
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2000

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES ACT OF 1934

FOR THE TRANSITION PERIOD FROM ____________ TO ____________

COMMISSION FILE NO. 1-13726

CHESAPEAKE ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

OKLAHOMA	73-1395733
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
6100 NORTH WESTERN AVENUE OKLAHOMA CITY, OKLAHOMA	73118
(Address of principal executive offices)	(Zip Code)

(405) 848-8000
(Registrant's telephone number, including area code)

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 [ ]

At November 10, 2000, there were 152,106,700 shares of the registrant's $.01 par value Common Stock outstanding.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

INDEX TO FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2000

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	SEPTEMBER 30, 2000	DECEMBER 31, 1999
	($ IN THOUSANDS)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 12,727	$ 38,658
Restricted cash	--	192
Accounts receivable:		
Oil and gas sales	36,124	17,045
Oil and gas marketing sales	35,295	18,199
Joint interest and other, net of allowances of $1,101,000 and $3,218,000, respectively	21,545	11,247
Related parties	4,948	4,574
Inventory	3,274	4,582
Other	3,274	3,049
Total current assets	117,187	97,546
PROPERTY AND EQUIPMENT:		
Oil and gas properties, at cost based on full-cost accounting:		
Evaluated oil and gas properties	2,482,001	2,315,348
Unevaluated properties	30,351	40,008
Less: accumulated depreciation, depletion and amortization	(1,744,006)	(1,670,542)
	768,346	684,814
Other property and equipment	72,094	67,712
Less: accumulated depreciation and amortization	(35,987)	(33,429)
Total property and equipment	804,453	719,097
INVESTMENT IN GOTHIC ENERGY CORPORATION	114,366	10,000
OTHER ASSETS	24,025	23,890
TOTAL ASSETS	$ 1,060,031	$ 850,533
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
CURRENT LIABILITIES:		
Notes payable and current maturities of long-term debt	$ 817	$ 763
Accounts payable	31,520	24,822
Accrued liabilities and other	49,713	34,713
Revenues and royalties due others	30,004	27,888
Total current liabilities	112,054	88,186
LONG-TERM DEBT, NET	971,040	964,097
REVENUES AND ROYALTIES DUE OTHERS	7,825	9,310
DEFERRED INCOME TAXES	9,068	6,484
STOCKHOLDERS' EQUITY (DEFICIT):		
Preferred Stock, $.01 par value, 10,000,000 shares authorized; 624,037 and 4,596,400 shares of 7% cumulative convertible stock issued and outstanding at September 30, 2000 and December 31, 1999, respectively, entitled in liquidation (including dividends in arrears) to $35.6 million and $249.1 million, respectively	31,202	229,820
Common Stock, par value of $.01, 250,000,000 shares authorized; 156,711,224 and 105,858,580 shares issued at September 30, 2000 and December 31, 1999, respectively	1,567	1,059
Paid-in capital	951,077	682,905
Accumulated earnings (deficit)	(1,007,126)	(1,093,929)
Accumulated other comprehensive income (loss)	(3,922)	196
Less: treasury stock, at cost; 3,806,185 and 10,856,185 common shares at September 30, 2000 and December 31, 1999, respectively	(12,754)	(37,595)
Total stockholders' equity (deficit)	(39,956)	(217,544)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 1,060,031	$ 850,533

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

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

	THREE MONTHS ENDED SEPTEMBER 30, 2000	THREE MONTHS ENDED SEPTEMBER 30, 1999	NINE MONTHS ENDED SEPTEMBER 30, 2000	NINE MONTHS ENDED SEPTEMBER 30, 1999
REVENUES:				
Oil and gas sales	$ 123,971	$ 78,521	$ 311,485	$ 198,599
Oil and gas marketing sales	44,211	23,619	105,821	50,110
Total revenues	168,182	102,140	417,306	248,709
OPERATING COSTS:				
Production expenses	11,696	11,747	36,822	36,922
Production taxes	6,198	3,652	17,131	8,440
General and administrative	3,377	2,736	9,597	10,028
Oil and gas marketing expenses	42,917	22,851	102,583	47,809
Oil and gas depreciation, depletion and amortization	25,227	22,816	74,587	70,202
Depreciation and amortization of other assets	1,849	1,840	5,551	5,978
Total operating costs	91,264	65,642	246,271	179,379
INCOME FROM OPERATIONS	76,918	36,498	171,035	69,330
OTHER INCOME (EXPENSE):				
Interest and other income	867	2,686	3,726	6,526
Interest expense	(21,680)	(20,420)	(64,357)	(60,569)
Total other income (expense)	(20,813)	(17,734)	(60,631)	(54,043)
INCOME BEFORE INCOME TAXES	56,105	18,764	110,404	15,287
INCOME TAX EXPENSE	1,416	649	2,879	975
NET INCOME	54,689	18,115	107,525	14,312
Preferred stock dividends	(965)	(4,381)	(7,914)	(12,433)
Gain (loss) on redemption of preferred stock	(5,321)	--	6,574	--
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 48,403	$ 13,734	$ 106,185	$ 1,879
EARNINGS PER COMMON SHARE:				
Basic	$ .33	$ .14	$ .88	$ .02
Assuming Dilution	$ .31	$ .13	$ .73	$ .02
WEIGHTED AVERAGE COMMON AND COMMON EQUIVALENT SHARES OUTSTANDING:				
Basic	146,593	97,126	121,089	97,126
Assuming dilution	158,847	103,576	147,428	101,625

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999
	($ IN THOUSANDS)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 107,525	$ 14,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	77,434	73,735
Amortization of loan costs	2,704	2,445
Amortization of bond discount	63	63
Loss (gain) on sale of fixed assets and other	8	(377)
Equity in losses of equity investees	131	306
Bad debt expense	256	--
Other	(47)	--
Deferred income taxes	2,879	975
Cash provided by operating activities before changes in current assets and liabilities	190,953	91,459
Changes in current assets and liabilities	(16,239)	2,682
Cash provided by operating activities	174,714	94,141
CASH FLOWS FROM INVESTING ACTIVITIES:		
Exploration and development of oil and gas properties	(127,811)	(106,413)
Purchases of oil and gas properties	(36,315)	(11,077)
Sales of oil and gas properties	1,429	36,365
Sales of non-oil and gas assets	1,134	5,438
Additions to other property and equipment	(5,707)	(475)
Investment in Gothic Energy Corporation	(24,622)	--
Additions to other long-term investments	(6,194)	--
Long-term loans made to third parties	--	(523)
Other	(2,482)	(675)
Cash used in investing activities	(200,568)	(77,360)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term borrowings	166,000	29,000
Payments on long-term borrowings	(158,500)	(54,000)
Cash payments with preferred stock swaps	(8,269)	--
Cash received from exercise of stock options	1,005	419
Purchase of treasury stock	--	(53)
Cash provided by (used in) financing activities	236	(24,634)
EFFECT OF CHANGES IN EXCHANGE RATE ON CASH	(313)	3,705
NET DECREASE IN CASH AND CASH EQUIVALENTS	(25,931)	(4,148)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	38,658	29,520
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 12,727	$ 25,372

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2000	1999	2000	1999
	($ IN THOUSANDS)			
Net income	$ 54,689	$ 18,115	$ 107,525	$ 14,312
Other comprehensive income (loss) - foreign currency translation adjustments	(1,165)	80	(4,118)	3,705
Comprehensive income	$ 53,524	$ 18,195	$ 103,407	$ 18,017

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

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000
(UNAUDITED)

1. ACCOUNTING PRINCIPLES

The accompanying unaudited consolidated financial statements of Chesapeake Energy Corporation (the "Parent") and Subsidiaries (collectively with the Parent, the "Company" or "Chesapeake") have been prepared in accordance with the instructions to Form 10-Q as prescribed by the Securities and Exchange Commission. This Form 10-Q should be read in conjunction with the Company's December 31, 1999 Form 10-K. All material adjustments (consisting solely of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods have been reflected. The results for the three and nine months ended September 30, 2000 are not necessarily indicative of the results to be expected for the full year.

This Form 10-Q relates to the three and nine months ended September 30, 2000 (the "Current Quarter" and "Current Period," respectively) and September 30, 1999 (the "Prior Quarter" and "Prior Period," respectively).

2. LEGAL PROCEEDINGS

Bayard Securities Litigation

This putative class action alleging violations of the Securities Act of 1933 and the Oklahoma Securities Act was first filed in February 1998 against the Company and others on behalf of investors who purchased common stock of Bayard Drilling Technologies, Inc. ("Bayard") in, or traceable to, its initial public offering in November 1997. Total proceeds of the offering were $254 million, of which the Company received net proceeds of $90 million as a selling shareholder. Plaintiffs allege that the Company, a major customer of Bayard's drilling services and the owner of 30.1% of Bayard's common stock outstanding prior to the offering, was a controlling person of Bayard. Alleged defective disclosures are claimed to have resulted in a decline in Bayard's share price following the public offering. Plaintiffs seek a determination that the suit is a proper class action and damages in an unspecified amount or rescission, together with interest and costs of litigation, including attorneys' fees.

On August 24, 1999, the court dismissed plaintiffs' claims against the Company under Section 15 of the Securities Act of 1933 alleging that the Company was a "controlling person" of Bayard. Claims under Section 11 of the Securities Act of 1933 and Section 408 of the Oklahoma Securities Act continue to be asserted against the Company. The Company believes that it has meritorious defenses to these claims and intends to defend this action vigorously. No estimate of loss or range of estimate of loss, if any, can be made at this time. Bayard, which was acquired by Nabors Industries, Inc. in April 1999, has been reimbursing the Company for its costs of defense as incurred.

Patent Litigation

On September 21, 1999, judgment was entered in favor of the Company in a patent infringement lawsuit tried to the U.S. District Court for the Northern District of Texas, Fort Worth Division. Filed in October 1996, the lawsuit asserted that the Company had infringed a patent belonging to Union Pacific Resources Company. The court declared the patent invalid, held that the Company could not have infringed the patent, dismissed all of UPRC's claims with prejudice and assessed court costs against UPRC. Appeals of the judgment by both the Company and UPRC are pending in the Federal Circuit Court of Appeals. The Company has appealed the trial court's ruling denying the Company's request for attorneys' fees. Management is unable to predict the outcome of these appeals, but believes the invalidity of the patent will be upheld on appeal.

West Panhandle Field Cessation Cases

A subsidiary of the Company, Chesapeake Panhandle Limited Partnership ("CP") (f/k/a MC Panhandle, Inc.), and two subsidiaries of Kinder Morgan, Inc. are defendants in 13 lawsuits filed between June 1997 and January 1999 by royalty owners seeking the cancellation of oil and gas leases in the West Panhandle Field in Texas. The Company acquired MC Panhandle, Inc. on April 28, 1998. MC Panhandle, Inc. has owned the leases since

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000
(UNAUDITED)

January 1, 1997, and the co-defendants are prior lessees. Plaintiffs claim the leases terminated upon the cessation of production for various periods occurring primarily during the 1960s. In addition, plaintiffs seek to recover conversion damages, exemplary damages, attorneys' fees and interest. Defendants assert that any cessation of production was excused and have pled affirmative defenses of limitations, waiver, temporary estoppel, laches and title by adverse possession. Four of the 13 cases have been tried, no trial dates have been set for the other cases.

Of the ten cases filed in the District Court of Moore County, Texas, 69th Judicial District, three have been tried to a jury. Judgment has been entered against CP and its co-defendants in all three cases, although there was initially a jury verdict in two of the cases in favor of defendants. The Company's aggregate liability for these trial court judgments is $1.3 million of actual damages and $1.2 million of exemplary damages, and jointly and severally with the other two defendants, $1.5 million of actual damages and $337,000 of attorneys' fees in the event of an appeal, sanctions, interest and court costs. The trial court also quieted title to the leases in dispute in plaintiffs. CP and the other defendants have each appealed the judgments and posted supersedeas bonds. In October 2000, the appellate court issued decisions in two of these cases sustaining the trial court's finding that the leases had terminated due to a cessation of production and that the plaintiffs were entitled to actual damages and attorneys' fees. However, the appellate court reduced the actual damages awards in the two cases by an aggregate of $612,000 and reversed the exemplary damages award of $1.2 million against each of the three defendants. CP and the other defendants have filed motions for rehearing.

There are three related cases pending in other courts. One was tried in the U.S. District Court, Northern District of Texas, Amarillo Division, and resulted in a jury verdict for CP and its co-defendants. Judgment has not yet been entered in that case.

The Company has previously established an accrued liability that management believes will be sufficient to cover the estimated costs of litigation for each of these cases. Because of the inconsistent verdicts reached by the juries in the four cases tried to date and because the amount of damages sought is not specified in all of the other cases, the outcome of the remaining trials and the amount of damages that might ultimately be awarded could differ from management's estimates. Management believes, however, that the leases are valid, there is no basis for exemplary damages, fraud or bad faith trespass. CP and the other defendants intend to vigorously defend against the plaintiffs' claims.

The Company is currently involved in various other routine disputes incidental to its business operations. While it is not possible to determine the ultimate disposition of these matters, management, after consultation with legal counsel, is of the opinion that the final resolution of all such currently pending or threatened litigation is not likely to have a material adverse effect on the consolidated financial position or results of operations of the Company.

3. NET INCOME PER SHARE

Statement of Financial Accounting Standards No. 128, Earnings Per Share ("SFAS 128") requires presentation of "basic" and "diluted" earnings per share, as defined, on the face of the statements of operations for all entities with complex capital structures. SFAS 128 requires a reconciliation of the numerator and denominator of the basic and diluted EPS computations.

The following weighted securities were not included in the calculation of diluted earnings per share, as the effect was antidilutive:

- For the Current Quarter, the Current Period, the Prior Quarter and the Prior Period, outstanding options to purchase 0.3 million, 0.7 million, 0.8 million and 2.3 million shares of common stock at a weighted average

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000
(UNAUDITED)

exercise price of $15.65, $10.49, $9.81 and $5.00, respectively, were antidilutive because the exercise prices of the options were greater than the average market price of the Company's common stock.

- For the Prior Quarter and the Prior Period, the assumed conversion of the outstanding preferred stock (convertible into 33 million common shares in the Prior Quarter and the Prior Period) was not included as the effect was antidilutive.

- In the Current Quarter, the calculation does not include the effect of the assumed conversion at the beginning of the period of 933,000 preferred shares exchanged for common shares during the period as the effect was antidilutive.

A reconciliation for the Current Quarter, Prior Quarter and Current Period and Prior Period is as follows:

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000
(UNAUDITED)

	INCOME (NUMERATOR)	SHARES (DENOMINATOR)	PER SHARE AMOUNT
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
FOR THE QUARTER ENDED SEPTEMBER 30, 2000:			
BASIC EPS			
Income available to common stockholders	$ 48,403	146,593	$ .33
EFFECT OF DILUTIVE SECURITIES			
Assumed conversion of 624,037 shares of preferred stock at beginning of period:			
Common shares assumed issued	--	4,489	
Preferred stock dividends	546	--	
Employee stock options	--	7,765	
DILUTED EPS			
Income available to common stockholders and assumed conversions	$ 48,949	158,847	$ .31
FOR THE QUARTER ENDED SEPTEMBER 30, 1999:			
BASIC EPS			
Income available to common stockholders	$ 13,734	97,126	$ 0.14
EFFECT OF DILUTIVE SECURITIES			
Employee stock options	--	6,450	
DILUTED EPS			
Income available to common stockholders and assumed conversions	$ 13,734	103,576	$ 0.13
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000:			
BASIC EPS			
Income available to common stockholders	$ 106,185	121,089	$ .88
EFFECT OF DILUTIVE SECURITIES			
Assumed conversion at the beginning of the period of preferred shares exchanged during the period:			
Common shares assumed issued	--	15,282	
Preferred stock dividends	6,276	--	
Gain on redemption of preferred stock	(6,574)	--	
Assumed conversion of 624,037 shares of preferred stock at beginning of period:			
Common shares assumed issued	--	4,489	
Preferred stock dividends	1,638	--	
Employee stock options	--	6,568	
DILUTED EPS			
Income available to common stockholders and assumed conversions	$ 107,525	147,428	$ .73
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999:			
BASIC EPS			
Income available to common stockholders	$ 1,879	97,126	$ 0.02
EFFECT OF DILUTIVE SECURITIES			
Employee stock options	--	4,499	
DILUTED EPS			
Income available to common stockholders and assumed conversions	$ 1,879	101,625	$ 0.02

In the Current Quarter, the Company engaged in a number of unsolicited stock exchange transactions with institutional investors. The Company exchanged a total of 9.2 million newly issued shares of common stock for 933,000 shares of its issued and outstanding preferred stock with a liquidation value of $46.7 million plus dividends in arrears of $6.1 million. All preferred shares acquired in these transactions were cancelled and retired and have the status of authorized but unissued shares of undesignated preferred stock. A loss on redemption of the preferred shares equal to $5.3 million was recognized as a decrease to net income available to common shareholders in the Current Quarter in determining basic earnings per share. The loss represented the excess of (i) the market value of the common stock issued in exchange for the preferred shares over (ii) the liquidation value of the preferred shares that were retired plus dividends in arrears which had reduced prior EPS.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000
(UNAUDITED)

In the Current Period, a total of 43.4 million shares of common stock, plus a cash payment of $8.3 million, were exchanged for 3,972,363 shares of preferred stock. These transactions reduced (i) the number of preferred shares from 4.6 million to 0.6 million, (ii) the liquidation value of the preferred stock from $229.8 million to $31.2 million, and (iii) dividends in arrears by $22.9 million to $4.4 million. A gain on redemption of all preferred shares exchanged during the Current Period of $6.6 million ($5.3 million loss related to the Current Quarter) is reflected in net income available to common shareholders in determining basic earnings per share.

The Company may acquire additional shares of preferred stock in the future through negotiations with individual holders and, beginning May 1, 2001, may redeem outstanding shares of preferred stock for $52.45 per share plus accumulated and unpaid dividends in cash and/or common stock.

4. SENIOR NOTES

9.625% Notes

The Company has outstanding $500 million in aggregate principal amount of 9.625% senior notes which mature May 1, 2005. The 9.625% notes bear interest at the rate of 9.625%, payable semiannually on each May 1 and November 1. The 9.625% notes are senior, unsecured obligations of the Parent and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

9.125% Notes

The Company has outstanding $120 million in aggregate principal amount of 9.125% senior notes which mature April 15, 2006. The 9.125% notes bear interest at an annual rate of 9.125%, payable semiannually on each April 15 and October 15. The 9.125% notes are senior, unsecured obligations of the Parent and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

7.875% Notes

The Company has outstanding $150 million in aggregate principal amount of 7.875% senior notes which mature March 15, 2004. The 7.875% notes bear interest at the rate of 7.875%, payable semiannually on each March 15 and September 15. The 7.875% notes are senior, unsecured obligations of the Parent and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

8.5% Notes

The Company has outstanding $150 million in aggregate principal amount of 8.5% senior notes which mature March 15, 2012. The 8.5% notes bear interest at the rate of 8.5%, payable semiannually on each March 15 and September 15. The 8.5% notes are senior, unsecured obligations of the Parent and are fully and unconditionally guaranteed, jointly and severally, by the Guarantor Subsidiaries.

The Parent is a holding company and owns no operating assets and has no significant operations independent of its subsidiaries. The Parent's obligations under its senior notes have been fully and unconditionally guaranteed, on a joint and several basis, by each of the Parent's "Restricted Subsidiaries" (as defined in the respective indentures governing the senior notes) (collectively, the "Guarantor Subsidiaries"). Each of the Guarantor Subsidiaries is a direct or indirect wholly-owned subsidiary of the Parent.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2000
(UNAUDITED)

The senior note Indentures contain certain covenants, including covenants limiting the Parent and the Guarantor Subsidiaries with respect to asset sales, restricted payments, the incurrence of additional indebtedness and the issuance of preferred stock, liens, sale and leaseback transactions, lines of business, dividend and other payment restrictions affecting Guarantor Subsidiaries, mergers or consolidations, and transactions with affiliates. The Company is obligated to repurchase the 9.625% and 9.125% senior notes in the event of a change of control or certain asset sales.

These senior note indentures also limit the Company's ability to make restricted payments (as defined), including the payment of preferred stock dividends, unless certain tests are met. From December 31, 1998 through March 31, 2000, the Company was unable to meet the requirements to incur additional unsecured indebtedness, and consequently was not able to pay cash dividends on its 7% cumulative convertible preferred stock. The Company had accumulated dividends in arrears of $4.4 million related to its preferred stock as of September 30, 2000. As a result of the Company's failure to pay dividends for six quarterly periods, the holders of preferred stock were entitled to elect two new directors to the Board following May 1, 2000. On September 22, 2000, the Company declared a regular quarterly dividend and a special dividend equal to all unpaid dividends on its 7% cumulative convertible preferred stock, both payable November 1, 2000 to shareholders of record on October 16, 2000. The total combined dividend of $7.444 per share was paid November 1, 2000, eliminating the right of preferred stockholders to elect directors.

Set forth below are condensed consolidating financial statements of the Guarantor Subsidiaries, the Company's subsidiaries which are not guarantors of the senior notes (the "Non-Guarantor Subsidiary") and the Parent. Separate financial statements of each Guarantor Subsidiary have not been provided because management has determined that they are not material to investors.

Chesapeake Energy Marketing, Inc. ("CEMI") was a Non-Guarantor Subsidiary for all periods presented. During the Current Quarter, the Company formed Chesapeake Merger 2000 Corp. for the purpose of effecting the pending merger with Gothic Energy Corporation. This subsidiary is a Non-Guarantor Subsidiary which has no assets or operations. All of the Parent's other subsidiaries were Guarantor Subsidiaries during all periods presented.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF SEPTEMBER 30, 2000
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ (13,459)	$ 3,568	$ 22,618	$ --	$ 12,727
Accounts receivable, net	75,010	41,354	--	(18,452)	97,912
Inventory	2,948	326	--	--	3,274
Other	2,724	14	536	--	3,274
Total current assets	67,223	45,262	23,154	(18,452)	117,187
PROPERTY AND EQUIPMENT:					
Evaluated oil and gas properties	2,482,001	--	--	--	2,482,001
Unevaluated properties	30,351	--	--	--	30,351
Other property and equipment	30,178	20,567	21,349	--	72,094
Less: accumulated depreciation, depletion and amortization	(1,759,695)	(18,056)	(2,242)	--	(1,779,993)
Total property and equipment	782,835	2,511	19,107	--	804,453
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES	912,162	--	373,864	(1,286,026)	--
INVESTMENT IN GOTHIC ENERGY CORPORATION	--	--	114,366	--	114,366
OTHER ASSETS	6,109	8,316	17,253	(7,653)	24,025
TOTAL ASSETS	$ 1,768,329	$ 56,089	$ 547,744	$ (1,312,131)	$ 1,060,031
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	$ 817	$ --	$ --	$ --	$ 817
Accounts payable and other	66,053	33,090	30,662	(18,568)	111,237
Total current liabilities	66,870	33,090	30,662	(18,568)	112,054
LONG-TERM DEBT, NET	51,817	--	919,223	--	971,040
REVENUES AND ROYALTIES DUE OTHERS	7,825	--	--	--	7,825
DEFERRED INCOME TAXES	9,068	--	--	--	9,068
INTERCOMPANY PAYABLES	1,467,724	(756)	(1,467,067)	99	--
STOCKHOLDERS' EQUITY (DEFICIT):					
Common stock	26	1	1,558	(18)	1,567
Other	164,999	23,754	1,063,368	(1,293,644)	(41,523)
	165,025	23,755	1,064,926	(1,293,662)	(39,956)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 1,768,329	$ 56,089	$ 547,744	$ (1,312,131)	$ 1,060,031

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

CONDENSED CONSOLIDATING BALANCE SHEET

AS OF DECEMBER 31, 1999
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARY	PARENT	ELIMINATIONS	CONSOLIDATED
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ (6,964)	$ 20,409	$ 25,405	$ --	$ 38,850
Accounts receivable, net	45,170	18,297	73	(12,475)	51,065
Inventory	4,183	399	--	--	4,582
Other	1,997	700	352	--	3,049
Total current assets	44,386	39,805	25,830	(12,475)	97,546
PROPERTY AND EQUIPMENT:					
Evaluated oil and gas properties	2,311,633	3,715	--	--	2,315,348
Unevaluated properties	40,008	--	--	--	40,008
Other property and equipment	29,088	20,521	18,103	--	67,712
Less: accumulated depreciation, depletion and amortization	(1,683,890)	(18,205)	(1,876)	--	(1,703,971)
Total property and equipment	696,839	6,031	16,227	--	719,097
INVESTMENTS IN SUBSIDIARIES AND INTERCOMPANY ADVANCES	806,180	--	493,738	(1,299,918)	--
INVESTMENT IN GOTHIC ENERGY CORPORATION	10,000	--	--	--	10,000
OTHER ASSETS	6,402	8,409	16,765	(7,686)	23,890
TOTAL ASSETS	$ 1,563,807	$ 54,245	$ 552,560	$ (1,320,079)	$ 850,533
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)					
CURRENT LIABILITIES:					
Notes payable and current maturities of long-term debt	$ --	$ 763	$ --	$ --	$ 763
Accounts payable and other	63,194	19,265	17,466	(12,502)	87,423
Total current liabilities	63,194	20,028	17,466	(12,502)	88,186
LONG-TERM DEBT, NET	43,500	1,437	919,160	--	964,097
REVENUES AND ROYALTIES DUE OTHERS	9,310	--	--	--	9,310
DEFERRED INCOME TAXES	6,484	--	--	--	6,484
INTERCOMPANY PAYABLES	1,356,466	(2,450)	(1,354,043)	27	--
STOCKHOLDERS' EQUITY (DEFICIT):					
Common stock	27	1	1,048	(17)	1,059
Other	84,826	35,229	968,929	(1,307,587)	(218,603)
	84,853	35,230	969,977	(1,307,604)	(217,544)
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)	$ 1,563,807	$ 54,245	$ 552,560	$ (1,320,079)	$ 850,533

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000					
REVENUES:					
Oil and gas sales	$ 123,971	$ --	$ --	$ --	$ 123,971
Oil and gas marketing sales	--	98,035	--	(53,824)	44,211
Total revenues	123,971	98,035	--	(53,824)	168,182
OPERATING COSTS:					
Production expenses and taxes	17,894	--	--	--	17,894
General and administrative	2,997	346	34	--	3,377
Oil and gas marketing expenses	--	96,741	--	(53,824)	42,917
Oil and gas depreciation, depletion and amortization	25,227	--	--	--	25,227
Other depreciation and amortization	991	20	838	--	1,849
Total operating costs	47,109	97,107	872	(53,824)	91,264
INCOME (LOSS) FROM OPERATIONS	76,862	928	(872)	--	76,918
OTHER INCOME (EXPENSE):					
Interest and other income	645	166	20,965	(20,909)	867
Interest expense	(21,727)	--	(20,862)	20,909	(21,680)
Total other income (expense)	(21,082)	166	103	--	(20,813)
INCOME (LOSS) BEFORE INCOME TAXES	55,780	1,094	(769)	--	56,105
INCOME TAX EXPENSE	1,416	--	--	--	1,416
NET INCOME (LOSS)	$ 54,364	$ 1,094	$ (769)	$ --	$ 54,689
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1999					
REVENUES:					
Oil and gas sales	$ 77,927	$ 594	$ --	$ --	$ 78,521
Oil and gas marketing sales	--	60,568	--	(36,949)	23,619
Total revenues	77,927	61,162	--	(36,949)	102,140
OPERATING COSTS:					
Production expenses and taxes	15,156	243	--	--	15,399
General and administrative	2,514	201	21	--	2,736
Oil and gas marketing expenses	--	59,800	--	(36,949)	22,851
Oil and gas depreciation, depletion and amortization	22,568	248	--	--	22,816
Other depreciation and amortization	1,005	20	815	--	1,840
Total operating costs	41,243	60,512	836	(36,949)	65,642
INCOME (LOSS) FROM OPERATIONS	36,684	650	(836)	--	36,498
OTHER INCOME (EXPENSE):					
Interest and other income	1,487	935	29,789	(29,525)	2,686
Interest expense	(29,376)	(45)	(20,524)	29,525	(20,420)
Total other income (expense)	(27,889)	890	9,265	--	(17,734)
INCOME BEFORE INCOME TAXES	8,795	1,540	8,429	--	18,764
INCOME TAX EXPENSE	649	--	--	--	649
NET INCOME	$ 8,146	$ 1,540	$ 8,429	$ --	$ 18,115

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF OPERATIONS
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000					
REVENUES:					
Oil and gas sales	$ 311,138	$ 347	$ --	$ --	$ 311,485
Oil and gas marketing sales	--	247,133	--	(141,312)	105,821
Total revenues	311,138	247,480	--	(141,312)	417,306
OPERATING COSTS:					
Production expenses and taxes	53,873	80	--	--	53,953
General and administrative	8,558	936	103	--	9,597
Oil and gas marketing expenses	--	243,895	--	(141,312)	102,583
Oil and gas depreciation, depletion and amortization	74,486	101	--	--	74,587
Other depreciation and amortization	3,025	60	2,466	--	5,551
Total operating costs	139,942	245,072	2,569	(141,312)	246,271
INCOME (LOSS) FROM OPERATIONS	171,196	2,408	(2,569)	--	171,035
OTHER INCOME (EXPENSE):					
Interest and other income	2,608	969	62,877	(62,728)	3,726
Interest expense	(64,166)	(34)	(62,885)	62,728	(64,357)
Total other income (expense)	(61,558)	935	(8)	--	(60,631)
INCOME (LOSS) BEFORE INCOME TAXES	109,638	3,343	(2,577)	--	110,404
INCOME TAX EXPENSE	2,879	--	--	--	2,879
NET INCOME (LOSS)	$ 106,759	$ 3,343	$ (2,577)	$ --	$ 107,525
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999					
REVENUES:					
Oil and gas sales	$ 198,005	$ 594	$ --	$ --	$ 198,599
Oil and gas marketing sales	--	133,826	--	(83,716)	50,110
Total revenues	198,005	134,420	--	(83,716)	248,709
OPERATING COSTS:					
Production expenses and taxes	45,119	243	--	--	45,362
General and administrative	8,978	982	68	--	10,028
Oil and gas marketing expenses	--	131,525	--	(83,716)	47,809
Oil and gas depreciation, depletion and amortization	69,954	248	--	--	70,202
Other depreciation and amortization	3,481	60	2,437	--	5,978
Total operating costs	127,532	133,058	2,505	(83,716)	179,379
INCOME (LOSS) FROM OPERATIONS	70,473	1,362	(2,505)	--	69,330
OTHER INCOME (EXPENSE):					
Interest and other income	2,194	3,780	88,117	(87,565)	6,526
Interest expense	(86,791)	(45)	(61,298)	87,565	(60,569)
Total other income (expense)	(84,597)	3,735	26,819	--	(54,043)
INCOME (LOSS) BEFORE INCOME TAXES	(14,124)	5,097	24,314	--	15,287
INCOME TAX EXPENSE	975	--	--	--	975
NET INCOME (LOSS)	$ (15,099)	$ 5,097	$ 24,314	$ --	$ 14,312

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000					
CASH FLOWS FROM OPERATING ACTIVITIES	$ 175,178	$ (15,301)	$ 14,837	$ --	$ 174,714
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties, net	(164,212)	1,515	--	--	(162,697)
Proceeds from sale of other assets	1,134	--	--	--	1,134
Investment in Gothic	--	--	(24,622)	--	(24,622)
Other investments	(4,194)	--	(2,000)	--	(6,194)
Other	(4,172)	(46)	(3,971)	--	(8,189)
	(171,444)	1,469	(30,593)	--	(200,568)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net proceeds from borrowings	7,500	--	--	--	7,500
Cash payment on preferred stock swaps	--	--	(8,269)	--	(8,269)
Cash received from exercise of stock options......................................	--	--	1,005	--	1,005
Intercompany advances, net	(17,224)	(3,009)	20,233	--	--
	(9,724)	(3,009)	12,969	--	236
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(313)	--	--	--	(313)
Net increase (decrease) in cash	(6,303)	(16,841)	(2,787)	--	(25,931)
Cash, beginning of period	(7,156)	20,409	25,405	--	38,658
Cash, end of period	$ (13,459)	$ 3,568	$ 22,618	$ --	$ 12,727
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999					
CASH FLOWS FROM OPERATING ACTIVITIES	$ 55,261	$ 3,363	$ 35,517	$ --	$ 94,141
CASH FLOWS FROM INVESTING ACTIVITIES:					
Oil and gas properties, net	(79,920)	(1,205)	--	--	(81,125)
Proceeds from sale of other assets	1,990	3,448	--	--	5,438
Other	(1,659)	1,208	(1,222)	--	(1,673)
	(79,589)	3,451	(1,222)	--	(77,360)
CASH FLOWS FROM FINANCING ACTIVITIES:					
Net payments on borrowings	(25,000)	--	--	--	(25,000)
Cash paid for purchase of treasury stock	--	(53)	--	--	(53)
Cash received from exercise of stock options......................................	--	--	419	--	419
Intercompany advances, net	55,027	5,050	(60,077)	--	--
	30,027	4,997	(59,658)	--	(24,634)
EFFECT OF EXCHANGE RATE CHANGES ON CASH	3,705	--	--	--	3,705
Net increase (decrease) in cash	9,404	11,811	(25,363)	--	(4,148)
Cash, beginning of period	(17,319)	7,000	39,839	--	29,520
Cash, end of period	$ (7,915)	$ 18,811	$ 14,476	$ --	$ 25,372

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
($ IN THOUSANDS)

	GUARANTOR SUBSIDIARIES	NON-GUARANTOR SUBSIDIARIES	PARENT	ELIMINATIONS	CONSOLIDATED
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2000:					
Net income (loss)	$ 54,364	$ 1,094	$ (769)	$ --	$ 54,689
Other comprehensive income (loss) - foreign currency translation	(1,165)	--	--	--	(1,165)
Comprehensive income (loss)	$ 53,199	$ 1,094	$ (769)	$ --	$ 53,524
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1999:					
Net income (loss)	$ 8,146	$ 1,540	$ 8,429	$ --	$ 18,115
Other comprehensive income (loss) - foreign currency translation	80	--	--	--	80
Comprehensive income (loss)	$ 8,226	$ 1,540	$ 8,429	$ --	$ 18,195
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000:					
Net income (loss)	$ 106,759	$ 3,343	$ (2,577)	$ --	$ 107,525
Other comprehensive income (loss) - foreign currency translation	(4,118)	--	--	--	(4,118)
Comprehensive income (loss)	$ 102,641	$ 3,343	$ (2,577)	$ --	$ 103,407
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1999:					
Net income (loss)	$ (15,099)	$ 5,097	$ 24,314	$ --	$ 14,312
Other comprehensive income (loss) - foreign currency translation	3,705	--	--	--	3,705
Comprehensive income (loss)	$ (11,394)	$ 5,097	$ 24,314	$ --	$ 18,017

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

5. INVESTMENT IN GOTHIC ENERGY CORPORATION ("GOTHIC")

In a series of private transactions from June 27, 2000 through September 21, 2000, CEMI purchased 99.8% of Gothic's $104 million of 14.125% Series B senior secured discount notes for total consideration of $80.8 million, comprised of $17.2 million in cash and $63.6 million of Chesapeake common stock (8,914,210 shares valued at $7.13 per share), as adjusted by make-whole adjustments settled as of September 30, 2000 and received in October 2000. The final make-whole adjustment related to the Company's acquisition of senior secured discount notes, which occurred subsequent to September 30, 2000, will be settled on November 14, 2000 with the return of 38,435 shares of Chesapeake common stock to the Company. The discount notes accrete at a rate per annum of 14.125%, compounded semiannually to an aggregate principal amount of $104.0 million at May 1, 2002. Thereafter, the discount notes accrue interest at the rate of 14.125% per annum, payable in cash semiannually in arrears on May 1 and November 1 of each year commencing November 1, 2002. The discount notes mature on May 1, 2006 and are secured by the stock of Gothic Production Corporation, a wholly-owned subsidiary of Gothic.

On September 1, 2000, Chesapeake purchased $20 million of the $235 million of 11.125% senior secured notes issued by Gothic Production Corporation for $22.3 million of Chesapeake common stock (3,694,939 shares valued at $6.0371 per share, subject to adjustment), in a private transaction. The make-whole adjustment related to this purchase was determined in November 2000 and will result in a cash payment of $974,450 to the Company. The senior secured notes mature on May 1, 2005, bear interest at the rate of 11.125% per annum, payable semiannually in cash on May 1 and November 1 of each year, and are secured by oil and gas interests held by Gothic Production Corporation.

On September 8, 2000, Chesapeake entered into an Agreement and Plan of Merger to acquire the common stock of Gothic for 4.0 million shares of Chesapeake common stock. Upon the closing of the transaction, Gothic's shareholders will own approximately 2.5% of Chesapeake's common stock. The total acquisition cost to Chesapeake, including the Gothic notes described above, will be approximately $345 million, plus transaction expenses and adjusted for any working capital at the time of the merger. The Gothic acquisition is subject to approval by Gothic's shareholders and other closing conditions. Completion of the transaction is expected in January 2001.

Also included in the Company's investment in Gothic is the Company's April 1998 investment in Gothic's 12% Preferred Stock with a carrying value of $10.0 million as well as other miscellaneous acquisition-related costs.

6. REVOLVING CREDIT FACILITY

At September 30, 2000, the Company had a $100 million revolving bank credit facility, maturing in July 2002, with a committed borrowing base of $100 million. As of September 30, 2000, the Company had borrowed $51 million under this facility. Borrowings under the facility are secured by certain producing oil and gas properties and bear interest at variable rates, which averaged 9.82% per annum as of September 30, 2000.

Bear, Stearns & Co. Inc. has agreed to provide a $275 million standby commitment, consisting of a $175 million term credit facility and a $100 million revolving credit facility. The term credit facility may be used to repurchase any of Gothic Production Corporation's 11.125% senior secured notes tendered to Chesapeake following the closing of the Gothic acquisition. If used, the revolving credit facility will replace Chesapeake's existing revolving credit facility. Chesapeake has incurred $0.7 million of the $3.2 million of projected pre-closing costs for the new facility and will incur an additional $2.75 million if the credit facility is used.

CHESAPEAKE ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

7. RECENTLY ISSUED ACCOUNTING STANDARDS

On June 15, 1998, the Financial Accounting Standards Board issued FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS 133 establishes a new model for accounting for derivatives and hedging activities and supersedes and amends a number of existing standards. FAS 133 (as amended by FAS 137 and FAS 138) is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

FAS 133 standardizes the accounting for derivative instruments by requiring that all derivatives be recognized as assets and liabilities and measured at fair value. The accounting for changes in the fair value of derivatives (gains and losses) depends on (i) whether the derivative is designated and qualifies as a hedge, and (ii) the type of hedging relationship that exists. Changes in the fair value of derivatives that are not designated as hedges or that do not meet the hedge accounting criteria in FAS 133 are required to be reported in earnings. In addition, all hedging relationships must be designated, reassessed and documented pursuant to the provisions of FAS 133. The Company predicts that its commodity derivatives will be designated as hedges in accordance with the relevant accounting criteria and believes the implementation of FAS 133 will not have a material impact on the Company's financial condition or results of operations. The Company does not believe that its interest rate swap will be designated as a hedge pursuant to FAS 133. However, in accordance with certain "knockout" provisions contained within the interest rate swap agreement, the Company's management believes the fair market value of the swap at September 30, 2000 is immaterial. Management will continue to assess the fair value of the interest rate swap in future periods.

PART I. FINANCIAL INFORMATION

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Three Months Ended September 30, 2000 vs. September 30, 1999

General. For the three months ended September 30, 2000 (the "Current Quarter"), the Company realized net income of $54.7 million, or $0.31 per diluted common share. This compares to net income of $18.1 million, or $0.13 per diluted common share, in the three months ended September 30, 1999 (the "Prior Quarter").

Oil and Gas Sales. During the Current Quarter, oil and gas sales increased 58% to $124.0 million from $78.5 million in the Prior Quarter. For the Current Quarter, the Company produced 33.7 billion cubic feet equivalent ("bcfe"), consisting of 0.8 million barrels of oil ("mmbo") and 29.1 billion cubic feet of natural gas ("bcf"), compared to 0.9 mmbo and 27.4 bcf, or 32.7 bcfe, in the Prior Quarter. Average oil prices realized were $28.25 per barrel of oil ("bo") in the Current Quarter compared to $18.90 per bo in the Prior Quarter, an increase of 49%. Average gas prices realized were $3.52 per thousand cubic feet ("mcf") in the Current Quarter compared to $2.26 per mcf in the Prior Quarter, an increase of 56%.

For the Current Quarter, the Company realized an average price of $3.68 per thousand cubic feet equivalent ("mcfe"), compared to $2.40 per mcfe in the Prior Quarter. The Company's hedging activities resulted in decreased oil and gas revenues of $11.7 million, or $0.35 per mcfe, in the Current Quarter, compared to decreased oil and gas revenues of $2.0 million, or $0.06 per mcfe, in the Prior Quarter.

The following table shows the Company's production by region for the Current Quarter and the Prior Quarter:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			
	2000		1999	
OPERATING AREAS	Mmcfe	PERCENT	Mmcfe	PERCENT
Mid-Continent	20,027	59%	16,696	51%
Gulf Coast	9,014	27	10,777	33
Canada	2,654	8	3,038	9
Permian Basin	1,650	5	1,563	5
Other Areas	362	1	588	2
Total	33,707	100%	32,662	100%

Natural gas production represented approximately 86% of the Company's total production volume on an equivalent basis in the Current Quarter, compared to 84% in the Prior Quarter.

Oil and Gas Marketing Sales. The Company realized $44.2 million in oil and gas marketing sales to third parties in the Current Quarter, with corresponding oil and gas marketing expenses of $42.9 million, for a margin of $1.3 million. This compares to sales of $23.6 million, expenses of $22.9 million, and a margin of $0.7 million in the Prior Quarter. The increase in marketing sales and cost of sales was due primarily to higher oil and gas prices in the Current Quarter as compared to the Prior Quarter.

Production Expenses. Production expenses remained constant at $11.7 million in the Current Quarter and the Prior Quarter. On a unit of production basis, production expenses were $0.35 and $0.36 per mcfe in the Current and Prior Quarters, respectively. The Company anticipates production expenses will not vary significantly from current levels during the remainder of 2000.

Production Taxes. Production taxes, which consist primarily of wellhead severance taxes, were $6.2 million and $3.7 million in the Current and Prior Quarters, respectively. On a per unit basis, production taxes were $0.18 per mcfe in the Current Quarter compared to $0.11 per mcfe in the Prior Quarter. The increase in the Current Quarter is due to higher oil and gas prices. In general, production taxes are calculated using value-based formulas that produce higher per unit costs when oil and gas prices are higher.

General and Administrative. General and administrative expenses ("G&A"), which are net of capitalized internal payroll and non-payroll expenses, were $3.4 million in the Current Quarter compared to $2.7 million in the Prior Quarter. The Company capitalized $1.5 million of internal costs in the Current Quarter directly related to the Company's oil and gas exploration and development efforts, compared to $0.3 million in the Prior Quarter. The increase in capitalized internal costs is primarily due to the addition of technical employees and other related costs. The Company anticipates that G&A costs during the remainder of 2000 will remain at approximately the same level as the Current Quarter.

Oil and Gas Depreciation, Depletion and Amortization. Depreciation, depletion and amortization of oil and gas properties ("DD&A") for the Current Quarter was $25.2 million, compared to $22.8 million in the Prior Quarter. The DD&A rate per mcfe increased from $0.70 in the Prior Quarter to $0.75 in the Current Quarter. The Company expects the DD&A rate to increase slightly during the remainder of 2000, and expects it to increase further in 2001 upon the completion of the pending acquisition of Gothic Energy Corporation.

Depreciation and Amortization of Other Assets. Depreciation and amortization of other assets ("D&A") was $1.8 million in the Current Quarter and in the Prior Quarter. The Company anticipates D&A will continue at current levels during the remainder of 2000.

Interest and Other Income. Interest and other income for the Current Quarter was $0.9 million compared to $2.7 million in the Prior Quarter. Included in the Prior Quarter's results is a $0.5 million gain from the sale of the Company's interest in a gas processing plant plus income earned on various investments.

Interest Expense. Interest expense increased to $21.7 million in the Current Quarter from $20.4 million in the Prior Quarter as a result of lower capitalized interest and higher amounts of indebtedness. In addition to the interest expense reported, the Company capitalized $0.6 million of interest during the Current Quarter compared to $0.8 million capitalized in the Prior Quarter.

Provision for Income Taxes. The Company recorded income tax expense of $1.4 million for the Current Quarter and $0.6 million in the Prior Quarter. The income tax expense recorded in both the Current Quarter and Prior Quarter is related to the Company's Canadian operations. At September 30, 2000, the Company had a U.S. net operating loss carryforward of approximately $629.3 million for regular federal income taxes which will expire in future years beginning in 2007. Management continues to evaluate the Company's deferred tax assets. If oil and gas prices as well as improvements in the Company's operating performance continue to strengthen and stabilize in future periods, all or a portion of the valuation allowance may be reversed as early as the fourth quarter.

Nine Months Ended September 30, 2000 vs. September 30, 1999

General. For the nine months ended September 30, 2000 (the "Current Period"), the Company realized net income of $107.5 million, or $0.73 per diluted common share. This compares to net income of $14.3 million, or $0.02 per diluted common share, in the nine months ended September 30, 1999 (the "Prior Period").

Oil and Gas Sales. During the Current Period, oil and gas sales increased to $311.5 million from $198.6 million, an increase of $112.9 million, or 57%. For the Current Period, the Company produced 2.4 mmbo and 87.2 bcf, compared to 3.2 mmbo and 80.1 bcf in the Prior Period. Average oil prices realized were $25.70 per barrel in the Current Period compared to $14.79 per barrel in the Prior Period, an increase of 74%. Average gas prices realized were $2.86 per mcf in the Current Period compared to $1.88 per mcf in the Prior Period, an increase of 52%.

For the Current Period, the Company realized an average price of $3.06 per mcfe, compared to $2.00 per mcfe in the Prior Period. The Company's hedging activities resulted in decreased oil and gas revenues of $24.9 million, or $0.24 per mcfe, in the Current Period, compared to increased oil and gas revenues of $1.2 million, or $0.01 per mcfe, in the Prior Period.

The following table shows the Company's production by region for the Current Period and the Prior Period:

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
	2000		1999	
OPERATING AREAS	Mmcfe	PERCENT	Mmcfe	PERCENT
Mid-Continent	57,806	57%	50,278	50%
Gulf Coast	27,846	27	33,629	34
Canada	9,158	9	8,603	9
Permian Basin	4,778	5	4,032	4
Other areas	2,135	2	2,998	3
Total	101,723	100%	99,540	100%

Natural gas production represented approximately 86% of the Company's total production volume on an equivalent basis in the Current Period, compared to 80% in the Prior Period.

Oil and Gas Marketing Sales. The Company realized $105.8 million in oil and gas marketing sales to third parties in the Current Period, with corresponding oil and gas marketing expenses of $102.6 million for a margin of $3.2 million. This compares to sales of $50.1 million and expenses of $47.8 million in the Prior Period for a margin of $2.3 million. The increase in marketing sales and cost of sales was due primarily to higher oil and gas prices in the Current Period as compared to the Prior Period and the Company's initial marketing of oil which began in June 1999.

Production Expenses. Production expenses decreased to $36.8 million in the Current Period, a $0.1 million decrease from $36.9 million incurred in the Prior Period. On a production unit basis, production expenses were $0.36 and $0.37 per mcfe in the Current and Prior Periods, respectively.

Production Taxes. Production taxes, which consist primarily of wellhead severance taxes, were $17.1 million and $8.4 million in the Current and Prior Periods, respectively. This increase was the result of increased natural gas production and higher oil and gas prices. On a per unit basis, production taxes were $0.17 per mcfe in the Current Period compared to $0.08 per mcfe in the Prior Period.

General and Administrative. G&A, which is net of capitalized internal payroll and non-payroll expenses, was $9.6 million in the Current Period compared to $10.0 million in the Prior Period. This decrease was primarily due to cost efficiencies that were initiated in 1999 and fully realized in 2000 and an increase in capitalized internal costs between periods. The Company capitalized $4.9 million of internal costs in the Current Period directly related to the Company's oil and gas exploration and development efforts, compared to $2.3 million in the Prior Period. The increase in capitalized internal costs is primarily due to the addition of technical employees and other related costs.

Oil and Gas Depreciation, Depletion and Amortization. DD&A for the Current Period was $74.6 million, compared to $70.2 million in the Prior Period. This increase was caused by increased production as well as an increase in the DD&A rate per mcfe from $0.71 to $0.73 in the Prior and Current Periods, respectively.

Depreciation and Amortization of Other Assets. D&A decreased to $5.6 million in the Current Period compared to $6.0 million in the Prior Period.

Interest and Other Income. Interest and other income for the Current Period was $3.7 million compared to $6.5 million in the Prior Period. The Prior Period results include a $1.7 million gain on the sale of certain marketing assets located in the Mid-Continent, as well as a $0.5 million gain from the sale of the Company's interest in a gas processing plant.

Interest. Interest expense increased to $64.4 million in the Current Period from $60.6 million in the Prior Period as a result of lower capitalized interest and higher amounts of indebtedness. The Company capitalized $1.9 million of interest during the Current Period compared to $2.7 million capitalized in the Prior Period.

Provision for Income Taxes. The Company recorded income tax expense of $2.9 million for the Current Period, compared to $1.0 million in the Prior Period. The income tax expense in both periods is entirely related to the Company's operations in Canada. Management continues to evaluate the Company's deferred tax assets. If oil and gas prices as well as improvements in the Company's operating performance continue to strengthen and stabilize in future periods, all or a portion of the valuation allowance may be reversed as early as the fourth quarter.

RISK MANAGEMENT ACTIVITIES

See Item 3 - "Quantitative and Qualitative Disclosures About Market Risks."

LIQUIDITY AND CAPITAL RESOURCES

The Company had working capital of $5.1 million at September 30, 2000, including a cash balance of $12.7 million. The Company has a $100 million revolving bank credit facility, which matures in July 2002, with a committed borrowing base of $100 million. As of September 30, 2000, the Company had borrowed $51.0 million under this facility. Borrowings under the facility are secured by certain producing oil and gas properties and bear interest at variable rates, which averaged 9.82% per annum as of September 30, 2000.

In a series of private transactions from June 27, 2000 through September 21, 2000, CEMI purchased 99.8% of Gothic's $104 million of 14.125% Series B senior secured discount notes for total consideration of $80.8 million, comprised of $17.2 million in cash and $63.6 million of Chesapeake common stock (8,914,210 shares valued at $7.13 per share), as adjusted by make-whole adjustments settled as of September 30, 2000 and received in October 2000. The final make-whole adjustment related to the Company's acquisition of senior secured discount notes, which occurred subsequent to September 30, 2000, will be settled on November 14, 2000 with the return of 38,435 shares of Chesapeake common stock to the Company. The discount notes accrete at a rate per annum of 14.125%, compounded semiannually to an aggregate principal amount of $104.0 million at May 1, 2002. Thereafter, the discount notes accrue interest at the rate of 14.125% per annum, payable in cash semiannually in arrears on May 1 and November 1 of each year commencing November 1, 2002. The discount notes mature on May 1, 2006 and are secured by the stock of Gothic Production Corporation, a wholly-owned subsidiary of Gothic.

On September 1, 2000, Chesapeake purchased $20 million of the $235 million of 11.125% senior secured notes issued by Gothic Production Corporation for $22.3 million of Chesapeake common stock (3,694,939 shares valued at $6.0371 per share, subject to adjustment), in a private transaction. The make-whole adjustment related to this purchase was determined in November 2000 and will result in a cash payment of $974,450 to the Company. The senior secured notes mature on May 1, 2005, bear interest at the rate of 11.125% per annum, payable semiannually in cash on May 1 and November 1 of each year, and are secured by oil and gas interests held by Gothic Production Corporation.

On September 8, 2000, Chesapeake entered into an Agreement and Plan of Merger to acquire the common stock of Gothic for 4.0 million shares of Chesapeake common stock. Upon the closing of the transaction, Gothic's shareholders will own approximately 2.5% of Chesapeake's common stock. The total acquisition cost to Chesapeake, including the Gothic notes described above, will be approximately $345 million, plus transaction expenses and adjusted for any working capital at the time of the merger. The Gothic acquisition is subject to approval by Gothic's shareholders and other closing conditions. Completion of the transaction is expected in January 2001.

At September 30, 2000, the Company's senior notes represented $919.2 million of its $971.0 million of long-term liabilities. Debt ratings for the senior notes are B2 by Moody's Investors Service and B by Standard & Poor's Corporation as of September 30, 2000. On July 5, 2000, Standard & Poor's Corporation placed its ratings of the Company on credit watch with positive implications. There are no scheduled principal payments required on any of the senior notes until March 2004, when $150 million is due.

The senior note indentures restrict the ability of the Company and its restricted subsidiaries to incur additional indebtedness. This restriction does not affect the Company's ability to borrow under or expand its secured commercial bank facility. As of September 30, 2000, the Company estimates that secured commercial bank indebtedness of $147.5 million could have been incurred under the indentures. The indenture restrictions do not apply to borrowings incurred by CEMI, an unrestricted subsidiary.

The senior note indentures also limit the Company's ability to make restricted payments (as defined), including the payment of preferred stock dividends, unless certain tests are met. From December 31, 1998 through March 31, 2000, the Company was unable to meet the requirements to incur additional unsecured indebtedness, and consequently was not able to pay cash dividends on its 7% cumulative convertible preferred stock. The Company had accumulated dividends in arrears of $4.4 million related to its preferred stock as of September 30, 2000. As a result of the Company's failure to pay dividends for six quarterly periods, the holders of preferred stock were entitled to elect two new directors to the Board following May 1, 2000. On September 22, 2000, the Company declared a regular quarterly dividend and a special dividend equal to all unpaid dividends on its preferred stock ($4.6 million in the aggregate through October 31, 2000). The total combined dividend of $7.444 per share was paid November 1, 2000, eliminating the right of preferred stockholders to elect directors.

In the Current Quarter, the Company engaged in unsolicited transactions in which a total of 9.2 million shares of common stock (newly issued shares) were exchanged for 933,000 shares of its issued and outstanding preferred stock with a liquidation value of $46.7 million plus dividends in arrears of $6.1 million. A total of 43.4 million shares of common stock, plus a cash payment of $8.3 million, were exchanged for 3,972,363 shares of preferred stock during the Current Period. These transactions have reduced (i) the number of preferred shares from 4.6 million to 0.6 million, (ii) the liquidation value of the preferred stock from $229.8 million 2000 to $31.2 million, and (iii) dividends in arrears through September 30, 2000 by $22.9 million to $4.4 million. A gain on redemption of all preferred shares exchanged during the Current Period of $6.6 million ($5.3 million loss related to the Current Quarter) is reflected in net income available to common shareholders in determining basic earnings per share for the Current Period.

The Company may acquire additional shares of preferred stock in the future through negotiations with individual holders and, beginning May 1, 2001, may redeem outstanding shares of preferred stock for $52.45 per share plus accumulated and unpaid dividends in cash and/or common stock.

The Company believes it has adequate resources, including cash on hand and budgeted cash flow from operations, to fund its capital expenditure budget for exploration and development activities during 2000, which are currently estimated to be approximately $150 million. Based on current oil and gas prices, the Company expects to generate excess cash flow that will be available to fund acquisitions, reduce debt, make preferred stock dividend payments, acquire Gothic debt securities or a combination of the above.

If the Gothic merger is completed, holders of Gothic Production Corporation's 11.125% senior secured notes will have the right, but not the obligation, to require Chesapeake to repurchase their notes at a purchase price equal to 101% of the principal amount of the notes, plus accrued and unpaid interest to the date of repurchase. Chesapeake presently holds $20 million of the $235 million principal amount of senior secured notes outstanding. Bear, Stearns & Co. Inc. has agreed to provide a $275 million standby commitment, consisting of a $175 million term credit facility and a $100 million revolving credit facility. The term credit facility may be used to repurchase any of Gothic Production Corporation's senior secured notes tendered to Chesapeake. If used, the revolving credit facility will replace Chesapeake's existing revolving credit facility. Chesapeake has incurred $0.7 million of the $3.2 million of projected pre-closing costs for the new facility and will incur an additional $2.75 million if the credit facility is used.

The Company's cash provided by operating activities increased 86% to $174.7 million during the Current Period compared to $94.1 million during the Prior Period. The increase was due primarily to higher oil and gas prices realized during the Current Period.

Cash used in investing activities increased to $200.6 million during the Current Period from $77.4 million in the Prior Period. During the Current Period the Company expended approximately $103.0 million to initiate drilling on 203 gross (104.3 net) wells and invested approximately $19.0 million in leasehold acquisitions. This compares to $90.0 million to initiate drilling on 142 gross (83.8 net) wells and $16.4 million to purchase leasehold in the Prior Period. During the Current Period, the Company had acquisitions of oil and gas properties of $36.3 million, divestitures of oil and gas properties of $1.4 million, and cash payments of $24.6 million related to the investment in Gothic (prior to the receipt of $6.1 million in cash related to make-whole adjustments settled as of September 30, 2000 and received in October 2000). This compares to acquisitions of $11.1 million and divestitures of $36.4 million in the Prior Period. During the Current Period, the Company invested $4.2 million in Advanced Drilling Technologies, L.L.C., a 50% Chesapeake-owned drilling rig company which presently owns five rigs that are either drilling or are being refurbished for drilling. The Company anticipates that its share of the capital costs related to these five rigs will total $8.0 million.

There was $0.2 million of cash provided by financing activities in the Current Period, compared to $24.6 million used in the Prior Period. The activity in the Current Period and the Prior Period reflects the net increase in borrowings under the Company's commercial bank credit facility of $7.5 million in the Current Period and the net decrease in borrowings of $25.0 million in the Prior Period. The activity also reflects cash payments of $8.3 million made in connection with the preferred stock swaps in the Current Period and cash received through the exercise of stock options in both periods.

RECENTLY ISSUED ACCOUNTING STANDARDS

On June 15, 1998, the Financial Accounting Standards Board issued FAS No. 133, Accounting for Derivative Instruments and Hedging Activities. FAS 133 establishes a new model for accounting for derivatives and hedging activities and supersedes and amends a number of existing standards. FAS 133 (as amended by FAS 137 and FAS 138) is effective for all fiscal quarters of fiscal years beginning after June 15, 2000.

FAS 133 standardizes the accounting for derivative instruments by requiring that all derivatives be recognized as assets and liabilities and measured at fair value. The accounting for changes in the fair value of derivatives (gains and losses) depends on (i) whether the derivative is designated and qualifies as a hedge, and (ii) the type of hedging relationship that exists. Changes in the fair value of derivatives that are not designated as hedges or that do not meet the hedge accounting criteria in FAS 133 are required to be reported in earnings. In addition, all hedging relationships must be designated, reassessed and documented pursuant to the provisions of FAS 133. The Company predicts that its commodity derivatives will be designated as hedges in accordance with the relevant accounting criteria and believes the implementation of FAS 133 will not have a material impact on the Company's financial condition or results of operations. The Company does not believe that its interest rate swap will be designated as a hedge pursuant to FAS 133. However, in accordance with certain "knockout" provisions contained within the interest rate swap agreement, the Company's management believes the fair market value of the swap at September 30, 2000 is immaterial. Management will continue to assess the fair value of the interest rate swap in future periods.

FORWARD LOOKING STATEMENTS

This Form 10-Q includes "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. Forward-looking statements include statements regarding oil and gas reserve estimates, planned capital expenditures, expected oil and gas production, the Company's financial position, business strategy and other plans and objectives for future operations, expected future expenses, realization of deferred tax assets, the proposed acquisition of Gothic and the combined entity's financial operations. Although the Company believes that the expectations reflected in these and other forward-looking statements are reasonable, it can give no assurance that such expectations will prove to have been correct. Various factors could cause actual results to differ materially from those expected by the Company, including, without limitation, factors discussed under Risk Factors in the proxy statement/prospectus for the Gothic acquisition dated November 1, 2000, a form of which is included in the Company's registration statement on Form S-4 (file no. 333-47330) filed with the Securities and Exchange Commission on November 1, 2000. Such factors are substantial indebtedness, fluctuations in the prices of oil and gas, need to replace reserves, substantial capital requirements, uncertainties inherent in estimating quantities of oil and gas reserves, projecting future rates of production and the timing of development expenditures, operating risks, restrictions imposed by lenders, the effects of governmental and environmental regulation, pending or future litigation, conflicts of interest our CEO and COO may have, and uncertainties related to the proposed business combination with Gothic. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this report is filed, and the Company undertakes no obligation to update this information.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

COMMODITY PRICE RISK

The Company's results of operations are highly dependent upon the prices received for oil and natural gas production.

COMMODITY HEDGING ACTIVITIES

Periodically the Company utilizes hedging strategies to hedge the price of a portion of its future oil and gas production. These strategies include:

(i) swap arrangements that establish an index-related price above which the Company pays the counterparty and below which the Company is paid by the counterparty,

(ii) the purchase of index-related puts that provide for a "floor" price below which the counterparty pays the Company the amount by which the price of the commodity is below the contracted floor,

(iii) the sale of index-related calls that provide for a "ceiling" price above which the Company pays the counterparty the amount by which the price of the commodity is above the contracted ceiling, and

(iv) basis protection swaps, which are arrangements that guarantee the price differential of oil or gas from a specified delivery point or points,

(v) collar arrangements that establish an index-related price below which the counterparty pays the Company and a separate index-related price above which the Company pays the counterparty.

As market conditions warrant, the Company may also elect to settle a hedging transaction prior to its scheduled maturity date and, as a result, lock in a gain or loss on the transaction.

Results from commodity hedging transactions are reflected in oil and gas sales to the extent related to the Company's oil and gas production. The Company only enters into commodity hedging transactions related to the Company's oil and gas production volumes or CEMI's physical purchase or sale commitments. Gains or losses on crude oil and natural gas hedging transactions are recognized as price adjustments in the months of related production.

As of September 30, 2000, the Company had the following open natural gas swap arrangements designed to hedge a portion of the Company's domestic gas production for periods after September 2000:

MONTHS	VOLUME (MMBTU)	NYMEX-INDEX STRIKE PRICE (PER MMBTU)
October 2000	930,000	$ 2.57

If the swap arrangement listed above had been settled on September 30, 2000, the Company would have incurred a loss of $2.6 million. Subsequent to September 30, 2000 the Company settled the October 2000 natural gas swap for a loss of $3.3 million, which will be recognized as a price adjustment in October 2000.

On June 2, 2000, the Company entered into a natural gas basis protection swap transaction for 13,500,000 MMBtu for the period of January 2001 through March 2001. This transaction requires that the counterparty pay the Company if the NYMEX price exceeds the Houston Ship Channel Beaumont/Texas Index by more than $0.0675 for each of the related months of production. If the NYMEX price less $0.0675 does not exceed the Houston Ship Channel Beaumont/Texas Index for each month, the Company will pay the counterparty. Gains or losses on basis swap transactions are recognized as price adjustments in the month of related production.

The Company also had closed a transaction designed to hedge a portion of the Company's domestic natural gas production as of September 30, 2000. The net unrecognized loss resulting from this transaction, $0.7 million as of September 30, 2000, will be recognized as a price adjustment in October 2000, the month of related production.

Subsequent to September 30, 2000, the Company entered into natural gas collar transactions designed to hedge 60,000 MMBtu per day throughout 2001 at an average NYMEX-defined high strike price of $6.08 per MMBtu and an average NYMEX-defined low strike price of $4.00 per MMBtu. In addition, the Company entered into the following natural gas swap arrangements designed to hedge a portion of the Company's domestic gas production for periods after September 2000:

MONTHS	MONTHLY VOLUME (MMBTU)	NYMEX-INDEX STRIKE PRICE (PER MMBTU)
December 2000	1,860,000	$ 5.8350
January 2001	2,480,000	5.8425
February 2001	2,240,000	5.4788
March 2001	2,480,000	4.9013
April 2001	2,480,000	4.6575
May 2001	2,480,000	4.5600
June 2001	1,200,000	4.4900
July 2001	1,240,000	4.4900
August 2001	1,240,000	4.4900
September 2001	1,200,000	4.4900

As of September 30, 2000, the Company had the following open crude oil swap arrangements designed to hedge a portion of the Company's domestic crude oil production for periods after September 2000:

MONTHS	MONTHLY VOLUME (BBLS)	NYMEX-INDEX STRIKE PRICE (PER BBL)
October 2000	125,000	$28.42
November 2000	125,000	28.42
December 2000	125,000	28.42

If the swap arrangements listed above had been settled on September 30, 2000, the Company would have incurred a loss of $1.7 million. Subsequent to September 30, 2000, the Company entered into crude oil swap arrangements designed to hedge 5,000 barrels per day at a NYMEX Index strike price of $29.76 per barrel in January through December 2001.

In addition to commodity hedging transactions related to the Company's oil and gas production, CEMI periodically enters into various hedging transactions designed to hedge against physical purchase and sale commitments made by CEMI. Gains or losses on these transactions are recorded as adjustments to oil and gas marketing sales in the consolidated statements of operations and are not considered by management to be material.

INTEREST RATE RISK

The Company also utilizes hedging strategies to manage fixed-interest rate exposure. Through the use of a swap arrangement, the Company has reduced its interest expense by $2.7 million from May 1998 through September 2000. During the Current Quarter, the Company's interest rate swap resulted in a $75,000 increase in interest expense. The terms of the swap agreement are as follows:

MONTHS	NOTIONAL AMOUNT	FIXED RATE	FLOATING RATE
May 1998 - April 2001	$230,000,000	7%	Average of three-month Swiss Franc LIBOR, Deutsche Mark and Australian Dollar plus 300 basis points
May 2001 - April 2008	$230,000,000	7%	Three-month LIBOR (USD) plus 300 basis points

If the floating rate is less than the fixed rate, the counterparty will pay the Company accordingly. If the floating rate exceeds the fixed rate, the Company will pay the counterparty. The interest rate swap agreement contains a "knockout provision" whereby the agreement will terminate on or after May 1, 2001 if the average closing price for the previous twenty business days for the shares of the Company's common stock is greater than or equal to $7.50 per share. The agreement also provides for a maximum floating rate of 8.5% from May 2001 through April 2008.

As of September 30, 2000, based upon prevailing interest rates, the present value of the Company's estimated future obligations under the interest rate swap agreement, without ascribing any value to the knock-out provision, was $18.0 million. However, because of the knock-out provision discussed above and the volatility of interest rates, the Company does not believe that this worst-case scenario is a fair measure of the market value of the swap agreement and, therefore, would not pay this amount to cancel the transaction. Results from interest rate hedging transactions are reflected as adjustments to interest expense in the corresponding months covered by the swap agreement.

The table below presents principal cash flows and related weighted average interest rates by expected maturity dates. The fair value of the long-term debt has been estimated based on quoted market prices.

	SEPTEMBER 30, 2000							
	YEARS OF MATURITY							
	2000	2001	2002	2003	2004	THEREAFTER	TOTAL	FAIR VALUE
	($ IN MILLIONS)							
LIABILITIES:								
Long-term debt, including current portion - fixed rate	$ 0.2	$ 0.8	$ 0.6	$ --	$ 150.0	$ 770.0	$ 921.6	$ 894.7
Average interest rate	9.1%	9.1%	9.1%	--	7.9%	9.3%	9.1%	--
Long-term debt - variable rate	$ --	$ --	$ 51.0	$ --	$ --	$ --	$ 51.0	$ 51.0
Average interest rate	--	--	10.0%	--	--	--	10.0%	--

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Chesapeake is subject to ordinary routine litigation incidental to its business. In addition, Chesapeake and certain of its officers and directors are defendants in other pending actions which are described in Part I, Item 3 of the Company's Annual Report on Form 10-K for the year ended December 31, 1999. Subsequently, in October 2000, there were appellate decisions in two oil and gas lease cancellation cases pending against one of our subsidiaries.

Our subsidiary, Chesapeake Panhandle Limited Partnership ("CP") (f/k/a MC Panhandle, Inc.), and two subsidiaries of Kinder Morgan, Inc. are defendants in 13 lawsuits filed between June 1997 and January 1999 by royalty owners seeking the cancellation of oil and gas leases in the West Panhandle Field in Texas. MC Panhandle, Inc., which we acquired in April 1998, has owned the leases since January 1, 1997. The co-defendants are prior lessees.

The plaintiffs in these cases claim the leases terminated upon the cessation of production for various periods primarily during the 1960s. In addition, the plaintiffs seek to recover conversion damages, exemplary damages, attorneys' fees and interest. Defendants assert that any cessation of production was excused and have pled affirmative defenses of limitations, waiver, temporary estoppel, laches and title by adverse possession. Four of the 13 cases have been tried, and there have been appellate decisions in the following two cases tried in the District Court of Moore County, Texas, 69th Judicial District. No trial dates have been set for the other cases.

Joseph H. Pool, et al. v. NGPL, et al., No. 98-30, first filed December 17, 1997, refiled May 11, 1998, jury trial in June 1999, verdict for CP and co-defendants. The jury found plaintiffs' claims were barred by laches and adverse possession. On September 28, 1999, the court granted plaintiffs' motion for judgment notwithstanding verdict and entered judgment in favor of plaintiffs. In addition to quieting title to the leases (including existing gas wells and all attached equipment) in plaintiffs, the court awarded actual damages as of June 28, 1999 of $545,000 from CP and $235,000 jointly and severally from the other two defendants. The court further awarded, jointly and severally from all defendants, $77,500 of attorneys' fees in the event of an appeal, $1,900 of sanctions, interest and court costs. CP and the other two defendants filed an appeal of the judgment in the Court of Appeals for the Seventh District of Texas in Amarillo on October 12, 1999, and they have each posted a supersedeas bond. On October 12, 2000, the Court of Appeals issued a decision sustaining the trial court's finding that the leases had terminated due to a cessation of production and that the plaintiffs were entitled to actual damages and attorneys' fees. However, the award was reduced by $161,750, by way of additional offset for lease operating expenses which were improperly excluded by the jury. CP and the other defendants have filed a motion for rehearing.

Joseph H. Pool, et al. v. NGPL, et al., No. 98-36, first filed February 2, 1998, refiled May 20, 1998, jury trial in July 1999, verdict for plaintiffs. The jury found that the defendants were bad-faith trespassers and produced gas from the leases as a result of fraud. On September 28, 1999, the court entered final judgment for plaintiffs terminating the leases, quieting title to the leases (including existing gas wells and all attached equipment) in plaintiffs as of June 1, 1999 and awarding actual damages of $1.5 million, attorneys' fees of $97,500 in the event of an appeal, interest and court costs. CP's liability for this award is joint and several with the other two defendants. The court also awarded exemplary damages of $1.2 million against each of CP and the other two defendants. CP and the other two defendants filed an appeal of the judgment in the Court of Appeals for the Seventh District of Texas in Amarillo on October 12, 1999, and they have each posted a supersedeas bond. On October 12, 2000, the Court of Appeals issued a decision sustaining the trial court's finding that the leases had terminated due to a cessation of production and that the plaintiffs were entitled to actual damages and attorneys' fees. However, the court reduced the damages award to $1,049,500, based on the application of a two-year statute of limitations, and reversed all of the $3.6 million exemplary damages award, finding there was no legal basis for such an award. CP and the other defendants have filed a motion for rehearing.

We have previously established an accrued liability we believe will be sufficient to cover the estimated costs of litigation for each of the pending lease cancellation cases. Because of the inconsistent verdicts reached by the juries in the four cases tried to date and because the amount of damages sought is not specified in all of the other cases, the outcome of the remaining trials and the amount of damages that might ultimately be awarded could differ from management's estimates. We believe, however, that the leases are valid, there is no basis for exemplary damages, fraud or bad faith trespass. CP and the other defendants intend to vigorously defend against the plaintiffs' claims.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

During the quarter ended September 30, 2000, the Company exchanged 9,211,259 shares of common stock for 933,000 shares of its outstanding preferred stock in private transactions with institutional investors. The exchanges were exempt from registration under Section 3(a) (9) of the Securities Act of 1933 inasmuch as the Company exchanged securities exclusively with its existing shareholders and no commission or other remuneration was paid with respect to the exchanges.

On June 27, 2000 and August 31, 2000, Chesapeake's wholly-owned subsidiary, Chesapeake Energy Marketing, Inc., acquired 99.7% of the 14.125% senior secured discount notes of Gothic Energy Corporation having a total accreted value of $80.7 million (face amount of $103.7 million) for 8,914,210 shares of newly issued Chesapeake common stock and $17.2 million of cash, as adjusted by make-whole adjustments settled as of September 30, 2000. The final make-whole adjustment related to the Company's acquisition of senior secured discount notes, which occurred subsequent to September 30, 2000, will be settled on November 14, 2000 with the return of 38,435 shares of Chesapeake common stock to the Company. The shares were exchanged in private transactions pursuant to the exemption from registration provided by Section 4(2) of the Securities Act.

On September 1, 2000, Chesapeake purchased $20 million of the $235 million of 11.125% senior secured notes issued by Gothic's operating subsidiary for $22.3 million of Chesapeake common stock (3,694,939 shares valued at $6.0371 per share, subject to adjustment) in a private transaction in reliance on the exemption from registration provided by Section 4(2) of the Securities Act. The make-whole adjustment related to this purchase was determined in November 2000 and will result in a cash payment of $974,450 to the Company.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES OR DIVIDEND ARREARAGES

August 1, 2000 was the seventh consecutive payment date on which the Company failed to pay dividends on its 7% cumulative convertible preferred stock. Dividends accrue at the annual rate of $3.50 per share. Dividends which are not declared and paid when due compound quarterly on each dividend payment date at the dividend payment rate. Unpaid dividends on 624,037 shares outstanding as of September 30, 2000 were $4.4 million. On September 22, 2000, the Company declared a regular quarterly dividend and a special dividend equal to all unpaid dividends on its preferred stock. The total combined dividend of $7.444 per share, $4.6 million in the aggregate, was paid November 1, 2000. Additional information on preferred stock dividends is provided in Part I, Item 2 under "Liquidity and Capital Resources," the seventh and eighth paragraphs of which are incorporated herein by reference.

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

The following exhibits are filed as a part of this report:

Exhibit No.	
27	Financial Data Schedule

(b) Reports on Form 8-K

During the quarter ended September 30, 2000, the Company filed the following Current Reports on Form 8-K:

On July 20, 2000, the Company filed a current report on Form 8-K reporting under Item 5 that the Company formed a 2.2 million acre coal bed methane joint venture in Oklahoma's Arkoma Basin.

On July 28, 2000, the Company filed a current report on Form 8-K reporting under Item 5 that the Company issued a press release reporting earnings, cash flow and EBITDA in the second quarter of 2000.

On September 13, 2000, the Company filed a current report on Form 8-K reporting under Item 5 that the Company issued a press release announcing completion of a definitive merger agreement to acquire Gothic Energy Corporation.

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.

CHESAPEAKE ENERGY CORPORATION
(Registrant)

November 14, 2000	/s/ Aubrey K. McClendon
Date	Aubrey K. McClendon Chairman and Chief Executive Officer
November 14, 2000	/s/ Marcus C. Rowland
Date	Marcus C. Rowland Executive Vice President and Chief Financial Officer

INDEX TO EXHIBITS

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM BALANCE SHEET AS OF SEPTEMBER 30, 2000 AND STATEMENT OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2000. AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH

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9-MOS
DEC-31-2000
SEP-30-2000
12,727
0
99,536
1,101
3,274
117,187
2,584,446
(1,779,993)
1,060,031
112,054
971,040
0
31,202
1,567
(72,725)
1,060,031
417,306
421,032
246,271
310,628
0
(2,117)
64,357
110,404
2,879
107,525
0
0
0
107,525
0.88
0.73