

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2000  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
[Commission File Number 1-9260]

**U N I T C O R P O R A T I O N**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

73-1283193

(I.R.S. Employer  
Identification No.)

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

74136  
(Zip Code)

(918) 493-7700

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year,  
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.20 par value  
Class

35,753,144  
Outstanding at November 6, 2000

**FORM 10-Q**  
**UNIT CORPORATION**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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**UNIT CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED CONDENSED BALANCE SHEETS (UNAUDITED)**

	December 31, 1999	September 30, 2000
	-----	-----
	(Restated, See Note 1)	
	(In thousands)	
<b>ASSETS</b>		
-----		
Current Assets:		
Cash and cash equivalents	\$ 2,647	\$ 772
Accounts receivable	22,070	36,284
Other	5,769	5,381
	-----	-----
Total current assets	30,486	42,437
	-----	-----
Property and Equipment:		
Total cost	500,703	536,001
Less accumulated depreciation, depletion, amortization and impairment	241,649	262,553
	-----	-----
Net property and equipment	259,054	273,448
	-----	-----
Other Assets	6,027	10,072
	-----	-----
Total Assets	\$ 295,567	\$ 325,957
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
-----		
Current Liabilities:		
Current portion of long-term liabilities and debt	\$ 2,027	\$ 1,919
Accounts payable	14,682	19,696
Accrued liabilities	8,875	9,969
	-----	-----
Total current liabilities	25,584	31,584
	-----	-----
Long-Term Debt	67,239	60,200
	-----	-----
Other Long-Term Liabilities	2,325	3,392
	-----	-----
Deferred Income Taxes	20,914	31,760
	-----	-----
Shareholders' Equity:		
Preferred stock, \$1.00 par value, 5,000,000 shares authorized, none issued	-	-
Common stock, \$.20 par value, 40,000,000 and 75,000,000 shares authorized, 35,641,307 and 35,748,144 shares issued, respectively	7,128	7,150
Capital in excess of par value	139,207	139,811
Retained earnings	33,170	52,060
	-----	-----
Total shareholders' equity	179,505	199,021
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 295,567	\$ 325,957
	=====	=====

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	2000	1999	2000
	(Restated, See Note 1)		(Restated, See Note 1)	
	(In thousands except per share amounts)			
Revenues:				
Contract drilling	\$ 10,549	\$ 29,890	\$ 32,919	\$ 76,234
Oil and natural gas	13,314	24,584	31,670	58,234
Other	57	314	452	1,134
	-----	-----	-----	-----
Total revenues	23,920	54,788	65,041	135,602
	-----	-----	-----	-----
Expenses:				
Contract drilling:				
Operating costs	9,666	23,024	29,918	60,957
Depreciation and amortization	1,483	3,286	4,294	8,595
Oil and natural gas:				
Operating costs	3,903	5,121	11,031	13,759
Depreciation, depletion and amortization	4,260	4,889	12,672	13,474
General and administrative	1,322	1,534	4,122	4,558
Interest	1,416	1,312	3,941	3,913
	-----	-----	-----	-----
Total expenses	22,050	39,166	65,978	105,256
	-----	-----	-----	-----
Income (Loss) Before Income Taxes	1,870	15,622	(937)	30,346
	-----	-----	-----	-----
Income Tax Expense (Benefit):				
Current	16	532	(1)	610
Deferred	760	5,405	(255)	10,846
	-----	-----	-----	-----
Total income taxes	776	5,937	(256)	11,456
	-----	-----	-----	-----
Net Income (Loss)	\$ 1,094	\$ 9,685	\$ (681)	\$ 18,890
	=====	=====	=====	=====
Net Income (Loss) Per Common Share:				
Basic	\$ .04	\$ .27	\$ (.02)	\$ .53
	=====	=====	=====	=====
Diluted	\$ .04	\$ .27	\$ (.02)	\$ .52

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

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

Nine Months Ended  
September 30,

	1999	2000
-----		
(Restated, See Note 1) (In thousands)		
Cash Flows From Operating Activities:		
Net income (loss)	\$ (681)	\$ 18,890
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Depreciation, depletion, and amortization	17,164	22,373
Deferred tax expense	(257)	10,846
Other	37	(528)
Changes in operating assets and liabilities increasing (decreasing) cash:		
Accounts receivable	859	(14,214)
Accounts payable	2,155	(1,266)
Other - net	1,167	1,274
	-----	-----
Net cash provided by operating activities	20,444	37,375
	-----	-----
Cash Flows From (Used In) Investing Activities:		
Capital expenditures	(58,115)	(36,091)
Proceeds from disposition of assets	1,243	4,170
Other-net	(146)	(2,753)
	-----	-----
Net cash used in investing activities	(57,018)	(34,674)
	-----	-----
Cash Flows From (Used In) Financing Activities:		
Net borrowings (payments) under line of credit	(11,032)	(7,039)
Net payments of notes payable and other long-term debt	(123)	(308)
Proceeds from stock	50,502	185
Book overdrafts	-	2,586
	-----	-----
Net cash provided by (used in) financing activities	39,347	(4,576)
	-----	-----
Net Increase (Decrease) in Cash and Cash Equivalents	2,773	(1,875)
Cash and Cash Equivalents, Beginning of Year	688	2,647
	-----	-----
Cash and Cash Equivalents, End of Period	\$ 3,461	\$ 772
	=====	=====

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

**UNIT CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS**

**NOTE 1 - BASIS OF PREPARATION AND PRESENTATION**  
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The accompanying unaudited consolidated condensed financial statements include the accounts of the Company and its wholly owned subsidiaries and have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. As applicable under these regulations, certain information and footnote disclosures have been condensed or omitted and the consolidated condensed financial statements do not include all disclosures required by generally accepted accounting principles. In the opinion of the Company, the unaudited consolidated condensed financial statements contain all adjustments necessary (all adjustments are of a normal recurring nature) to present fairly the interim financial information.

On March 20, 2000, the Company acquired, by merger, Questa Oil and Gas Co. ("Questa") in a transaction accounted for as a pooling of interests. In accordance with the pooling of interest method of accounting permitted by Accounting Principles Board Opinion No. 16 "Business Combinations", all prior period consolidated condensed financial statements presented have been restated to include the accounts of Questa. In addition, the combined financial results presented include conforming adjustments to restate Questa's historical financial results from the successful efforts method of accounting for oil and natural gas properties to the full cost method, which is the method utilized by the Company.

Results for the three and nine month periods ended September 30, 2000 are not necessarily indicative of the results to be realized during the full year. The condensed financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 1999. Our independent accountants have performed a review of the 2000 interim financial statements in accordance with standards established by the American Institute of Certified Public Accountants. Pursuant to Rule 436(c) under the Securities Act of 1933 their report of that review should not be considered as part of any registration statements prepared or certified by them within the meaning of Section 7 and 11 of that Act.

**NOTE 2 - EARNINGS PER SHARE**

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The following data shows the amounts used in computing earnings (loss) per share for the Company.

	INCOME (NUMERATOR)	WEIGHTED SHARES (DENOMINATOR)	PER-SHARE AMOUNT
	-----	-----	-----
For the Three Months Ended September 30, 1999:			
Basic earnings per common share	\$ 1,094,000	27,781,000	\$ 0.04
			=====
Effect of dilutive stock options	-	333,000	
	-----	-----	
Diluted earnings per common share	\$ 1,094,000	28,114,000	\$ 0.04
	=====	=====	=====
For the Three Months Ended September 30, 2000:			
Basic earnings per common share	\$ 9,685,000	35,733,000	\$ 0.27
			=====
Effect of dilutive stock options	-	457,000	
	-----	-----	
Diluted earnings per common share	\$ 9,685,000	36,190,000	\$ 0.27
	=====	=====	=====

The following options and their average exercise prices were not included in the computation of diluted earnings per share for the three months ended September 30, 1999 because the option exercise prices were greater than the average market price of common shares:

	1999	2000
	-----	-----
Options	154,000	-
	=====	=====
Average exercise price	\$ 8.84	\$ -
	=====	=====



	INCOME (NUMERATOR)	WEIGHTED SHARES (DENOMINATOR)	PER-SHARE AMOUNT
	-----	-----	-----
For the Nine Months Ended September 30, 1999:			
Basic earnings (loss) per common share	\$ (681,000)	27,607,000	\$ (0.02)
			=====
Effect of dilutive stock options	-	-	
	-----	-----	
Diluted earnings (loss) per common share	\$ (681,000)	27,607,000	\$ (0.02)
	=====	=====	=====
For the Nine Months Ended September 30, 2000:			
Basic earnings per common share	\$ 18,890,000	35,711,000	\$ 0.53
			=====
Effect of dilutive stock options	-	405,000	
	-----	-----	
Diluted earnings per common share	\$ 18,890,000	36,116,000	\$ 0.52
	=====	=====	=====

The following options and their average exercise prices were not included in the computation of diluted earnings per share for the nine months ended September 30, 1999 because the options are not dilutive due to the net loss and for the nine months ended September 30, 2000 the option exercise prices were greater than the average market price of common shares:

	1999	2000
	-----	-----
Options	735,100	17,500
	=====	=====
Average exercise price	\$ 4.56	\$ 12.19
	=====	=====

**NOTE 3 - MERGER WITH QUESTA**

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On March 20, 2000, the Company completed a merger with Questa Oil and Gas Co. under which Questa became a wholly owned subsidiary of the Company. In the merger each of Questa's outstanding shares of common stock (excluding treasury shares) was converted into .95 shares of Unit Corporation's common stock. The Company issued approximately 1.8 million shares as a result of the merger. The merger has been accounted for as a pooling of interests with the financial statements of the Company restated to include the results of Questa for all periods presented.

The results of operations for each company and the combined amounts presented in Unit Corporation's consolidated condensed financial statements are as follows:

	Nine Months Ended September 30, 1999	Three Months Ended September 30, 1999	Three Months Ended March 31, 2000
	-----	-----	-----
	(In Thousands)		
Revenues:			
Unit Corporation	\$ 61,789	\$ 22,613	\$ 35,807
Questa	3,252	1,307	1,420
	-----	-----	-----
Combined	\$ 65,041	\$ 23,920	\$ 37,227
	=====	=====	=====
Net Income:			
Unit Corporation	\$ (1,458)	\$ 690	\$ 3,095
Questa	777	404	483
	-----	-----	-----
Combined	\$ (681)	\$ 1,094	\$ 3,578
	=====	=====	=====

Questa's net income has been adjusted by \$395,000 in the first nine months of 1999, \$340,000 in the third quarter of 1999 and \$12,000 in the first quarter of 2000 to restate Questa's financial statements to the full cost method of accounting used by the Company.

**NOTE 4 - NEW ACCOUNTING PRONOUNCEMENTS**

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On June 15, 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133), as subsequently amended by FAS 137 and 138. FAS 133 is now effective for all fiscal quarters of fiscal years beginning after June 15, 2000 (January 1, 2001 for Unit). FAS 133 requires that all derivative instruments be recorded on the balance sheet at their fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether a derivative is designated as part of a hedge transaction and, if it is, the type of hedge transaction. We anticipate that, based on the nature of our use of derivative instruments, the adoption of FAS 133 will not have a significant effect on our results of operations or financial position.

**NOTE 5 - INDUSTRY SEGMENT INFORMATION**

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The Company has two business segments: Contract Drilling and Oil and Natural Gas, representing its two strategic business units offering different products and services. The Contract Drilling segment provides land contract drilling of oil and natural gas wells and the Oil and Natural Gas segment is engaged in the development, acquisition and production of oil and natural gas properties. The Company evaluates the performance of its operating segments based on operating income, which is defined as operating revenues less operating expenses and depreciation, depletion and amortization. The Company has natural gas production in Canada, which is not significant. Information regarding the Company's operations by industry segment for the three and nine month periods ended September 30, 1999 and 2000 are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	1999	2000	1999	2000
	-----	-----	-----	-----
	(In thousands)			
Revenues:				
Contract drilling	\$ 10,549	\$ 29,890	\$ 32,919	\$ 76,234
Oil and natural gas	13,314	24,584	31,670	58,234
Other	57	314	452	1,134
	-----	-----	-----	-----
Total revenues	\$ 23,920	\$ 54,788	\$ 65,041	\$ 135,602
	=====	=====	=====	=====

Operating Income (1):												
Contract drilling	\$	(600)	\$	3,580	\$	(1,293)	\$	6,682				
Oil and natural gas		5,151		14,574		7,967		31,001				
		-----		-----		-----		-----				
Total operating income		4,551		18,154		6,674		37,683				
General and administrative expense						(1,322)		(1,534)		(4,122)		(4,558)
Interest expense						(1,416)		(1,312)		(3,941)		(3,913)
Other income (expense)- net						57		314		452		1,134
		-----		-----		-----		-----				
Income (loss) before income taxes					\$	1,870	\$	15,622	\$	(937)	\$	30,346
		=====		=====		=====		=====				

(1) Operating income is total operating revenues less operating expenses, depreciation, depletion and amortization and does not include non-operating revenues, general corporate expenses, interest expense or income taxes.

**REPORT OF REVIEW BY INDEPENDENT ACCOUNTANTS**

To the Board of Directors and Shareholders  
Unit Corporation

We have reviewed the accompanying consolidated condensed balance sheet of Unit Corporation and subsidiaries as of September 30, 2000, and the related consolidated condensed statements of operations for the three and nine month periods ended September 30, 2000 and cash flows for the nine month period ended September 30, 2000. These financial statements are the responsibility of the Company's management.

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

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

PricewaterhouseCoopers L L P

Tulsa, Oklahoma  
October 25, 2000

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

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### FINANCIAL CONDITION

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On March 20, 2000, we completed the acquisition, by merger, of Questa Oil and Gas Co. ("Questa") under which Questa became a wholly owned subsidiary of Unit Corporation. In the merger each of Questa's outstanding shares of common stock (excluding treasury shares) was converted into .95 shares of our common stock. We issued approximately 1.8 million shares as a result of this merger. The merger has been accounted for as a pooling of interests and, accordingly, all amounts within this document have been restated as if the companies had been combined throughout the periods presented.

Our bank loan agreement provides for a total loan facility of \$100 million with a current available borrowing value of \$90 million. Each year on April 1 and October 1 our banks redetermine our available borrowing value which is primarily determined by an amount equal to a percentage of the discounted future value of our oil and natural gas reserves and to a lesser extent by a percentage of the value of a portion of our drilling rig fleet. Our loan agreement provides for a revolving credit facility which terminates on May 1, 2002 followed by a three year term loan. Borrowings under our loan agreement totaled \$58.2 million at September 30, 2000 and \$56.6 million at October 31, 2000. We are charged a facility fee of .375 of 1 percent on any unused portion of the available borrowing value.

The interest rate on our bank debt was 7.90 percent at September 30, 2000 and 7.87 percent at October 31, 2000. At our election, any portion of our outstanding bank debt may be fixed at the London Interbank Offered Rate ("Libor Rate"), as adjusted depending on the level of our debt as a percentage of the available borrowing value. The Libor Rate may be fixed for periods of up to 30, 60, 90 or 180 days with the remainder of our bank debt being subject to the Chase Manhattan Bank, N. A. prime rate. During any Libor Rate funding period, we may not pay any part of the outstanding principal balance which is subject to the Libor Rate. Borrowings subject to the Libor Rate were \$57.0 million at September 30, 2000 and \$56.5 million at October 31, 2000.

Our shareholders' equity at September 30, 2000 was \$199.0 million giving us a ratio of long-term debt-to-total capitalization of 23 percent. Our primary source of funds consists of the cash flow from our operating activities and borrowings under our bank loan agreement. Net cash provided by our operating activities in the first nine months of 2000 was \$37.4 million compared to \$20.4 million in 1999. We had working capital of \$10.9 million at September 30, 2000. Our first nine month 2000 capital expenditures were \$39.8 million of which \$24.7 million was spent on our oil and natural gas operations and \$12.8 million on our contract drilling equipment. Our oil and natural gas operations drilled 68 wells in the first

nine months of 2000 with 52 of the wells completed as producing wells. If oil and natural gas prices remain favorable, we anticipate that we will drill approximately 100 total wells during 2000 and spend approximately \$30 million drilling or buying oil and natural gas properties during the year. This amount may increase depending on the availability of and our success in acquiring oil and natural gas properties through acquisitions. We anticipate that we will spend approximately \$15 million this year for drilling rig equipment capital expenditures.

Most of our capital expenditures are discretionary and directed toward increasing oil and natural gas reserves and future growth. Current operations do not depend on our ability to obtain funds outside of our loan agreement. Future decisions to acquire or drill on oil and natural gas properties will depend on prevailing or anticipated market conditions, potential return on investment, future drilling potential and the availability of financing, thus providing us with a large degree of flexibility in determining when and if to incur such costs.

On September 30, 1999, we completed the acquisition of 13 land drilling rigs from Parker Drilling Company and Parker Drilling Company North America, Inc., for 1,000,000 shares of our common stock and \$40,000,000 in cash. The cash part of this acquisition was funded through a public offering of 7,000,000 shares of our common stock which closed on September 29, 1999. We received proceeds of \$50.1 million from the offering net of commission fees and other costs.

Due to a settlement agreement which terminated on December 31, 1997, we have a liability of \$877,000 at September 30, 2000, representing proceeds received from a natural gas purchaser as prepayment for natural gas. The \$877,000 is payable in equal annual payments of approximately \$439,000 due on June 1, 2001 and June 1, 2002.

The prices we received for the sale of our natural gas in the first nine months of 2000 increased 71 percent above the prices we received during the first nine months of 1999. Average oil prices we received over the same periods increased 67 percent. For the first nine months of 2000, the average natural gas price we received was \$3.25 per Mcf and the average oil price we received was \$26.19 per barrel. Natural gas prices are influenced by weather conditions and supply imbalances, particularly in the domestic market, and by world wide oil price levels. Domestic oil price levels continue to be primarily influenced by world market developments. Since natural gas comprises approximately 88 percent of our total oil and natural gas reserves, large drops in spot market natural gas prices have a significant adverse effect on the value of our oil and natural gas reserves and price declines could cause us to reduce the carrying value of our oil and natural gas properties. Any price decreases, if sustained, would also adversely affect our future cash flow by reducing our oil and natural gas revenues and, if continued over an extended period, could lessen not only the demand for our contract drilling rigs but also the rate we would receive. Any declines in

natural gas and oil prices could also adversely affect the semi-annual determination of the borrowing value under our bank loan agreement since this determination is based on the value of our oil and natural gas reserves and our drilling rigs. Such a reduction would reduce the amount available to us under our loan agreement which, in turn, would affect our ability to carry out our capital projects.

In the first quarter of 2000, we entered into swap transactions in an effort to lock in a portion of our production at the higher oil prices which currently exist. These transactions apply to approximately 50 percent of our daily oil production covering the period from April 1, 2000 to July 31, 2000 and 25 percent of our oil production for August and September of 2000, at prices ranging from \$24.42 to \$27.01. In the third quarter of 2000 and the first nine months of 2000, the oil swaps yielded a reduction in our oil revenues of \$265,000 and \$464,000, respectively. We have entered into a collar contract for approximately 25 percent of our oil production for the period covering November 1, 2000 to February 28, 2001. The collar has a floor of \$26.00 and a ceiling of \$33.00 and we will receive \$0.86 per barrel for entering into the collar transaction.

Generally, during the past 15 years, our contract drilling operations have encountered significant competition. In the last six months of 1999, and the first nine months of 2000 we have experienced significant improvement in rig utilization. Despite the recent improvement in rig demand, we still anticipate that competition within our industry will, for the foreseeable future, continue to influence the use of our drilling rigs. In addition to competition, our ability to use our drilling rigs at any given time depends on a number of other factors, including the price of both oil and natural gas, the availability of labor and our ability to supply the type of equipment required.

Although we have not encountered material difficulty in hiring and retaining qualified rig crews, such shortages have in the past occurred in the industry. We may experience shortages of qualified personnel to operate our rigs, which would limit our ability to increase the number of our rigs working and could have an adverse effect on our financial condition and results of operations.

In the third quarter of 1994, our board of directors authorized us to purchase up to 1,000,000 shares of our outstanding common stock on the open market. Since that time, 160,100 shares were repurchased at prices ranging from \$2.50 to \$9.69 per share. In the first quarter of 1998 and 1999, we used 19,863 and 25,000 of the purchased shares, respectively, as part of our matching contribution to our 401(k) Employee Thrift Plan. As part of the requirements for the pooling of interests in the Questa merger the authorization to purchase treasury shares has been withdrawn. At September 30, 1999 and 2000 we held no treasury shares.



## SAFE HARBOR STATEMENT

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Statements in this document as well as information contained in written material, press releases and oral statements issued by or on behalf of us contain, or may contain, certain "forward-looking statements" within the meaning of federal securities laws. All statements, other than statements of historical facts, included in this document which address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. The words "believes," "intends," "expects," "anticipates," "projects," "estimates," "predicts" and similar expressions are also intended to identify forward-looking statements. These forward-looking statements include, among others, such things as:

- . the amount and nature of future capital expenditures;
- . wells to be drilled or reworked;
- . oil and natural gas prices to be received and demand for oil and natural gas;
- . exploitation and exploration prospects;
- . estimates of proved oil and natural gas reserves;
- . reserve potential;
- . development and infill drilling potential;
- . drilling prospects;
- . expansion and other development trends of the oil and natural gas industry;
- . our business strategy;
- . production of our oil and natural gas reserves;
- . expansion and growth of our business and operations;
- . drilling rig utilization, revenues and costs; and
- . availability of qualified labor.

These statements are based on certain assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments as well as other factors we believe are appropriate in the circumstances. However, whether actual results and developments will conform to our expectations and predictions is subject to a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including:

- . the risk factors discussed in this document;
- . general economic, market or business conditions;
- . the nature or lack of business opportunities that may be presented to and pursued by us;
- . demand for land drilling services;
- . changes in laws or regulations; and
- . other factors, most of which are beyond our control.

A more thorough discussion of forward-looking statements with the possible impact of some of these risks and uncertainties is provided in our

Annual Report on Form 10-K filed with the Securities and Exchange Commission. We encourage you to obtain and read that document.

## RESULTS OF OPERATIONS

### Third Quarter 2000 versus Third Quarter 1999

Our net income for the third quarter of 2000 was \$9,685,000, compared to net income of \$1,094,000 in 1999. Higher natural gas and oil prices and production volumes along with increases in the use of our drilling rigs and the rates we received for the drilling rigs all contributed to the increase in our net income.

Our revenue from the sale of our oil and natural gas increased 85 percent in the third quarter of 2000 compared to the third quarter of 1999 due to a 70 percent and 36 percent increase in the average prices we received for natural gas and oil, respectively. Natural gas production also increased 15 percent and oil production increased 18 percent when compared to the third quarter of 1999. Production increases from both our oil and natural gas were due to the acceleration of our development drilling program as a result of rising prices in the last half of 1999 and the first half of 2000.

In the third quarter of 2000, revenues from our contract drilling operations increased by 183 percent as the average number of drilling rigs being used increased from 19.1 in the third quarter of 1999 to 43.1 in 2000.

Increased rig utilization resulted from the expansion of our drilling activity into the Rocky Mountains with the acquisition of the Parker rigs in September 1999 and from increases in demand for our rigs located in Oklahoma. Revenues per rig per day increased 37 percent in the third quarter of 2000 as compared to the same period in 1999. While dayrates in all of our drilling areas were higher, the Rockies provide dayrates substantially higher than those achieved in our other market areas.

Operating margins (revenues less operating costs) for our oil and natural gas operations were 79 percent in the third quarter of 2000 compared to 71 percent for the same period in 1999. This increase resulted primarily from the increase in the average oil and natural gas prices we received. Total operating costs increased 31 percent due to increases in the net number of wells owned.

Our contract drilling operating margins increased from 8 percent in the third quarter of 1999 to 23 percent in the third quarter of 2000. This increase was generally due to increases in rig utilization and revenue per rig per day. Total contract drilling operating costs were up 138 percent in 2000 versus 1999 due to increased labor costs and utilization.

Depreciation, depletion and amortization ("DD&A") of our oil and natural gas properties increased 15 percent due to the increase in production. The increase was partially offset by a 6 percent reduction in the average DD&A rate per Mcfe to \$0.84 in the third quarter of 2000. Contract drilling depreciation increased 122 percent due to the impact of higher depreciation per operating day associated with the newly acquired Parker rigs and an overall increase in rig utilization.

General and administrative expenses increased 16 percent due to the growth in operating activity from both exploration and contract drilling while interest expense decreased 7 percent between the comparative periods. The average interest rate on all long-term debt increased from 7.4 percent in the third quarter of 1999 to 8.1 percent in the third quarter of 2000 while our average outstanding debt decreased 18 percent.

### **Nine Months 2000 versus Nine Months 1999**

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Our net income for the first nine months of 2000 was \$18,890,000, compared with a net loss of \$681,000 in 1999. Higher natural gas and oil prices and production volumes along with increases in the use of our drilling rigs and the rates we received for the drilling rigs all contributed to the increase in our net income.

Our revenue from the sale of our oil and natural gas increased 84 percent in the first nine months of 2000 compared to the first nine months of 1999 due to a 71 percent and 67 percent increase in average prices we received for natural gas and oil, respectively. Natural gas production also increased 11 percent and oil production increased 16 percent when compared to the first nine months of 1999. Production increases from both our oil and natural gas were due to the acceleration of our development drilling program as a result of rising prices in the last half of 1999 and the first half of 2000.

In the first nine months of 2000, revenues from our contract drilling operations increased by 132 percent as the average number of drilling rigs being used increased from 19.3 in the first nine months of 1999 to 38.5 in 2000. Increased rig utilization resulted from the expansion of our drilling activity into the Rocky Mountains with the acquisition of the Parker rigs in September 1999 and from increases in demand for our rigs located in Oklahoma. Revenues per rig per day increased 25 percent in the first nine months of 2000 as compared to the same period in 1999. While dayrates in all of our drilling areas were higher, the Rockies provide dayrates substantially higher than those achieved in our other market areas.

Operating margins (revenues less operating costs) for our oil and natural gas operations were 76 percent in the first nine months of 2000 compared to 65 percent for the same period in 1999. This increase resulted primarily from the increase in the average oil and natural gas prices we

received. Total operating costs increased 25 percent due to increases in the net number of wells owned.

Our contract drilling operating margins increased from 9 percent in the first nine months of 1999 to 20 percent in the first nine months of 2000. This increase was generally due to increases in rig utilization and revenue per rig per day. Total contract drilling operating costs were up 104 percent in 2000 versus 1999 due to increased utilization and labor costs.

Depreciation, depletion and amortization ("DD&A") of our oil and natural gas properties increased 6 percent due to the increase in production. The increase was partially offset by a 6 percent reduction in the average DD&A rate per Mcfe to \$0.82 in first nine months of 2000. Contract drilling depreciation increased 100 percent due to the impact of higher depreciation per operating day associated with the newly acquired Parker rigs and an overall increase in rig utilization.

General and administrative expenses increased 11 percent due to the growth in operating activity from both exploration and contract drilling while interest expense decreased one percent between the comparative periods. The average interest rate on all long-term debt increased from 6.8 percent in the first nine months of 1999 to 7.9 percent in the first nine months of 2000 while our average outstanding debt decreased 16 percent.

On May 3, 1999, our contract drilling offices in Moore, Oklahoma were struck by a tornado destroying two buildings and damaging various vehicles and drilling equipment. During the first quarter of 2000, we received the final insurance proceeds totaling \$987,000 for the contents of the buildings destroyed, damaged equipment and clean up costs. As a result, we recognized a gain of \$599,000 recorded as part of other revenues in the first quarter of 2000.

On June 15, 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133) as amended by FAS 137 and FAS 138. For additional information see, "Note 4 - New Accounting Pronouncements" in the Notes to Consolidated Condensed Financial Statements.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk**  
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Our operations are exposed to market risks due to changes in commodity prices. The price we receive is primarily driven by the prevailing worldwide price for crude oil and market prices applicable to our natural gas production. Historically, prices we have received for our oil and natural gas production have been volatile and such volatility is expected to continue.

To reduce the impact of price fluctuations, we periodically use hedging strategies to hedge the price we will receive for a portion of our future oil and natural gas production. In the first quarter of 2000, we entered into swap transactions in an effort to lock in a portion of our production at the higher oil prices which currently exist. These transactions apply to approximately 50 percent of our daily oil production covering the period from April 1, 2000 to July 31, 2000 and 25 percent of our oil production for August and September of 2000, at prices ranging from \$24.42 to \$27.01. In the third quarter of 2000 and the first nine months of 2000, the oil swaps yielded a reduction in our oil revenues of \$265,000 and \$464,000, respectively. We have entered into a collar contract for approximately 25 percent of our oil production for the period covering November 1, 2000 to February 28, 2001. The collar has a floor of \$26.00 and a ceiling of \$33.00 and we will receive \$0.86 per barrel for entering into the collar transaction.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings**  
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Not applicable

**Item 2. Changes in Securities and Use of Proceeds**  
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Not applicable

**Item 3. Defaults Upon Senior Securities**  
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Not applicable

**Item 4. Submission of Matters to a Vote of Security Holders**  
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Not applicable

**Item 5. Other Information**  
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Not applicable

**Item 6. Exhibits and Reports on Form 8-K**  
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(a) Exhibits:

15 Letter re: Unaudited Interim Financial Information.

27 Financial Data Schedule

(b) No reports on Form 8-K were filed during the quarter ended September 30, 2000

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

UNIT CORPORATION

Date: November 8, 2000  
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By: /s/ John G. Nikkel  
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JOHN G. NIKKEL  
President, Chief Operating  
Officer and Director

Date: November 8, 2000  
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By: /s/ Larry D. Pinkston  
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LARRY D. PINKSTON  
Vice President, Chief  
Financial Officer  
and Treasurer

