a pre-tax salary reduction basis. The Company makes discretionary contributions to the Plan annually. Company contributions for 1994 totaled \$226,000.

## (10) INCOME TAXES:

In 1993, the Company adopted FASB Statement No. 109, "Accounting for Income Taxes". As permitted by Statement 109, the Company elected not to restate prior year financial statements. As a result of tax basis in excess of the basis on the financial statements at January 1, 1993, the Company estimated deferred tax assets of \$2.6 million and deferred tax liabilities of \$900,000, for net deferred tax assets of \$1.7 million. Due to uncertainty as to the Company's ability to realize the tax benefit, a valuation allowance was established for the full amount of the net deferred tax assets. In 1993, 1994 and the first half of 1995, income taxes were reduced from the statutory rate of 34% by approximately \$500,000, \$900,000 and \$200,000, respectively through realization of a portion of the valuation allowance.

During 1993, the Company acquired Mark Resources Corporation, a taxable business combination accounted for as a purchase. Deferred tax assets of \$3.9 million and a deferred tax liability of \$8.1 million were recorded in the transaction. During 1994, the Company acquired Gillring Oil Company and Grand Banks Energy Company, taxable business combinations accounted for as purchases. Deferred tax assets of \$3.5 million and deferred tax liabilities of \$3.4 million were recorded in these transactions. In late 1994, the Company acquired Red Eagle Resources Corporation, a taxable business combination accounted for as a purchase. Deferred tax liabilities of \$12.7 million and deferred tax assets of \$500,000 were recorded in this transaction.

For the six months ended June 30, 1994 and 1995, the Company made a provision for federal income taxes of \$66,000 and \$547,000, respectively. At June 30, 1995, the Company had available for federal income tax reporting purposes net operating loss carryovers of approximately \$11.7 million which are subject to annual limitations as to their utilization and expire between 1996 and 2009. The Company has alternative minimum tax net operating loss carryovers of \$6.9 million which are subject to annual limitations as to their utilization and expire from 1996 to 2009. The Company has statutory depletion carryover of approximately \$8.5 million and an alternative minimum tax credit carryover of \$700,000. The statutory depletion carryover and alternative minimum tax credit carryover are not subject to limitation or expiration.

## (11) MAJOR CUSTOMERS:

The Company markets its oil and gas production on a competitive basis. The type of contract under which gas production is sold varies but can generally be grouped into three categories: (a) life-of-the-well; (b) long-term (1 year or longer); and (c) short-term contracts which may have a primary term of one year, but which are cancelable at either party's discretion in 30-120 days. Over 70% of developed gas reserves are sold under market sensitive contracts or fixed price contracts which expire within the next twelve months. For the six months ended June 30, 1995, no customer accounted for 10% or more of the Company's total oil and gas revenues. Oil is sold on a basis such that the purchaser can be changed on 30 days notice. The price received is generally equal to a posted price set by the major purchasers in the area. The Company sells to oil purchasers on a basis of price and service.

## (12) OIL AND GAS ACTIVITIES:

The following summarizes selected information with respect to oil and gas activities (in thousands):

	December 31, 1994 -----	June 30, 1995 ----- (unaudited)
Capitalized costs:		
Proved properties . . . . .	\$ 132,775	\$ 153,163
Unproved properties . . . . .	598	1,947
	-----	-----
Total . . . . .	133,373	155,110
Accumulated depletion, depreciation and amortization . . . . .	20,409	25,866
	-----	-----
Net capitalized costs . . . . .	\$ 112,964 =====	\$ 129,244 =====
	Year Ended December 31, 1994 -----	Six Months Ended June 30, 1995 ----- (unaudited)
Costs incurred:		
Property acquisition . . . . .	\$ 59,501	\$ 18,561
Development . . . . .	9,518	3,534
Exploration . . . . .	192	123
	-----	-----
Total costs incurred . . . . .	\$ 69,211 =====	\$ 22,218 =====

## (13) SUBSEQUENT EVENT:

On June 30, 1995, Lomak Petroleum, Inc. ("Lomak") executed a purchase and sale agreement with a subsidiary of Parker & Parsley Petroleum Company to acquire properties in Pennsylvania and West Virginia for \$20.2 million. The acquisition includes approximately 825 producing gas wells, 300 miles of gas gathering lines, 16,400 net acres of undeveloped leases and associated real estate and equipment. Over 90% of the reserves are located in proximity to Lomak's existing Pennsylvania operations. The properties are also estimated to contain over 50 proven drilling locations.

## (14) RELATED PARTY TRANSACTIONS:

Mr. Edelman, Chairman of the Company, is also an executive officer and shareholder of Snyder Oil Corporation ("SOCO"). At June 30, 1995, Mr. Edelman owned 6.4% of the Company's common stock. In 1994, the Company repurchased 30,000 shares of its common stock from SOCO for \$240,000. The purchase price was based upon the prior day's closing price for the stock as quoted on NASDAQ. By June 30, 1995, SOCO had sold all of its shares of the Company's common stock.

During 1994 and the six months ended June 30, 1995, the Company incurred fees of \$369,000 and \$145,000, respectively, to the Hawthorne Company in connection with acquisitions. Mr. Aikman, a director of the Company, is an executive officer and a principal owner of the Hawthorne Company. The fees were similar to those paid by the Company to third parties for similar services.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
-----  
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS  
-----

FACTORS AFFECTING FINANCIAL CONDITION AND LIQUIDITY

During the three months ended June 30, 1995, the Company added \$5.4 million of assets and increased stockholders' equity by \$1.2 million. The growth was achieved primarily through acquisitions and development. Net income for the second quarter of 1995 increased 38% to \$1 million as compared to \$700,000 in the prior year. The increases were primarily due to higher production volumes attributable to acquisitions and development projects. Working capital at June 30, 1995 was \$4.7 million, representing a \$3.7 million increase over the corresponding amount at December 31, 1994. At June 30, 1995, the Company had \$5.3 million in cash and total assets of \$157 million. During the quarter, senior debt rose from \$66.8 million to \$71.6 million.

At June 30, 1995, capitalization totaled \$147 million, of which 40% was represented by stockholders' equity, 48% by long-term debt and the remainder by deferred taxes. Essentially all of the long-term debt is comprised of borrowings under a \$150 million revolving bank credit facility. The facility currently provides for quarterly payments of interest with principal payments beginning October 1997. On August 11, 1995, the available borrowing base under the facility was \$75 million, with \$71.1 million outstanding. Upon completion of a pending acquisition, the borrowing base will increase to \$90 million.

For the three months ended June 30, 1995, cash flow from operations totaled \$4.8 million, a 36% increase over the prior year period. Cash flow plus bank borrowings funded \$9.2 million of acquisitions and development expenditures. The Company expects to continue to fund its acquisition and development activities from internally generated funds, borrowings under its credit facility and the issuance of debt and equity securities. During the next twelve months, non-discretionary capital requirements include \$375,000 of preferred dividends and \$503,000 of debt principal payments. Additionally, the Company expects to continue its acquisition and development activities in 1995. Although these expenditures are principally discretionary, the Company is currently projecting that it will spend \$10-\$12 million on development activities in 1995, of which \$3.5 million was incurred in the first six months of 1995. Cash flow from operations is expected to be more than sufficient to fund development expenditures with the remainder available to fund acquisitions. In 1994, the Company instituted a program to repurchase its common stock from stockholders who own less than 100 shares. Through June 30, 1995, a total of 37,700 shares had been repurchased for \$309,500, of which 8,600 were repurchased in 1995.

All oil and gas properties are subject to production declines over time. Through acquisitions, the Company has increased its reserves in each of the last five years. It is anticipated that the Company will continue to build reserves primarily through acquisitions and development over the next several years. The profitability of production and, to a lesser extent, other areas of the Company's business are influenced by energy prices.

RESULTS OF OPERATIONS

The Company reported net income for the three months ended June 30, 1995 of \$1 million, a 38% increase over second quarter 1994. The increase is the result of higher production volumes attributable to acquisitions and development.

During the quarter, oil and gas production volumes increased 35% to 615,000 equivalent barrels, an average of 6,762 BOE per day. The higher production volumes were partially offset by an 8% decrease in the average price received per BOE of production from \$13.90 to \$12.85. The average oil price increased 10% from \$15.56 to \$17.19 per barrel while average gas prices dropped 19% from \$2.17 to \$1.75 per Mcf. As a result of the Company's larger base of producing properties, operating expenses increased 25% to \$3.3 million. However, the average operating cost per BOE produced decreased 8% from \$5.79 in 1994 to \$5.34 in 1995.

Gas transportation and marketing revenues rose 45% to \$729,000 versus \$503,000 in the second quarter of 1994. The higher revenues were due primarily to the increasing activity in the marketing of oil and gas and increased gas transportation revenues on its growing number of operated properties. Coupled with this increase in gas transportation and marketing revenues was a 66% increase in associated expenses for the year. The disproportionate increase in expenses was entirely due to an increase in the amount of general and administrative expenses allocated to these activities.

Field services revenues increased 6% in the second quarter of 1995, despite the sale of virtually all well servicing and brine hauling and disposal assets in Appalachia in late 1994. The revenues eliminated due to the sale were offset by higher well operating revenues on properties acquired in 1994. Additionally, field service activities increased significantly in the second quarter 1995 due to the Red Eagle acquisition. Field services expenses decreased 23% in the second quarter of 1995 versus 1994. The increased costs of well operations were more than offset by the elimination of costs resulting from the 1994 sale of the well servicing and brine hauling and disposal activities.

Exploration expense increased 53% due to the Company's increased involvement in acreage acquisition, seismic and exploratory drilling. All of these expenditures relate to further expanding the Company's existing core operating areas.

General and administrative expenses increased 31% from \$583,000 in 1994 to \$761,000 in 1995. As a percentage of revenues, general and administrative expenses were 7% in the second quarter 1995, level with 1994. Interest and other income rose 193% primarily due to a higher level of non-strategic property sales. Interest expense increased 82% to \$1.2 million primarily as a result of the higher average outstanding debt balance during the period due to the financing of acquisitions and, to a lesser extent, rising interest rates.

Depletion, depreciation and amortization expense rose 15% as a result of increased production volumes. Offsetting the effect of higher production volumes was an 11% reduction in the depletion rate to \$4.38 per BOE in the second quarter of 1995.

## Item 1. Legal Proceedings

In January 1995, a lawsuit (the "Lawsuit") was filed in the Delaware Court of Chancery, New Castle County, against Red Eagle Resources Corporation, each of the members of the Board of Directors of Red Eagle and the Company. The Plaintiff seeks to represent all holders (the "Class") of Red Eagle common stock, excluding the Red Eagle Directors and Lomak. The Lawsuit seeks, among other remedies, some of which are in the alternative, certification of the Lawsuit as a class action, designation of the Plaintiff as representative of the Class and Plaintiff's counsel as counsel to the Class; declaration that the Red Eagle Directors breached their fiduciary duties owed to the Class; and award of unspecified compensatory damages, prejudgment interest and costs and disbursements of the Lawsuit including counsel fees.

Items 2 - 5. Not applicable

## Item 6. Exhibits and Report on Form 8-K

## (a) Exhibits

- 11.1 Statement re: computation of per share earnings for the three months ended June 30, 1994 and 1995, filed herewith.
- 11.2 Statement re: computation of per share earnings for the six months ended June 30, 1994 and 1995, filed herewith.
- 27 Financial data schedule

## (b) Reports on Form 8-K

Current report on Form 8-K dated July 13, 1995 regarding the acquisition of oil and gas property from a subsidiary of Parker & Parsley Petroleum Company.



## 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.

LOMAK PETROLEUM, INC.

By: /s/ (Thomas W. Stoelk)

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Thomas W. Stoelk  
Vice President - Finance  
Chief Financial Officer

August 11, 1995

## EXHIBIT INDEX

Exhibit Number	Description of Exhibit	Sequentially Numbered Page
11.1	Statement re: computation of per share earnings for the three months ended June 30, 1994 and 1995, filed herewith.	19
11.2	Statement re: computation of per share earnings for the six months ended June 30, 1994 and 1995, filed herewith.	20
27	Financial data schedule	21

## EXHIBIT 11.1

## LOMAK PETROLEUM, INC. AND SUBSIDIARIES

Computation of Earnings Per Common  
and Common Equivalent Shares  
(In thousands, except per share data)

	Three Months Ended June 30,	
	1994	1995
Average shares outstanding	8,974	11,901
Net effect of conversion of warrants and stock options	144	174
Total primary and fully diluted shares	9,118	12,075
Net income	\$ 746	\$ 1,026
Less preferred stock dividends	(94)	(94)
Net income applicable to common shares	\$ 652	\$ 932
Earnings per common share	\$ .07	\$ .08

## EXHIBIT 11.2

## LOMAK PETROLEUM, INC. AND SUBSIDIARIES

Computation of Earnings Per Common  
and Common Equivalent Shares  
(In thousands, except per share data)

	Six Months Ended June 30,	
	1994	1995
Average shares outstanding	8,790	11,178
Net effect of conversion of warrants and stock options	152	137
Total primary and fully diluted shares	8,942	11,315
Net income	\$ 1,166	\$ 1,821
Less preferred stock dividends	(187)	(187)
Net income applicable to common shares	\$ 979	\$ 1,634
Earnings per common share	\$ .11	\$ .14

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	JAN-01-1995	
	JUN-30-1995	
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	.14	