

CHESAPEAKE ENERGY CORP  
Form 424B5  
July 09, 2008  
Table of Contents

**The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-130196

**Subject to Completion, dated July 8, 2008**

PROSPECTUS SUPPLEMENT

(To Prospectus dated December 8, 2005)

**25,000,000 Shares**

## **Chesapeake Energy Corporation**

### **Common Stock**

We are offering 25,000,000 shares of common stock in this offering. We will receive all of the net proceeds from the sale of such common stock.

Our common stock is listed on the New York Stock Exchange under the symbol CHK. The last reported sale price of our common stock on July 7, 2008 was \$64.34 per share.

***Investing in our common stock involves risk. See Risk Factors beginning on page S-9.***

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discounts and commissions(1)	\$	\$
Proceeds to Chesapeake (before expenses)	\$	\$

(1) The underwriters will receive no underwriting discount or commission on the 1,000,000 shares being purchased by Aubrey K. McClendon, our Chairman and Chief Executive Officer, and a trust previously established for the benefit of Mr. McClendon's children.

We have granted the underwriters a 30-day option to purchase up to an additional 3,750,000 shares from us on the same terms and conditions as set forth above if the underwriters sell more than 25,000,000 shares of common stock in this offering. If the underwriters exercise the option in full, the total underwriting discounts and commissions will be \$ and the total net proceeds, before expenses, to us will be \$ .

*Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.*

The underwriters expect to deliver the shares against payment in New York, New York on July , 2008.

*Joint Book-Running Managers*

**LEHMAN BROTHERS**

**ABN AMRO**

July , 2008.

**BANC OF AMERICA SECURITIES LLC**

**UBS INVESTMENT BANK**

**WELLS FARGO SECURITIES**

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b>Prospectus Supplement</b>	
<u>Prospectus Supplement Summary</u>	S-1
<u>Risk Factors</u>	S-9
<u>Use of Proceeds</u>	S-15
<u>Capitalization</u>	S-16
<u>Price Range of Common Stock</u>	S-18
<u>Dividend Policy</u>	S-19
<u>Certain United States Federal Tax Considerations for Non-U.S. Holders</u>	S-20
<u>Underwriting</u>	S-23
<u>Where You Can Find More Information</u>	S-29
<u>Forward-Looking Statements</u>	S-30
<u>Legal Matters</u>	S-31
<u>Experts</u>	S-31
<b>Prospectus</b>	
<u>Where You Can Find More Information</u>	2
<u>Description of Chesapeake Capital Stock</u>	4
<u>Use of Proceeds</u>	10
<u>Legal Matters</u>	10
<u>Experts</u>	10

You should rely only on the information contained in or incorporated by reference in this prospectus supplement, the accompanying prospectus or any free writing prospectus that we may provide to you. We have not authorized anyone to provide you with different or additional information. Further, you should not assume that the information contained in or incorporated by reference in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the dates of this prospectus supplement or the accompanying prospectus or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of this offering. The second part is the accompanying prospectus, which gives more general information. If the information varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

**Table of Contents**

**PROSPECTUS SUPPLEMENT SUMMARY**

*This summary highlights selected information from this prospectus supplement and the accompanying prospectus, but may not contain all information that may be important to you. This prospectus supplement and the accompanying prospectus include specific terms of this offering, information about our business and financial data. We encourage you to read this prospectus supplement, the accompanying prospectus and the documents incorporated herein and therein in their entirety before making an investment decision. Unless otherwise indicated, this prospectus supplement assumes no exercise of the underwriters' option to purchase additional shares.*

**Chesapeake**

We are the third largest producer of natural gas in the United States. We own interests in approximately 39,200 producing natural gas and oil wells that are currently producing approximately 2.3 billion cubic feet equivalent (bcfe) per day, 92% of which is natural gas. Our strategy is focused on discovering, acquiring and developing conventional and unconventional natural gas reserves onshore in the U.S.

Our most important operating area has historically been the *Mid-Continent region* of Oklahoma, Arkansas, southwestern Kansas and the Texas Panhandle. At March 31, 2008, 47% of our estimated proved natural gas and oil reserves were located in the Mid-Continent region. However, during the past five years, we have established a top-three position in nearly every major unconventional shale play in the U.S., including the Barnett Shale in the *Fort Worth Basin* in north-central Texas; the Haynesville Shale in the *Ark-La-Tex* area of East Texas and northern Louisiana; the Fayetteville Shale in the *Arkoma Basin* of Arkansas; and the Marcellus and Lower Huron Shales in the *Appalachian Basin*, of Kentucky, West Virginia, Pennsylvania and New York. In addition, we are pursuing other unconventional plays in the *Anadarko Basin* of Western Oklahoma, the *Ardmore Basin* of southern Oklahoma, the *Arkoma Basin* of eastern Oklahoma and the *Permian and Delaware Basins* of West Texas and eastern New Mexico.

Chesapeake began 2008 with estimated proved reserves of 10.9 trillion cubic feet equivalent, or tcf, and ended the first quarter of 2008 with an estimated 11.5 tcf, an increase of 601 bcfe, or 6%. Of our estimated 11.5 tcf of proved reserves, 93% were natural gas and all were onshore. During the first quarter of 2008, we replaced 204 bcfe of production with an internally estimated 805 bcfe of new proved reserves, for a reserve replacement rate of 395%. Reserve replacement through the drillbit was 798 bcfe, or 391% of production (including 365 bcfe of positive performance revisions and 112 bcfe of positive revisions resulting from natural gas and oil price increases between December 31, 2007 and March 31, 2008).

During the first quarter of 2008, Chesapeake continued the industry's most active drilling program and drilled 478 gross (400 net) operated wells and participated in another 422 gross (48 net) wells operated by other companies. The company's drilling success rate was 100% for company-operated wells and 98% for non-operated wells. Also during the first quarter of 2008, we invested \$1.2 billion in operated wells (using an average of 140 operated rigs) and \$0.2 billion in non-operated wells (using an average of 93 non-operated rigs). Total costs incurred in natural gas and oil acquisition, exploration and development activities during the first quarter, including seismic, unproved properties, leasehold, capitalized interest and internal costs, non-cash tax basis step-up and asset retirement obligations, were \$2.2 billion.

We have increased our production for 18 consecutive years and 27 consecutive quarters. During these 27 quarters, Chesapeake's U.S. production has increased 467% for an average compound quarterly growth rate of 6.6% and an average compound annual growth rate of 29.2%. Daily production for the 2008 first quarter averaged 2.244 bcfe, an increase of 537 mmcf, or 31%, over the 1.707 bcfe produced per day in the 2007 first quarter. Adjusted for the company's year-end 2007 volumetric production payment sale, Chesapeake's year-over-year production growth rate was 35%. Daily production for 2007 averaged 1.957 bcfe, an increase of 372 mmcf, or 23%, over the 1.585 bcfe produced per day in 2006.

## **Table of Contents**

Our executive offices are located at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118, and our telephone number is (405) 848-8000.

### **Recent Developments**

#### **Haynesville Shale Joint Ventures**

On July 1, 2008, we announced that we had entered into a joint venture with Plains Exploration & Production Company to develop our Haynesville Shale leasehold in North Louisiana and East Texas. Under the terms of the joint venture, Plains acquired a 20% interest in our approximately 550,000 net acres of Haynesville Shale leasehold for an aggregate of \$1.65 billion in cash, consisting of \$1.375 billion in cash paid on July 7, 2008 with the remainder to be paid by October 30, 2008, subject to customary post-closing adjustments. Plains has also agreed to fund 50% of our 80% share of the costs associated with drilling and completing future Haynesville Shale joint venture wells over a multi-year period, up to an additional \$1.65 billion. In addition, Plains will have the right to a 20% participation in any additional leasehold we acquire in the Haynesville Shale. We used approximately \$1.1 billion of the cash proceeds we received from this transaction on July 7, 2008 to temporarily repay outstanding indebtedness under our revolving bank credit facility. We anticipate using the remaining proceeds from this transaction to pay for leasehold acquisition and drilling costs in the Haynesville Shale play and for other general corporate purposes.

On June 16, 2008, we announced that we had entered into a joint venture with Goodrich Petroleum Corporation to develop Goodrich's Haynesville Shale leasehold in Louisiana. Under the terms of the joint venture, we have agreed to pay Goodrich approximately \$178 million for 10,250 net acres of leasehold in two fields and also agreed to acquire from a third party 7,500 net acres of leasehold in one of those two fields. As a result, we and Goodrich will each hold a 50% working interest in two fields in the Haynesville Shale, consisting of 25,000 net acres and 10,500 net acres, respectively. Goodrich retained certain shallow rights and rights to existing production. We will be the operator of the joint venture acreage.

#### **Capital resources update**

In March 2008, we adopted a strategy of accelerating our leasehold acquisition and drilling in the Haynesville Shale as well as in several other new and existing plays. As a result of this strategy and higher leasehold acquisition costs in several other plays where we are active, most notably the Barnett and Marcellus Shale plays, we increased the budgeted amount of our anticipated 2008 and 2009 drilling and leasehold capital expenditures. Since March 31, 2008, we have completed several transactions to provide additional capital to fund these increased capital expenditures.

On April 2, 2008, we issued 23 million shares of our common stock in a public offering at a price of \$45.75 per share, and on May 20, 2008 we completed public offerings of \$800 million of our 7.25% Senior Notes due 2018 and \$1.38 billion of our 2.25% Contingent Convertible Senior Notes due 2038. These three offerings resulted in aggregate net proceeds to us of approximately \$3.15 billion, which we used to fund the redemption of our 7.75% Senior Notes due 2015 and to temporarily repay indebtedness outstanding under our revolving bank credit facility.

In addition, on May 1, 2008, we completed a second volumetric production payment transaction involving 94 bcfe of proved reserves and 47 mmcfe per day of production from wells in Texas, Oklahoma and Kansas. This transaction resulted in net proceeds to us of \$623 million, which we used to temporarily repay indebtedness outstanding under our revolving bank credit facility. We have recently received bids from prospective purchasers for a previously announced third volumetric production payment transaction. We currently anticipate this transaction will close during the third quarter of 2008 and could generate net proceeds to us of up to \$600 million. However, there can be no assurance that we will reach a definitive agreement with these or any other purchasers.

## **Table of Contents**

We have previously announced plans to sell our remaining Arkoma Basin Woodford Shale properties in Oklahoma, representing approximately 85,000 net acres and approximately 40 mmcf per day of production. We have signed a non-binding letter of intent with a potential purchaser related to this transaction, and we currently anticipate that this transaction will close during the third quarter of 2008 and could generate net proceeds to us of \$1.5 billion to \$1.75 billion. However, there can be no assurance that we will reach a definitive agreement with this or any other purchaser.

We have determined not to pursue our previously announced plans to create a private partnership for our midstream assets and sell a minority interest therein due to structural complexities associated with such a transaction. This transaction was anticipated to result in net proceeds to us of approximately \$1.0 billion. This offering is intended, in part, as a substitute for the capital we previously expected to raise through the sale of such minority interest. We are continuing to evaluate other options to monetize our midstream assets.

We have further increased our drilling and leasehold capital expenditure budget and are presently budgeting \$13.25 billion and \$8.4 billion in drilling and leasehold capital expenditures in 2008 and 2009, respectively. We anticipate that our drilling and leasehold capital expenditures, together with our operating costs and other capital expenditure requirements, will exceed our cash flow from operations and our borrowing capacity under our revolving credit facility. Therefore, we anticipate that, rather than curtailing our capital spending, we would seek to periodically engage in additional monetization transactions or consider other financing alternatives, including transactions involving our undeveloped acreage and non-strategic assets and accessing the public capital markets. While we believe that some or all of these sources of liquidity will continue to be available to us, we would be required to curtail our capital spending if we were unable to access sufficient cash to fund our capital spending and operations.

### **Hedging policy and impact of mark-to-market losses**

One of our strategies has been to manage our exposure to price volatility in marketing our natural gas and oil by entering into natural gas and oil price risk management arrangements for a portion of our expected production generally for periods of up to 30 months into the future. While our hedging strategy allows us to predict with greater certainty the effective natural gas and oil prices to be received for our hedged production, this strategy can also limit the prices we actually realize for our natural gas and oil production and therefore reduce our natural gas and oil revenues in the future. During 2006 and 2007, we earned \$2.5 billion in additional revenues as a result of our hedging activities. This year, however, natural gas and oil prices have increased dramatically relative to the level at which we have hedged a significant portion of our production. As a consequence, our hedging activities negatively impacted our earnings in the first quarter of 2008 during which we incurred \$1.1 billion of unrealized losses associated with mark-to-market changes in the value of outstanding hedging contracts. Commodity prices have continued to increase since March 31, 2008, and we anticipate incurring additional substantial unrealized losses in the quarter ended June 30, 2008, and we expect such losses could result in our reporting negative revenues from natural gas and oil sales and will result in an overall net loss for such quarter.

**Table of Contents**

**The Offering**

Common stock offered by Chesapeake 25,000,000 shares(1)

Common stock outstanding after this offering 573,715,364 shares(1)(2)

Use of proceeds We expect the net proceeds to us from this offering, after deducting underwriting discounts and commissions and estimated expenses of the offering payable by us, to be approximately \$1.6 billion. We intend to use the net proceeds from this offering to temporarily repay outstanding indebtedness under our revolving bank credit facility, which we anticipate reborrowing from time to time to fund our drilling and leasehold acquisition initiatives and for general corporate purposes. Affiliates of certain of the underwriters in this offering are lenders under our existing revolving bank credit facility and will receive a substantial portion of the proceeds from this offering. Please see Use of Proceeds.

New York Stock Exchange symbol CHK

Transfer agent and registrar Computershare Trust Company, N.A.

(1) Excludes shares that may be issued to the underwriters pursuant to their option to purchase additional shares. If the underwriters exercise their option to purchase such additional shares in full, the total number of shares of common stock offered will be 28,750,000, and the total number of shares of our common stock outstanding after this offering will be 577,465,364. We had 548,715,364 shares of our common stock outstanding at July 7, 2008.

(2) Includes 21,851,465 shares of unvested restricted stock issued to our employees, officers and directors under our equity incentive compensation plans. Excludes 3,185,672 shares of common stock potentially issuable upon the exercise of outstanding stock options at a weighted average price of \$7.97 as of July 7, 2008. Also excludes, as of July 7, 2008:

1,031,175 shares of our common stock potentially issuable upon the conversion of 143,768 shares of our outstanding 6.25% Mandatory Convertible Preferred Stock at an adjusted conversion price of \$34.8551;

19,443 shares of our common stock potentially issuable upon the conversion of 5,000 shares of our outstanding 5.00% Cumulative Convertible Preferred Stock (Series 2005) at an adjusted conversion price of \$25.7154;

7,810,800 shares of our common stock potentially issuable upon the conversion of 3,450,000 shares of our outstanding 4.50% Cumulative Convertible Preferred Stock at an adjusted conversion price of \$44.1690;

7,760,336 shares of our common stock potentially issuable upon the conversion of 3,031,500 shares of our outstanding 5.00% Cumulative Convertible Preferred Stock (Series 2005B) at an adjusted conversion price of \$39.0645;

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 424B5

184,019 shares of our common stock potentially issuable upon the conversion of 3,059 shares of our outstanding 4.125% Cumulative Convertible Preferred Stock at an adjusted conversion price of \$16.6232;

S-4



**Table of Contents**

17,663,103 shares of our common stock potentially issuable upon the conversion of our \$690,000,000 principal amount of 2.75% Contingent Convertible Senior Notes due 2035 at an adjusted conversion price of \$39.0645;

47,991,405 shares of our common stock potentially issuable upon the conversion of our \$1,650,000,000 principal amount of 2.50% Contingent Convertible Senior Notes due 2037 at an adjusted conversion price of \$51.5717;

24,100,596 shares of our common stock potentially issuable upon the conversion of our \$1,380,000,000 principal amount of 2.25% Contingent Convertible Senior Notes due 2038 at a conversion price of \$85.89; and

499,723 shares of treasury stock.

**Risk Factors**

You should carefully consider all information in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein. In particular, you should evaluate the specific risk factors set forth in the section entitled **Risk Factors** in this prospectus supplement for a discussion of risks relating to an investment in our common stock.

**Pending SEC Staff Comments**

On May 30, 2008, we received comments from the Staff of the Securities and Exchange Commission ( **SEC** ) with respect to our Annual Report on Form 10-K for the year ended December 31, 2007 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, both of which are incorporated by reference in this prospectus supplement. We believe that the disclosures and financial statements in these filings comply in all material respects with applicable SEC regulations and that our financial statements were prepared in accordance with generally accepted accounting principles. The ultimate resolution of the Staff's comments, however, could require amendments to the filings under review or a change in our disclosures in future filings. We have filed our response to the Staff's comments as an exhibit to a Current Report on Form 8-K filed on July 8, 2008, which is incorporated herein by reference. Please read **Where You Can Find More Information**.

**Table of Contents****Summary Consolidated Financial Data**

The following tables set forth summary consolidated financial data as of and for each of the three years ended December 31, 2007, 2006 and 2005 and the three months ended March 31, 2008 and 2007. This data was derived from our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 and from our unaudited condensed consolidated financial statements included in our Quarterly Report on Form 10-Q for the three months ended March 31, 2008, each of which is incorporated by reference herein. The financial data below should be read together with, and is qualified in its entirety by reference to, our historical consolidated financial statements and the accompanying notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations which are set forth in such Annual Report on Form 10-K and Quarterly Report on Form 10-Q.

	Years Ended December 31,			Three Months Ended March 31,	
	2007	2006	2005	2008	2007
	(\$ in millions, except per share data)				
<b>Statement of Operations Data:</b>					
Revenues:					
Natural gas and oil sales	\$ 5,624	\$ 5,619	\$ 3,273	\$ 773	\$ 1,125
Natural gas and oil marketing sales	2,040	1,577	1,392	796	422
Service operations revenue	136	130		42	33
<b>Total revenues</b>	<b>7,800</b>	<b>7,326</b>	<b>4,665</b>	<b>1,611</b>	<b>1,580</b>
Operating costs:					
Production expenses	640	490	317	201	142
Production taxes	216	176	208	75	42
General and administrative expenses	243	139	64	79	52
Natural gas and oil marketing expenses	1,969	1,522	1,358	774	407
Service operations expense	94	68		35	22
Natural gas and oil depreciation, depletion and amortization	1,835	1,359	894	515	393
Depreciation and amortization of other assets	154	104	51	36	36
Employee retirement expense		55			
<b>Total operating costs</b>	<b>5,151</b>	<b>3,913</b>	<b>2,892</b>	<b>1,715</b>	<b>1,094</b>
<b>Income (loss) from operations</b>	<b>2,649</b>	<b>3,413</b>	<b>1,773</b>	<b>(104)</b>	<b>486</b>
Other income (expense):					
Interest and other income	15	26	10	(9)	9
Interest expense	(406)	(301)	(220)	(101)	(79)
Gain on sale of investments	83	117			
Loss on repurchases or exchanges of Chesapeake senior notes			(70)		
<b>Total other income (expense)</b>	<b>(308)</b>	<b>(158)</b>	<b>(280)</b>	<b>(110)</b>	<b>(70)</b>
<b>Income (loss) before income taxes</b>	<b>2,341</b>	<b>3,255</b>	<b>1,493</b>	<b>(214)</b>	<b>416</b>
Income tax expense (benefit):					
Current	29	5			
Deferred	861	1,247	545	(82)	158
<b>Total income tax expense (benefit)</b>	<b>890</b>	<b>1,252</b>	<b>545</b>	<b>(82)</b>	<b>158</b>
<b>Net income (loss)</b>	<b>1,451</b>	<b>2,003</b>	<b>948</b>	<b>(132)</b>	<b>258</b>
Preferred stock dividends	(94)	(89)	(42)	(11)	(26)
Loss on conversion/exchange of preferred stock	(128)	(10)	(26)		
<b>Net income (loss) available to common shareholders</b>	<b>\$ 1,229</b>	<b>\$ 1,904</b>	<b>\$ 880</b>	<b>\$ (143)</b>	<b>\$ 232</b>

Edgar Filing: CHESAPEAKE ENERGY CORP - Form 424B5

Earnings (loss) per common share - basic	\$ 2.69	\$ 4.78	\$ 2.73	\$ (0.29)	\$ 0.51
Earnings (loss) per common share - assuming dilution	\$ 2.62	\$ 4.35	\$ 2.51	\$ (0.29)	\$ 0.50
Cash dividends declared per common share	\$ 0.2625	\$ 0.23	\$ 0.195	\$ 0.0675	\$ 0.06
<b>Cash Flow Data:</b>					
Cash provided by operating activities	\$ 4,932	\$ 4,843	\$ 2,407	\$ 1,498	\$ 977
Cash used in investing activities	7,922	8,942	6,921	2,675	1,869
Cash provided by financing activities	2,988	4,042	4,567	1,177	893
<b>Balance Sheet Data:</b>					
Total assets	\$ 30,734	\$ 24,417	\$ 16,118	\$ 33,462	\$ 25,732
Long-term debt, net	10,950	7,376	5,490	12,250	8,371
Stockholders' equity	12,130	11,251	6,174	11,470	11,077

S-6

**Table of Contents****Summary Reserve Information**

The following table sets forth our estimated proved reserves and the present value of our proved reserves as of December 31, 2007 (based on our weighted average wellhead prices at December 31, 2007 of \$6.19 per mcf of natural gas and \$90.58 per barrel of oil). These prices were based on the cash spot prices for natural gas and oil at December 31, 2007.

	Gas (mmcf)	Oil (mmbbl)	Gas Equivalent (mmcfe)	Percent of Proved Reserves	Present Value (\$ in millions)
Mid-Continent	4,723,987	66,256	5,121,522	47%	\$ 11,050
Barnett Shale	2,062,476	102	2,063,091	19	2,969
Appalachian Basin	1,394,635	1,491	1,403,579	13	1,260
Permian and Delaware Basins	707,426	47,146	990,303	9	2,548
Ark-La-Tex	669,384	4,319	695,300	6	1,155
South Texas and Texas Gulf Coast	579,391	4,240	604,828	6	1,591
<b>Total</b>	<b>10,137,299</b>	<b>123,554</b>	<b>10,878,623</b>	<b>100%</b>	<b>\$ 20,573(a)</b>

- (a) Represents the present value, discounted at 10% per annum, of estimated future gross revenue to be generated from the production of proved reserves, net of estimated production and future development costs, using prices and costs in effect at December 31, 2007. The prices used in our external and internal reserve reports yield weighted average wellhead prices of \$6.19 per mcf of natural gas and \$90.58 per barrel of oil. These prices should not be interpreted as a prediction of future prices, nor do they reflect the value of our commodity hedges in place at December 31, 2007. The amounts shown do not give effect to non-property related expenses, such as corporate general and administrative expenses and debt service, or to depreciation, depletion and amortization. Estimated future net revenue and the present value thereof differ from future net cash flows and the standardized measure thereof only because the former do not include the effects of estimated future income tax expenses (\$5.6 billion as of December 31, 2007). Management uses future net revenue, which is calculated without deducting estimated future income tax expenses, and the present value thereof as one measure of the value of the company's current proved reserves and to compare relative values among peer companies without regard to income taxes. We also understand that securities analysts and rating agencies use this measure in similar ways. While future net revenue and present value are based on prices, costs and discount factors which are consistent from company to company, the standardized measure of discounted future net cash flows is dependent on the unique tax situation of each individual company.

Future prices and costs may be materially higher or lower than the prices and costs as of the date of any estimate. A change in price of \$0.10 per mcf for natural gas and \$1.00 per barrel for oil would result in a change in our December 31, 2007 present value of estimated future net revenue of proved reserves of approximately \$390 million and \$56 million, respectively.

**Table of Contents****Summary Production, Sales, Price and Expense Data**

The following table sets forth information regarding the production volumes, natural gas and oil sales, average sales prices received, other operating income and expenses for the periods indicated:

	2007	Years Ended December 31, 2006	2005	Three Months Ended March 31, 2008	2007
<b>Net Production:</b>					
Natural gas (mmcf)	654,969	526,459	422,389	187,772	140,792
Oil (mmbbl)	9,882	8,654	7,698	2,746	2,143
Natural gas equivalent (mmcfe)	714,261	578,383	468,577	204,248	153,650
<b>Natural Gas and Oil Sales (\$ in millions):</b>					
Natural gas sales	\$ 4,117	\$ 3,343	\$ 3,231	\$ 1,432	\$ 888
Natural gas derivatives realized gains (losses)	1,214	1,269	(367)	268	415
Natural gas derivatives unrealized gains (losses)	(139)	467	37	(1,002)	(297)
<b>Total natural gas sales</b>	<b>5,192</b>	<b>5,079</b>	<b>2,901</b>	<b>698</b>	<b>1,006</b>
Oil sales	678	527	402	258	113
Oil derivatives realized gains (losses)	(11)	(15)	(34)	(53)	18
Oil derivatives unrealized gains (losses)	(235)	28	4	(130)	(12)
<b>Total oil sales</b>	<b>432</b>	<b>540</b>	<b>372</b>	<b>75</b>	<b>119</b>
<b>Total natural gas and oil sales</b>	<b>\$ 5,624</b>	<b>\$ 5,619</b>	<b>\$ 3,273</b>	<b>\$ 773</b>	<b>\$ 1,125</b>
<b>Average Sales Price</b>					
<b>(excluding gains (losses) on derivatives):</b>					
Natural gas (\$ per mcf)	\$ 6.29	\$ 6.35	\$ 7.65	\$ 7.63	\$ 6.31
Oil (\$ per bbl)	\$ 68.64	\$ 60.86	\$ 52.20	\$ 94.14	\$ 52.80
Natural gas equivalent (\$ per mcfe)	\$ 6.71	\$ 6.69	\$ 7.75	\$ 8.28	\$ 6.52
<b>Average Sales Price</b>					
<b>(excluding unrealized gains (losses) on derivatives):</b>					
Natural gas (\$ per mcf)	\$ 8.14	\$ 8.76	\$ 6.78	\$ 9.05	\$ 9.26
Oil (\$ per bbl)	\$ 67.50	\$ 59.14	\$ 47.77	\$ 74.73	\$ 61.13
Natural gas equivalent (\$ per mcfe)	\$ 8.40	\$ 8.86	\$ 6.90	\$ 9.33	\$ 9.33
<b>Other Operating Income (\$ per mcfe):</b>					
Natural gas and oil marketing	\$ 0.10	\$ 0.09	\$ 0.07	\$ 0.11	\$ 0.10
Service operations	\$ 0.06	\$ 0.11	\$	\$ 0.03	\$ 0.08
<b>Expenses (\$ per mcfe):</b>					
Production expenses	\$ 0.90	\$ 0.85	\$ 0.68	\$ 0.98	\$ 0.93
Production taxes	\$ 0.30	\$ 0.31	\$ 0.44	\$ 0.37	\$ 0.27
General and administrative expenses	\$ 0.34	\$ 0.24	\$ 0.14	\$ 0.39	\$ 0.34
Natural gas and oil depreciation, depletion and amortization	\$ 2.57	\$ 2.35	\$ 1.91	\$ 2.52	\$ 2.56
Depreciation and amortization of other assets	\$ 0.22	\$ 0.18	\$ 0.11	\$ 0.18	\$ 0.23
Interest expense(a)	\$ 0.51	\$ 0.52	\$ 0.47	\$ 0.43	\$ 0.50

(a) Includes the effects of realized gains (losses) from interest rate derivatives, but does not include the effects of unrealized gains (losses) and is net of amounts capitalized.



**Table of Contents**

**RISK FACTORS**

*Natural gas and oil prices are volatile. A decline in prices could adversely affect our financial position, financial results, cash flows, access to capital and ability to grow.*

Our revenues, operating results, profitability and future rate of growth depend primarily upon the prices we receive for the natural gas and oil we sell. Prices also affect the amount of cash flow available for capital expenditures and our ability to borrow money or raise additional capital. The amount we can borrow from banks is subject to periodic redeterminations based on prices specified by our bank group at the time of redetermination. In addition, we may have ceiling test write-downs in the future if prices fall significantly.

Historically, the markets for natural gas and oil have been volatile and they are likely to continue to be volatile. Wide fluctuations in natural gas and oil prices may result from relatively minor changes in the supply of and demand for natural gas and oil, market uncertainty and other factors that are beyond our control, including:

worldwide and domestic supplies of natural gas and oil;

weather conditions;

the level of consumer demand;

the price and availability of alternative fuels;

the proximity and capacity of natural gas pipelines and other transportation facilities;

the price and level of foreign imports;

domestic and foreign governmental regulations and taxes;

the ability of the members of the Organization of Petroleum Exporting Countries to agree to and maintain oil price and production controls;

political instability or armed conflict in oil-producing regions; and

overall domestic and global economic conditions.

These factors and the volatility of the energy markets make it extremely difficult to predict future natural gas and oil price movements with any certainty. Declines in natural gas and oil prices would not only reduce revenue, but could reduce the amount of natural gas and oil that we can produce economically and, as a result, could have a material adverse effect on our financial condition, results of operations and reserves. Further, natural gas and oil prices do not necessarily move in tandem. Because approximately 93% of our reserves at December 31, 2007 were natural gas reserves, we are more affected by movements in natural gas prices.

*Our level of indebtedness may limit our financial flexibility.*

## Edgar Filing: CHESAPEAKE ENERGY CORP - Form 424B5

As of March 31, 2008, we had long-term indebtedness of approximately \$12.25 billion, with \$3.2 billion of outstanding borrowings drawn under our revolving bank credit facility. Our long-term indebtedness represented 52% of our total book capitalization at March 31, 2008. As of July 7, 2008, we had approximately \$2.3 billion outstanding under our revolving bank credit facility.

Our level of indebtedness and preferred stock affects our operations in several ways, including the following:

a portion of our cash flows from operating activities must be used to service our indebtedness and pay dividends on our preferred stock and is not available for other purposes;

we may be at a competitive disadvantage as compared to similar companies that have less debt;

the covenants contained in the agreements governing our outstanding indebtedness and future indebtedness may limit our ability to borrow additional funds, pay dividends and make certain

S-9



## **Table of Contents**

investments and may also affect our flexibility in planning for, and reacting to, changes in the economy and in our industry;

additional financing in the future for working capital, capital expenditures, acquisitions, general corporate or other purposes may have higher costs and more restrictive covenants; and

changes in the credit ratings of our debt may negatively affect the cost, terms, conditions and availability of future financing, and lower ratings will increase the interest rate and fees we pay on our revolving bank credit facility.

We may incur additional debt, including secured indebtedness, or issue additional series of preferred stock in order to develop our properties and make future acquisitions. A higher level of indebtedness and/or additional preferred stock increases the risk that we may default on our obligations. Our ability to meet our debt obligations and to reduce our level of indebtedness depends on our future performance. General economic conditions, natural gas and oil prices and financial, business and other factors affect our operations and our future performance. Many of these factors are beyond our control. We may not be able to generate sufficient cash flow to pay the interest on our debt, and future working capital, borrowings or equity financing may not be available to pay or refinance such debt. Factors that will affect our ability to raise cash through an offering of our capital stock or a refinancing of our debt include financial market conditions, the value of our assets and our performance at the time we need capital.

In addition, our bank borrowing base is subject to periodic redetermination. A lowering of our borrowing base could require us to repay indebtedness in excess of the borrowing base, or we might be required to provide the lenders with additional collateral.

***Competition in the natural gas and oil industry is intense, and many of our competitors have greater financial and other resources than we do.***

We operate in the highly competitive areas of natural gas and oil development, exploitation, exploration, acquisition and production. We face intense competition from both major and other independent natural gas and oil companies in each of the following areas:

seeking to acquire desirable producing properties or new leases for future exploration; and

seeking to acquire the equipment and expertise necessary to develop and operate our properties.

Many of our competitors have financial and other resources substantially greater than ours, and some of them are fully integrated oil companies. These companies may be able to pay more for development prospects and productive natural gas and oil properties and may be able to define, evaluate, bid for and purchase a greater number of properties and prospects than our financial or human resources permit. Our ability to develop and exploit our natural gas and oil properties and to acquire additional properties in the future will depend upon our ability to successfully conduct operations, evaluate and select suitable properties and consummate transactions in this highly competitive environment.

***Significant capital expenditures are required to replace our reserves.***

Our exploration, development and acquisition activities require substantial capital expenditures. Historically, we have funded our capital expenditures through a combination of cash flows from operations, our revolving bank credit facility and debt and equity issuances. Future cash flows are subject to a number of variables, such as the level of production from existing wells, prices of natural gas and oil, and our success in developing and producing new reserves. If revenues were to decrease as a result of lower natural gas and oil prices or decreased production, and our access to capital were limited, we would have a reduced ability to replace our reserves. If our cash flow from operations is not sufficient to fund our capital expenditure budget, we may not be able to access additional bank debt, debt or equity or other methods of financing on an economic basis to meet these requirements.

---

**Table of Contents**

*If we are not able to replace reserves, we may not be able to sustain production.*

Our future success depends largely upon our ability to find, develop or acquire additional natural gas and oil reserves that are economically recoverable. Unless we replace the reserves we produce through successful development, exploration or acquisition activities, our proved reserves and production will decline over time. In addition, approximately 36% of our total estimated proved reserves (by volume) at December 31, 2007 were undeveloped. By their nature, estimates of undeveloped reserves are less certain. Recovery of such reserves will require significant capital expenditures and successful drilling operations. Our reserve estimates reflect that our production rate on producing properties will decline approximately 28% from 2008 to 2009. Thus, our future natural gas and oil reserves and production and, therefore, our cash flow and income are highly dependent on our success in efficiently developing and exploiting our current reserves and economically finding or acquiring additional recoverable reserves.

*The actual quantities and present value of our proved reserves may prove to be lower than we have estimated.*

This prospectus supplement contains and incorporates by reference estimates of our proved reserves and the estimated future net revenues from our proved reserves. These estimates are based upon various assumptions, including assumptions required by the SEC relating to natural gas and oil prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating natural gas and oil reserves is complex. The process involves significant decisions and assumptions in the evaluation of available geological, geophysical, engineering and economic data for each reservoir. Therefore, these estimates are inherently imprecise.

Actual future production, natural gas and oil prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable natural gas and oil reserves most likely will vary from these estimates. Such variations may be significant and could materially affect the estimated quantities and present value of our proved reserves. In addition, we may adjust estimates of proved reserves to reflect production history, results of exploration and development drilling, prevailing natural gas and oil prices and other factors, many of which are beyond our control. Our properties may also be susceptible to hydrocarbon drainage from production by operators on adjacent properties.

At December 31, 2007, approximately 36% of our estimated proved reserves (by volume) were undeveloped. Recovery of undeveloped reserves requires significant capital expenditures and successful drilling operations. These reserve estimates include the assumption that we will make significant capital expenditures to develop the reserves, including approximately \$2.6 billion in 2008. You should be aware that the estimated costs may not be accurate, development may not occur as scheduled and results may not be as estimated.

You should not assume that the present values included or incorporated by reference in this prospectus supplement represent the current market value of our estimated natural gas and oil reserves. In accordance with SEC requirements, the estimates of our present values are based on prices and costs as of the date of the estimates. The December 31, 2007 present value is based on weighted average natural gas and oil wellhead prices of \$6.19 per mcf of natural gas and \$90.58 per barrel of oil. Actual future prices and costs may be materially higher or lower than the prices and costs as of the date of an estimate.

Any changes in consumption by natural gas and oil purchasers or in governmental regulations or taxation will also affect actual future net cash flows.

The timing of both the production and the expenses from the development and production of natural gas and oil properties will affect both the timing of actual future net cash flows from our proved reserves and their present value. In addition, the 10% discount factor, which is required by the SEC to be used in calculating discounted future net cash flows for reporting purposes, is not necessarily the most accurate discount factor. The effective interest rate at various times and the risks associated with our business or the natural gas and oil industry in general will affect the accuracy of the 10% discount factor.

---

**Table of Contents**

***Acquisitions may prove to be worth less than we paid because of uncertainties in evaluating recoverable reserves and potential liabilities.***

Our growth during the past few years is due in large part to acquisitions of exploration and production companies, producing properties and undeveloped leasehold. Successful acquisitions require an assessment of a number of factors, including estimates of recoverable reserves, exploration potential, future natural gas and oil prices, operating costs and potential environmental and other liabilities. Such assessments are inexact and their accuracy is inherently uncertain. In connection with our assessments, we perform a review of the acquired properties which we believe is generally consistent with industry practices. However, such a review will not reveal all existing or potential problems. In addition, our review may not permit us to become sufficiently familiar with the properties to fully assess their deficiencies and capabilities. We do not inspect every well. Even when we inspect a well, we do not always discover structural, subsurface or environmental problems that may exist or arise. As a result of these factors, the purchase price we pay to acquire natural gas and oil properties may exceed the value we realize.

We are generally not entitled to contractual indemnification for pre-closing liabilities, including environmental liabilities. Normally, we acquire interests in properties on an as is basis with limited remedies for breaches of representations and warranties. When we make entity acquisitions, we may have transferee liability that is not fully indemnified. Our acquisition of Columbia Natural Resources, LLC ( CNR ) in November 2005 was made subject to claims that are covered in part by the indemnification of a prior owner, NiSource Inc. NiSource and Chesapeake are co-defendants in a class action lawsuit brought by royalty owners in West Virginia in which the jury returned a verdict in January 2007 awarding plaintiffs \$404 million, consisting of \$134 million in compensatory damages and \$270 million in punitive damages. Chesapeake believes its share of damages that might ultimately be awarded in this case will not have a material adverse effect on its results of operations, financial condition or liquidity as a result of the NiSource indemnity and post-trial remedies that may be available. This case was appealed to the West Virginia Supreme Court of Appeals, but on May 22, 2008, that court refused to hear such appeal. NiSource and Chesapeake have sought a continuation of the stay of the judgment so that they may file a petition for writ of certiorari to the United States Supreme Court, which may or may not decide to hear the case. Chesapeake is a defendant in other cases involving acquired companies where it may have no, or only limited, indemnification rights. In any such actions we could incur significant liability.

***Exploration and development drilling may not result in commercially productive reserves.***

We do not always encounter commercially productive reservoirs through our drilling operations. The new wells we drill or participate in, including the recently announced discoveries in Louisiana and Oklahoma, may not be productive and we may not recover all or any portion of our investment in wells we drill or participate in. The seismic data and other technologies we use do not allow us to know conclusively prior to drilling a well that oil or natural gas is present or may be produced economically. The cost of drilling, completing and operating a well is often uncertain, and cost factors can adversely affect the economics of a project. Our efforts will be unprofitable if we drill dry wells or wells that are productive but do not produce enough reserves to return a profit after drilling, operating and other costs. Further, our drilling operations may be curtailed, delayed or canceled as a result of a variety of factors, including:

increases in the cost of, or shortages or delays in the availability of, drilling rigs and equipment;

unexpected drilling conditions;

title problems;

pressure or irregularities in formations;

equipment failures or accidents;

adverse weather conditions; and

compliance with environmental and other governmental requirements.

S-12

**Table of Contents*****Future price declines may result in a write-down of our asset carrying values.***

We utilize the full-cost method of accounting for costs related to our natural gas and oil properties. Under this method, all such costs (for both productive and nonproductive properties) are capitalized and amortized on an aggregate basis over the estimated lives of the properties using the unit-of-production method. However, these capitalized costs are subject to a ceiling test which limits such pooled costs to the aggregate of the present value of future net revenues attributable to proved natural gas and oil reserves discounted at 10% plus the lower of cost or market value of unproved properties. The full-cost ceiling is evaluated at the end of each quarter using the prices for natural gas and oil at that date, adjusted for the impact of derivatives accounted for as cash flow hedges. A significant decline in natural gas and oil prices from current levels, or other factors, without other mitigating circumstances, could cause a future write-down of capitalized costs and a non-cash charge against future earnings.

***Our hedging activities may reduce the realized prices received for our natural gas and oil sales and require us to provide collateral for hedging liabilities.***

In order to manage our exposure to price volatility in marketing our natural gas and oil, we enter into natural gas and oil price risk management arrangements for a portion of our expected production. Commodity price hedging may limit the prices we actually realize and therefore reduce natural gas and oil revenues in the future. Our commodity hedging activities will impact our earnings in various ways, including recognition of certain mark-to-market gains and losses on derivative instruments. The fair value of our natural gas and oil derivative instruments can fluctuate significantly between periods. For example, for the quarter ended March 31, 2008, we incurred \$1.132 billion of unrealized losses associated with mark-to-market changes in the value of outstanding hedging contracts accounted for under SFAS No. 133. The fair value of our natural gas and oil derivative instruments outstanding as of March 31, 2008 was a liability of approximately \$2.232 billion. As a result of increasing commodity prices subsequent to March 31, 2008, we anticipate incurring additional substantial unrealized losses in the quarter ended June 30, 2008, and we expect such losses could result in our reporting negative revenues from natural gas and oil sales and will result in an overall net loss for such quarter. In addition, our commodity price risk management transactions may expose us to the risk of financial loss in certain circumstances, including instances in which:

our production is less than expected;

there is a widening of price differentials between delivery points for our production and the delivery point assumed in the hedge arrangement; or

the counterparties to our contracts fail to perform under the contracts.

All but three of our commodity price risk management counterparties require us to provide assurances of performance in the event that the counterparties' mark-to-market exposure to us exceeds certain levels. Most of these arrangements allow us to minimize the potential liquidity impact of significant mark-to-market fluctuations by making collateral allocations from our revolving bank credit facility or directly pledging natural gas and oil properties, rather than posting cash or letters of credit with the counterparties. Future collateral requirements are uncertain, however, and will depend on the arrangements with our counterparties and highly volatile natural gas and oil prices.

***Lower natural gas and oil prices could negatively impact our ability to borrow.***

Our revolving bank credit facility limits our borrowings to the lesser of the borrowing base and the total commitments (currently both are \$3.5 billion). The borrowing base is determined periodically at the discretion of the banks and is based in part on natural gas and oil prices. Additionally, some of our indentures contain covenants limiting our ability to incur indebtedness in addition to that incurred under our revolving bank credit facility. These indentures limit our ability to incur additional indebtedness unless we meet one of two alternative tests. The first alternative is based on our adjusted consolidated net tangible assets (as defined in all of our indentures), which is determined using discounted future net revenues from proved natural gas and oil reserves as

## **Table of Contents**

of the end of each year. The second alternative is based on the ratio of our adjusted consolidated EBITDA (as defined in the relevant indentures) to our adjusted consolidated interest expense over a trailing twelve-month period. Currently, we are permitted to incur additional indebtedness under both debt incurrence tests. Lower natural gas and oil prices in the future could reduce our adjusted consolidated EBITDA, as well as our adjusted consolidated net tangible assets, and thus could reduce our ability to incur additional indebtedness.

### ***Natural gas and oil drilling and producing operations can be hazardous and may expose us to environmental liabilities.***

Natural gas and oil operations are subject to many risks, including well blowouts, cratering and explosions, pipe failures, fires, formations with abnormal pressures, uncontrollable flows of oil, natural gas, brine or well fluids, and other environmental hazards and risks. Our drilling operations involve risks from high pressures and from mechanical difficulties such as stuck pipes, collapsed casings and separated cables. If any of these risks occurs, we could sustain substantial losses as a result of:

injury or loss of life;

severe damage to or destruction of property, natural resources and equipment;

pollution or other environmental damage;

clean-up responsibilities;

regulatory investigations and administrative, civil and criminal penalties; and

injunctions resulting in limitation or suspension of operations.

There is inherent risk of incurring significant environmental costs and liabilities in our exploration and production operations due to our generation, handling, and disposal of materials, including wastes and petroleum hydrocarbons. We may incur joint and several, strict liability under applicable U.S. federal and state environmental laws in connection with releases of petroleum hydrocarbons and other hazardous substances at, on, under or from our leased or owned properties, some of which have been used for natural gas and oil exploration and production activities for a number of years, often by third parties not under our control. While we may maintain insurance against some, but not all, of the risks described above, our insurance may not be adequate to cover casualty losses or liabilities. Also, in the future we may not be able to obtain insurance at premium levels that justify its purchase.

In addition, studies have suggested that emissions of certain gases, commonly referred to as greenhouse gases, may be contributing to warming of the Earth's atmosphere. Methane, a primary component of natural gas, and carbon dioxide, a byproduct of the burning of natural gas, are examples of greenhouse gases. The U.S. Congress is actively considering legislation to reduce emissions of greenhouse gases. In addition, at least nine states in the Northeast and five states in the West have developed initiatives to regulate emissions of greenhouse gases, primarily through the planned development of greenhouse gas emission inventories and/or regional greenhouse gas cap and trade programs. The U.S. Environmental Protection Agency is separately considering whether it will regulate greenhouse gases as air pollutants under the existing federal Clean Air Act. Passage of climate control legislation or other regulatory initiatives by Congress or various states in the U.S. or the adoption of regulations by the EPA or analogous state agencies that regulate or restrict emissions of greenhouse gases including methane or carbon dioxide in areas in which we conduct business could have an adverse effect on our operations and demand for our products.

### ***A portion of our natural gas and oil production may be subject to interruptions that could temporarily adversely affect our cash flow.***

A portion of our regional natural gas and oil production may be interrupted, or shut in, from time to time for numerous reasons, including as a result of weather conditions, accidents, loss of pipeline or gathering system access, field labor issues or strikes, or intentionally as a result of market conditions. If a substantial amount of our production is interrupted at the same time, it could temporarily adversely affect our cash flow.



**Table of Contents**

**USE OF PROCEEDS**

We expect the net proceeds from the sale of 25,000,000 shares in this offering to be approximately \$1.6 billion, after deducting underwriting discounts and commissions and the estimated expenses of the offering payable by us. If the underwriters exercise their option to purchase additional shares in full, we expect to receive net proceeds of approximately \$1.8 billion. We intend to use the net proceeds from this offering to temporarily repay outstanding indebtedness under our revolving bank credit facility, which we anticipate reborrowing from time to time to fund our drilling and leasehold acquisition initiatives and for general corporate purposes. Affiliates of certain of the underwriters in this offering are lenders under our existing revolving bank credit facility and will receive a substantial portion of the proceeds from this offering. See

Underwriting. As of July 7, 2008, the average interest rate on borrowings outstanding under our revolving bank credit facility, which matures on November 2, 2012, was 3.5%. As of July 7, 2008, we had approximately \$2.3 billion of borrowings outstanding under our revolving bank credit facility. These borrowings were primarily incurred to pay for leasehold acquisition expenditures in the Haynesville Shale and to fund capital expenditures in our midstream operations.

S-15



**Table of Contents****CAPITALIZATION**

The following table shows our capitalization as of March 31, 2008:

on a historical basis;

on a pro forma basis to reflect (i) the issuance on April 2, 2008 of 23 million shares of our common stock in a public offering at a price of \$45.75 per share; (ii) the issuance on May 20, 2008 of \$800 million in aggregate principal amount of 7.25% Senior Notes due 2018; (iii) the issuance on May 20, 2008 of \$1.38 billion in aggregate principal amount of 2.25% Senior Notes due 2038; (iv) the application of approximately \$3.15 billion in net proceeds from the transactions described in clauses (i) through (iii) to fund the redemption of our 7.75% Senior Notes due 2015, to temporarily repay indebtedness outstanding under our revolving bank credit facility and for general corporate purposes and (v) the acquisition by us during the second quarter of 2008 of 2,718,500 shares of our 5.00% Cumulative Convertible Preferred Stock (Series 2005B) in privately negotiated exchanges in exchange for an aggregate of 7,780,703 shares of our common stock; and

on a pro forma basis as adjusted to reflect the consummation of this offering and the application of approximately \$1.6 billion in net proceeds to temporarily repay borrowings under our revolving bank credit facility and for general corporate purposes.

This table should be read in conjunction with, and is qualified in its entirety by reference to, our historical financial statements and the accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2007 and in our Quarterly Report on Form 10-Q for the three months ended March 31, 2008, each of which is incorporated by reference herein.

	As of March 31, 2008		
	Historical	Pro Forma (in millions)	Pro Forma As Adjusted
Cash and cash equivalents	\$ 1	\$ 1	\$ 1,235
Long-term debt:			
Revolving bank credit facility(1)	\$ 3,164	\$ 330	\$
7.500% Senior Notes due 2013	364	364	364
7.625% Senior Notes due 2013	500	500	500
7.000% Senior Notes due 2014	300	300	300
7.500% Senior Notes due 2014	300	300	300
6.375% Senior Notes due 2015	600	600	600
7.750% Senior Notes due 2015	300		
6.625% Senior Notes due 2016	600	600	600
6.875% Senior Notes due 2016	670	670	670
6.250% Euro-denominated Senior Notes due 2017(2)	948	948	948
6.500% Senior Notes due 2017	1,100	1,100	1,100
6.250% Senior Notes due 2018	600	600	600
7.250% Senior Notes due 2018		800	800
6.875% Senior Notes due 2020	500	500	500
2.750% Contingent Convertible Senior Notes due 2035(3)	690	690	690
2.500% Contingent Convertible Senior Notes due 2037	1,650	1,650	1,650
2.250% Contingent Convertible Senior Notes due 2038		1,380	1,380
Impact of interest rate derivatives	66	66	66
Discount on senior notes	(102)	(102)	(102)
Total long-term debt	\$ 12,250	\$ 11,296	\$ 10,966



**Table of Contents**

	As of March 31, 2008		
	Historical	Pro Forma (in millions)	Pro Forma As Adjusted
Stockholders' equity:			
Preferred stock, \$0.01 par value, 20,000,000 authorized			
5.00% Cumulative Convertible Preferred Stock (Series 2005B), 5,750,000 shares issued and outstanding (3,031,500 shares pro forma and pro forma as adjusted), entitled in liquidation to \$575 million (\$303 million pro forma and pro forma as adjusted)	575	303	303
4.50% Cumulative Convertible Preferred Stock, 3,450,000 shares issued and outstanding, entitled in liquidation to \$345 million	345	345	345
6.25% Mandatory Convertible Preferred Stock, 143,768 shares issued and outstanding, entitled in liquidation to \$36 million	36	36	36
4.125% Cumulative Convertible Preferred Stock, 3,062 shares issued and outstanding, entitled in liquidation to \$3 million	3	3	3
5.00% Cumulative Convertible Preferred Stock (Series 2005), 5,000 shares issued and outstanding, entitled in liquidation to \$1 million	1	1	1
Common Stock, \$0.01 par value, 750,000,000 shares authorized, 514,564,549 shares (545,345,252 shares pro forma and 570,345,252 shares pro forma as adjusted) issued and outstanding	5	5	6
Paid-in capital	7,081	8,363	9,926
Other equity	3,424	3,415	3,415
<b>Total stockholders' equity</b>	<b>\$ 11,470</b>	<b>\$ 12,471</b>	<b>\$ 14,035</b>
Total capitalization	\$ 23,720	\$ 23,767	\$ 25,001

- (1) As of July 7, 2008, we had total long term indebtedness of \$13.3 billion, including approximately \$2.3 billion outstanding under our revolving bank credit facility, after giving effect to the application of approximately \$1.1 billion from our transaction with Plains Exploration & Production Company to temporarily repay outstanding indebtedness under our revolving bank credit facility.
- (2) The principal amount shown is based on the dollar/euro exchange rate of \$1.5805 to 1.00 as of March 31, 2008.
- (3) Our 2.75% Contingent Convertible Senior Notes due 2035 are convertible, at the holder's option, prior to maturity, into cash and, if applicable, shares of our common stock using a net share settlement process during any calendar quarter if the closing sale price of our common stock exceeds a threshold amount (\$48.831 as of June 30, 2008) for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter. Because the closing sale price of our common stock exceeded such threshold for the requisite number of trading days prior to June 30, 2008, holders of our 2.75% Contingent Convertible Senior Notes will have the option to convert their notes into cash and common stock during the third quarter of 2008. Consequently, we anticipate reclassifying the \$690 million principal amount of these notes to short-term liabilities on our June 30, 2008 balance sheet. We expect that the classification of the principal amount of these notes as a short-term liability would continue for subsequent quarters as to which the closing sale price of our common stock exceeds the threshold price, as adjusted pursuant to the indenture under which the notes were issued, during the requisite time period. We do not currently anticipate significant conversions to occur as the trading price for these notes currently exceeds the value of cash and our common stock that would be received upon conversion, but there can be no assurance that holders will not convert their notes. If such conversions were to occur, we would be required to use cash we otherwise intend to use for our drilling and leasehold capital expenditures. Please read Prospectus Supplement Summary Recent Developments Capital resources update.



**Table of Contents****PRICE RANGE OF COMMON STOCK**

Our common stock is traded on the New York Stock Exchange under the symbol CHK. The following table sets forth the range of high and low sales prices per share of our common stock for each calendar quarter.

	<b>Common Stock</b>	
	<b>High</b>	<b>Low</b>
<b>2008:</b>		
Third Quarter (through July 7, 2008)	\$ 74.00	\$ 63.39
Second Quarter	68.10	45.25
First Quarter	49.87	34.42
<b>2007:</b>		
Fourth Quarter	\$ 41.19	\$ 34.90
Third Quarter	37.55	31.38
Second Quarter	37.75	30.88
First Quarter	31.83	27.27
<b>2006:</b>		
Fourth Quarter	\$ 34.27	\$ 27.90
Third Quarter	33.76	28.06
Second Quarter	33.79	26.81
First Quarter	35.57	27.75

On July 7, 2008, the closing sale price of our common stock, as reported by the New York Stock Exchange, was \$64.34 per share. On that date, there were approximately 1,675 holders of record. We believe we have over approximately 363,000 beneficial owners of our common stock.

**Table of Contents****DIVIDEND POLICY**

The following table sets forth the amount of dividends per share declared on our common stock during the two years ended December 31, 2007 and the first two quarters of 2008:

	2008	2007	2006
First Quarter	\$ 0.0675	\$ 0.060	\$ 0.050
Second Quarter	0.075	0.0675	0.060
Third Quarter		0.0675	0.060
Fourth Quarter		0.0675	0.060

On June 6, 2008, our Board of Directors declared a quarterly dividend of \$0.075 per share of our common stock payable on July 15, 2008 to common stockholders of record on July 1, 2008. Purchasers in this offering will not be holders of record as of July 1, 2008 and, thus, will not be entitled to receive such dividend.

While we expect to continue to pay quarterly dividends on our common stock, the payment of future cash dividends is subject to the discretion of our Board of Directors and will depend upon, among other things, our financial condition, our funds from operations, the level of our capital and development expenditures, our future business prospects, contractual restrictions to which we are subject and other factors considered relevant by our Board of Directors.

In addition, our revolving bank credit facility and the indentures governing certain of our senior notes contain restrictions on our ability to declare and pay cash dividends. Under the revolving bank credit facility and these indentures, we may not pay any cash dividends on our common or preferred stock if an event of default has occurred. Additionally, these indentures restrict cash dividends if we have not met one of two debt incurrence tests set forth in the indentures, or if immediately after giving effect to the dividend payment, we have paid total dividends and made other restricted payments in excess of the permitted amounts. As of March 31, 2008, our coverage ratio for purposes of the debt incurrence test under the applicable indentures was approximately 8.0 to 1, compared to a minimum of 2.25 to 1 required in such indentures. Our adjusted consolidated net tangible assets exceeded 200% of our total indebtedness, as required by the second debt incurrence test in these indentures, by more than \$2.119 billion.

The certificates of designation for our 5.00% Cumulative Convertible Preferred Stock (Series 2005), our 4.50% Cumulative Convertible Preferred Stock, our 5.00% Cumulative Convertible Preferred Stock (Series 2005B), our 4.125% Cumulative Convertible Preferred Stock and our 6.25% Mandatory Convertible Preferred Stock prohibit payment of cash dividends on our common stock unless we have declared and paid (or set apart for payment) full accumulated dividends on such series of our preferred stock.

---

**Table of Contents**

**CERTAIN UNITED STATES FEDERAL TAX CONSIDERATIONS**

**FOR NON-U.S. HOLDERS**

The following is a general discussion of certain U.S. federal income and estate tax consequences of the ownership and disposition of our common stock by a non-U.S. holder. As used in this discussion, the term non-U.S. holder means a beneficial owner of our common stock that is not, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States;

a holder who owns or is deemed to own more than 5% of our common stock;

a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, or of any political subdivision of the United States;

an estate whose income is subject to U.S. federal income taxation regardless of its source; or

a trust, if a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust, or if it has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

An individual may be treated as a resident of the United States in any calendar year for U.S. federal income tax purposes if such individual is present in the United States for at least (i) 183 days during the current year or (ii) 31 days in the current calendar year and for an aggregate of at least 183 days during the preceding three-year period including the current calendar year. For purposes of the 183-day calculation, all of the days present in the current year, one third of the days present in the immediately preceding year and one-sixth of the days present in the second preceding year are counted. Residents are subject to U.S. federal income tax as if they were U.S. citizens.

The following discussion summarizes the material U.S. federal income tax consequences to non-U.S. holders that are initial purchasers of our common stock. This discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), the final, temporary and proposed Treasury Regulations promulgated thereunder, and administrative rulings and judicial decisions now in effect, all of which are subject to change (possibly with retroactive effect) or different interpretations. This summary does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to an investor's decision to participate in the offering, nor any tax consequences arising under the laws of any state, local or foreign jurisdiction. This summary is not intended to be applicable to all categories of investors, such as dealers in securities, banks, insurance companies, tax-exempt organizations, controlled foreign corporations, passive foreign investment companies, corporations that accumulate earnings to avoid U.S. federal income tax, or persons that hold our common stock through an entity treated as a partnership for U.S. federal income tax purposes or as part of a hedge, straddle or conversion transaction, holders subject to the alternative minimum tax, or persons who acquired our common stock through a compensation arrangement, which may be subject to special rules. In addition, this discussion is limited to non-U.S. holders who hold our common stock as a capital asset (generally, property held for investment) within the meaning of Section 1221 of the Code.

**Each non-U.S. holder should consult a tax advisor regarding the U.S. federal, state, local and foreign tax consequences of acquiring, holding and disposing of shares of our common stock.**

**Distributions on common stock**

In the event that we make distributions with respect to our common stock, these distributions generally will constitute dividends for U.S. federal income tax purposes to the extent paid from our current or accumulated earnings and profits, as determined under U.S. federal income tax principles. Any distribution not constituting a dividend will be treated first as reducing your basis in your shares of common stock and, to the extent it exceeds





---

## **Table of Contents**

your basis, as gain from the disposition of your shares of common stock. Dividends paid to non-U.S. holders of our common stock that are not effectively connected with the non-U.S. holder's conduct of a U.S. trade or business will generally be subject to U.S. withholding tax at a 30% rate, or if a tax treaty applies, a lower rate specified by the treaty. Non-U.S. holders should consult their tax advisors regarding their entitlement to benefits under a relevant income tax treaty.

If such dividends are effectively connected with a non-U.S. holder's conduct of a trade or business in the United States and, if an income tax treaty applies, are attributable to a permanent establishment in the United States, such dividends will be subject to U.S. federal income tax on a net basis at graduated rates in the manner applicable to U.S. persons, but will not be subject to U.S. federal withholding tax if the non-U.S. holder complies with applicable certification and disclosure requirements. In addition, a branch profits tax may be imposed at a 30% rate, or a lower rate under an applicable income tax treaty, on dividends received by a foreign corporation that are effectively connected with its conduct of a trade or business in the United States.

A non-U.S. holder that claims the benefit of an applicable income tax treaty generally will be required to satisfy certain applicable certification and other requirements. A holder that is a foreign partnership or a foreign trust is urged to consult its own tax advisor regarding the special certification requirements applicable to it.

### **Gain on disposition of common stock**

A non-U.S. holder generally will not be subject to U.S. federal income tax on gain recognized on a disposition of our common stock unless:

the gain is effectively connected with the non-U.S. holder's conduct of a trade or business in the United States and, if an income tax treaty applies, is attributable to a permanent establishment maintained by the non-U.S. holder in the United States; in these cases, the gain will be taxed on a net basis at the rates and in the manner applicable to U.S. persons, and if the non-U.S. holder is a foreign corporation, the branch profits tax described above may also apply;

the non-U.S. holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and meets certain other requirements; in these cases, the individual non-U.S. holder will be subject to a flat 30% tax on the gain derived from the disposition which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States; or

we are or have been a United States real property holding corporation (USRPHC) for U.S. federal income tax purposes at any time during the shorter of the five-year period ending on the date of disposition or the period that the non-U.S. holder held our common stock. However, the tax relating to the sale of stock in a USRPHC generally will not apply to a non-U.S. holder whose holdings, direct and indirect, at all times during the applicable period, constituted 5% or less of our common stock, provided that our common stock was regularly traded on an established securities market.

Generally, a corporation is a USRPHC if the fair market value of its U.S. real property interests equals or exceeds 50% of the sum of the fair market value of its worldwide real property interests and its other assets used or held for use in a trade or business. We believe that we are currently a USRPHC.

### **U.S. federal estate tax**

Common stock owned or treated as owned by an individual who is a non-U.S. holder for U.S. federal estate tax purposes at the time of death will be included in the individual's gross estate for U.S. federal estate tax purposes, unless an applicable estate tax provision or other treaty provides otherwise, and therefore may be subject to U.S. federal estate tax.

## **Table of Contents**

### **Information reporting and backup withholding tax**

Dividends paid to you may be subject to information reporting and U.S. backup withholding. If you are a non-U.S. holder you will be exempt from this backup withholding tax if you properly provide an IRS Form W-8BEN or IRS Form W-8ECI certifying that you are a non-U.S. holder or otherwise meet documentary evidence requirements for establishing that you are a non-U.S. holder, or you otherwise establish an exemption.

The gross proceeds from the disposition of our common stock may be subject to information reporting and backup withholding. U.S. information reporting and backup withholding will generally apply to a payment of sales proceeds, even if that payment is made outside the United States, if you sell your common stock through a U.S. office of a broker or a non-U.S. office of a broker that:

is a United States person;

derives 50% or more of its gross income in specific periods from the conduct of a trade or business in the United States;

is a controlled foreign corporation for U.S. tax purposes; or

is a foreign partnership, if at any time during its tax year:

one or more of its partners are U.S. persons who in the aggregate hold more than 50% of the income or capital interests in the partnership; or

the foreign partnership is engaged in a U.S. trade or business, unless the broker has documentary evidence in its files that you are a non-U.S. person and certain other conditions are met, or you otherwise establish an exemption. If you sell your common stock outside the United States through a non-U.S. office of a non-U.S. broker that does not have the connections to the United States described above, and the sales proceeds are paid to you outside the United States, then the U.S. backup withholding and information reporting requirements generally will not apply.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your U.S. federal income tax liability by timely filing a properly completed claim for refund with the IRS.

**The above description is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, ownership and disposition of our common stock. You should consult with your own tax advisor concerning the tax consequences of your particular situation.**

**Table of Contents**

**UNDERWRITING**

Subject to the terms and conditions of an underwriting agreement, the underwriters named below have severally agreed to purchase from us the following respective number of shares of common stock at the public offering price less the underwriting discounts and commissions set forth on the cover page of this prospectus supplement. Lehman Brothers Inc., UBS Securities LLC, ABN AMRO Incorporated, Banc of America Securities LLC and Wells Fargo Securities, LLC are acting as joint book-running managers and as representatives of underwriters named below.

Underwriter	Number of Shares of Common Stock
Lehman Brothers Inc.	
UBS Securities LLC	
ABN AMRO Incorporated	
Banc of America Securities LLC	
Wells Fargo Securities, LLC	
Total	25,000,000

The underwriting agreement provides that the obligations of the several underwriters to purchase the shares of common stock offered hereby are subject to certain conditions precedent and that the underwriters will purchase all of the shares of common stock offered by this prospectus supplement, other than those covered by the over-allotment option described below, if any of these shares are purchased.

We have granted to the underwriters an option to buy up to an additional 3,750,000 shares from us to cover over-allotments. The underwriters may exercise that option for 30 days.

The following table summarizes the underwriting discounts and commissions we will pay to the underwriters. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares. The underwriting fee is the difference between the public offering price and the amount the underwriters pay us for the shares.

	No Exercise	Full Exercise
Per share	\$	\$
Total(1)	\$	\$

(1) The underwriters will receive no underwriting discount or commission on the 1,000,000 shares being purchased by Aubrey K. McClendon, our Chairman and Chief Executive Officer, and a trust previously established for the benefit of Mr. McClendon's children.

The representatives of the underwriters have advised us that the underwriters propose to offer the shares of common stock to the public at the public offering price set forth on the cover of this prospectus supplement and to selected dealers, which may include the underwriters, at such offering price less a selling concession not in excess of \$ per share. After the offering, the representatives may change the offering price and other selling terms.

In connection with the offering, the underwriters may purchase and sell shares of common stock in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of shares than they are required to purchase in the offering. Covered short sales are sales made in an amount not greater than the underwriter's option to purchase additional shares from the company in the offering. The underwriters may close out any covered short position by either exercising their option to purchase additional shares or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriters



**Table of Contents**

will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which they may purchase additional shares pursuant to the option granted to it. Naked short sales are any sales in excess of such option. The underwriters must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the common stock in the open market after pricing that could adversely affect investors who purchase in the offering. Stabilizing transactions consist of various bids for or purchases of common stock made by an underwriter in the open market prior to the completion of the offering.

Purchases to cover a short position and stabilizing transactions, as well as other purchases by the underwriters for their own accounts, may have the effect of preventing or retarding a decline in the market price of the company's stock and may stabilize, maintain or otherwise affect the market price of the common stock. As a result, the price of the common stock may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be discontinued at any time. These transactions may be effected on the New York Stock Exchange, in the over-the-counter market or otherwise.

Except for the common stock offered hereby, we have agreed not to offer, sell, contract to sell or otherwise issue any shares of common stock or other capital stock or securities convertible into or exchangeable for, or any rights to acquire, common stock or other capital stock, with certain exceptions, prior to the expiration of 60 days from the date of this prospectus supplement without the prior written consent of Lehman Brothers Inc. and UBS Securities LLC. Aubrey K. McClendon, our Chairman and Chief Executive Officer, has agreed not to, directly or indirectly, offer, sell or otherwise dispose of shares of our common stock or any securities convertible into or exchangeable for, or any rights to acquire, our common stock or our other capital stock for 60 days following the date of this prospectus supplement without the prior written consent of Lehman Brothers Inc. and UBS Securities LLC. Mr. McClendon and a trust previously established for the benefit of Mr. McClendon's children intend to purchase 1,000,000 shares of common stock in this offering. The underwriters will receive no discount or commission on the shares being purchased by Mr. McClendon.

We estimate that our share of the total expenses of the offering, excluding the underwriting discount and commission, will be approximately \$250,000. The underwriters have agreed to reimburse us for up to \$150,000 in expenses incurred by us in connection with this offering.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933.

Certain of the underwriters and their affiliates have from time to time provided, and in the future may provide, certain investment banking and financial advisory services to us and our affiliates, for which they have received, and in the future would receive, customary fees. Affiliates of all of the underwriters are lenders under our existing revolving bank credit facility. Amounts outstanding under our existing revolving bank credit facility will be repaid in connection with this offering and such affiliates will, thus, receive a substantial portion of the proceeds from this offering. Accordingly, this offering is being conducted in accordance with Rule 2710(h) of the NASD Conduct Rules (which are part of the FINRA Rules). Because a bona fide independent market exists for our common stock, the Financial Industry Regulatory Authority, or FINRA, does not require that we use a qualified independent underwriter for this offering.

In addition, affiliates of UBS Securities LLC and ABN AMRO Incorporated are a party to volumetric production payment transactions with us. An affiliate of Lehman Brothers Inc. is a participant in a drilling business with us. We and that affiliate have each contributed to the venture approximately \$25 million for our equity interest and \$20 million as a loan. Another affiliate of Lehman Brothers Inc. is the owner of an entity to which we made sales representing 15% of our total revenue in 2007. In addition, affiliates of certain of the underwriters are counterparties to our hedging transactions and sale/leaseback transactions. Additionally, Lehman Brothers Inc. advised Plains Exploration & Production Company in connection with the Haynesville Shale joint venture. See Prospectus Supplement Summary Recent Developments Haynesville Shale Joint Ventures.

---

## **Table of Contents**

A prospectus in electronic format may be made available on the Internet sites or through other online services maintained by one or more of the underwriters and/or selling group members participating in this offering, or by their affiliates. In those cases, prospective investors may view offering terms online and, depending upon the particular underwriter or selling group member, prospective investors may be allowed to place orders online. The underwriters may agree with us to allocate a specific number of shares for sale to online brokerage account holders. Any such allocation for online distributions will be made by the representatives on the same basis as other allocations.

Other than the prospectus in electronic format, the information on any underwriter's or selling group member's web site and any information contained in any other web site maintained by an underwriter or selling group member are not part of the prospectus or the registration statement of which this prospectus supplement and the accompanying prospectus form a part, have not been approved and/or endorsed by us or any underwriter or selling group member in its capacity as underwriter or selling group member and should not be relied upon by investors.

### **Australia**

No prospectus supplement or other disclosure document (as defined in the Corporations Act 2001 (Cth) of Australia ( "Corporations Act" )) in relation to the securities has been or will be lodged with the Australian Securities & Investments Commission ( "ASIC" ). This document has not been lodged with ASIC and is only directed to certain categories of exempt persons. Accordingly, if you receive this document in Australia:

- a. you confirm and warrant that you are either:
  - i. a sophisticated investor under section 708(8)(a) or (b) of the Corporations Act;
  - ii. a sophisticated investor under section 708(8)(c) or (d) of the Corporations Act and that you have provided an accountant's certificate to us which complies with the requirements of section 708(8)(c)(i) or (ii) of the Corporations Act and related regulations before the offer has been made;
  - iii. a person associated with the company under section 708(12) of the Corporations Act; or
  - iv. a professional investor within the meaning of section 708(11)(a) or (b) of the Corporations Act,and to the extent that you are unable to confirm or warrant that you are an exempt sophisticated investor, associated person or professional investor under the Corporations Act any offer made to you under this document is void and incapable of acceptance; and
- b. you warrant and agree that you will not offer any of the securities for resale in Australia within 12 months of those securities being issued unless any such resale offer is exempt from the requirement to issue a disclosure document under section 708 of the Corporations Act.

### **European Economic Area**

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of securities described in this prospectus supplement may not be made to the public in that relevant member state other than:

to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

## Edgar Filing: CHESAPEAKE ENERGY CORP - Form 424B5

to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than \$43,000,000 and (3) an annual net turnover of more than \$50,000,000, as shown in its last annual or consolidated accounts;

to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the representatives; or

S-25

## **Table of Contents**

in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive, provided that no such offer of securities shall require us or any underwriter to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For purposes of this provision, the expression an offer of securities to the public in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

We have not authorized and do not authorize the making of any offer of securities through any financial intermediary on their behalf, other than offers made by the underwriters with a view to the final placement of the securities as contemplated in this prospectus supplement. Accordingly, no purchaser of the securities, other than the underwriters, is authorized to make any further offer of the securities on behalf of us or the underwriters.

### **Hong Kong**

The securities may not be offered or sold in Hong Kong, by means of any document, other than (a) to professional investors as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made under that Ordinance or (b) in other circumstances which do not result in the document being a prospectus as defined in the Companies Ordinance (Cap. 32, Laws of Hong Kong) or which do not constitute an offer to the public within the meaning of that Ordinance. No advertisement, invitation or document relating to the securities may be issued or may be in the possession of any person for the purpose of the issue, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the securities which are intended to be disposed of only to persons outside Hong Kong or only to professional investors as defined in the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) or any rules made under that Ordinance.

### **India**

This prospectus supplement has not been and will not be registered as a prospectus with the Registrar of Companies in India or with the Securities and Exchange Board of India. This prospectus supplement or any other material relating to these securities is for information purposes only and may not be circulated or distributed, directly or indirectly, to the public or any members of the public in India and in any event to not more than 50 persons in India. Further, persons into whose possession this prospectus supplement comes are required to inform themselves about and to observe any such restrictions. Each prospective investor is advised to consult its advisors about the particular consequences to it of an investment in these securities. Each prospective investor is also advised that any investment in these securities by it is subject to the regulations prescribed by the Reserve Bank of India and the Foreign Exchange Management Act and any regulations framed thereunder.

### **Japan**

No securities registration statement ( SRS ) has been filed under Article 4, Paragraph 1 of the Financial Instruments and Exchange Law of Japan (Law No. 25 of 1948, as amended) ( FIEL ) in relation to the securities. The securities are being offered in a private placement to qualified institutional investors ( *tekikaku-kikan-toshika* ) under Article 10 of the Cabinet Office Ordinance concerning Definitions provided in Article 2 of the FIEL (the Ministry of Finance Ordinance No. 14, as amended) ( QIIs ), under Article 2, Paragraph 3, Item 2 i of the FIEL. Any QII acquiring the securities in this offer may not transfer or resell those shares except to other QIIs.



---

## **Table of Contents**

### **Korea**

The securities may not be offered, sold and delivered directly or indirectly, or offered or sold to any person for reoffering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the Korea Securities and Exchange Act and the Foreign Exchange Transaction Law and the decrees and regulations thereunder. The securities have not been registered with the Financial Services Commission of Korea for public offering in Korea. Furthermore, the securities may not be resold to Korean residents unless the purchaser of the securities complies with all applicable regulatory requirements (including but not limited to government approval requirements under the Foreign Exchange Transaction Law and its subordinate decrees and regulations) in connection with the purchase of the securities.

### **Singapore**

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the securities may not be circulated or distributed, nor may the securities be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Future Act, Chapter 289 of Singapore (the SFA), (ii) to a relevant person as defined in Section 275(2) of the SFA, or any person pursuant to Section 275 (1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the securities are subscribed and purchased under Section 275 of the SFA by a relevant person which is:

- a. a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- b. a trust (where the trustee is not an accredited investor (as defined in Section 4A of the SFA)) whose sole whole purpose is to hold investments and each beneficiary is an accredited investor,  
shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable within six months after that corporation or that trust has acquired the securities under Section 275 of the SFA except:
  - i. to an institutional investor under Section 274 of the SFA or to a relevant person (as defined in Section 275(2) of the SFA) and in accordance with the conditions, specified in Section 275 of the SFA;
  - ii. (in the case of a corporation) where the transfer arises from an offer referred to in Section 275(1A) of the SFA, or (in the case of a trust) where the transfer arises from an offer that is made on terms that such rights or interests are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;
  - iii. where no consideration is or will be given for the transfer; or
  - iv. where the transfer is by operation of law.

By accepting this prospectus supplement, the recipient hereof represents and warrants that he is entitled to receive it in accordance with the restrictions set forth above and agrees to be bound by limitations contained herein. Any failure to comply with these limitations may constitute a violation of law.



**Table of Contents**

**United Kingdom**

This prospectus supplement is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive ( "Qualified Investors" ) that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order" ) or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons" ). This prospectus supplement and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant persons should not act or rely on this document or any of its contents.

S-28

**Table of Contents**

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and special reports, proxy statements and other information with the SEC.

We incorporate by reference in this prospectus supplement the following documents filed with the SEC pursuant to the Securities Exchange Act of 1934 (the Exchange Act ):

our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, including the portions of our Proxy Statement on Schedule 14A filed on April 29, 2008 that are incorporated therein;

our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2008;

our Current Reports on Form 8-K filed on January 4, 2008, January 24, 2008, March 20, 2008, March 26, 2008, April 1, 2008, April 16, 2008, April 18, 2008, May 12, 2008, May 23, 2008, May 27, 2008, May 29, 2008, June 4, 2008, June 11, 2008, June 12, 2008 and July 8, 2008 (excluding any information furnished pursuant to Item 2.02 or Item 7.01 of any such Current Report on Form 8-K); and

our Registration Statement on Form 8-B (File No. 001-13726) filed on December 12, 1996, as amended by our Current Report on Form 8-K filed on March 26, 2008.

We also incorporate by reference any future filings made by us with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act (excluding any information furnished pursuant to Item 2.02 or Item 7.01 of any such current report on Form 8-K that is filed in the future and is not deemed filed under the Exchange Act), until the underwriters have sold all of the shares of common stock.

The information incorporated by reference is an important part of this prospectus supplement, and information that we file later with the SEC will automatically update and supersede this information as well as the information included in this prospectus supplement.

On May 30, 2008, we received comments from the Staff of the SEC with respect to our Annual Report on Form 10-K for the year ended December 31, 2007 and our Quarterly Report on Form 10-Q for the quarter ended March 31, 2008, both of which are incorporated by reference in this prospectus supplement. The Staff comments inquired about certain of our disclosures and solicited supplemental information. We submitted our responses to the Staff's comments on June 13, 2008. We believe that the disclosures and financial statements in these filings comply in all material respects with applicable SEC regulations and that our financial statements were prepared in accordance with generally accepted accounting principles. The ultimate resolution of the Staff's comments, however, could require an amendment to the filings under review or a change in our disclosures in future filings. We have filed our response to the Staff's comments as an exhibit to a Current Report on Form 8-K filed on July 8, 2008, which is incorporated herein by reference.

You may read and copy any document we file with the SEC at the SEC public reference room located at:

100 F Street, N.E.

Room 1580

Washington, D.C. 20549

Please call the SEC at 1-800-SEC-0330 for further information on the public reference room and its copy charges. Our SEC filings are also available to the public on the SEC's web site at <http://www.sec.gov> and through the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which our shares of common stock are traded.

During the course of the offering and prior to sale, we invite each offeree of the common stock to ask us questions concerning the terms and conditions of the offering and to obtain any additional information necessary to verify the accuracy of the information in this prospectus

## Edgar Filing: CHESAPEAKE ENERGY CORP - Form 424B5

supplement which is material to the offering to the extent that we possess such information or can acquire it without unreasonable effort or expense. You may obtain a copy of any or all of the documents summarized in this prospectus supplement or incorporated by reference in this prospectus supplement, without charge, by request directed to us at the following address and telephone number:

Jennifer M. Grigsby

Corporate Secretary

Chesapeake Energy Corporation

6100 North Western Avenue

Oklahoma City, Oklahoma 73118

Telephone: (405) 879-9225

S-29

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This prospectus supplement contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements give our current expectations or forecasts of future events. They include statements regarding natural gas and oil reserve estimates, planned capital expenditures, the drilling of natural gas and oil wells and future acquisitions, expected natural gas and oil production, cash flow and anticipated liquidity, business strategy and other plans and objectives for future operations and expected future expenses. Statements concerning the fair values of derivative contracts and their estimated contribution to our future results of operations are based upon market information as of a specific date. These market prices are subject to significant volatility.

Although we believe the expectations and forecasts reflected in these and other forward-looking statements are reasonable, we can give no assurance they will prove to have been correct. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Factors that could cause actual results to differ materially from expected results are described above under Risk Factors and include:

the volatility of natural gas and oil prices;

our level of indebtedness;

the strength and financial resources of our competitors;

the availability of capital on an economic basis to fund our drilling program;

our ability to replace reserves and sustain production;

uncertainties inherent in estimating quantities of natural gas and oil reserves, projecting future rates of production and the timing of development expenditures;

uncertainties in evaluating natural gas and oil reserves of acquired properties and associated potential liabilities;

unsuccessful exploration and development drilling;

declines in the values of our natural gas and oil properties resulting in ceiling test write-downs;

lower prices realized on natural gas and oil sales and collateral required to secure hedging liabilities resulting from our commodities price risk management activities;

the negative effect lower natural gas and oil prices could have on our ability to borrow;

drilling and operating risks;

adverse effects of governmental and environmental regulation;

losses possible from pending or future litigation; and

interruption of a portion of our natural gas and oil production.

We caution you not to place undue reliance on these forward-looking statements, which speak only as of the date of this prospectus supplement, and we undertake no obligation to update this information. We urge you to carefully review and consider the disclosures made in this prospectus supplement and our reports filed with the SEC and incorporated by reference herein that attempt to advise interested parties of the risks and factors that may affect our business.

S-30

**Table of Contents**

**LEGAL MATTERS**

The validity of the issuance of the common stock offered by this prospectus supplement will be passed upon for us by Commercial Law Group, P.C., Oklahoma City, Oklahoma. Certain other legal matters will be passed upon for us by Bracewell & Giuliani LLP, Houston, Texas. The underwriters are being represented by Cravath, Swaine & Moore LLP, New York, New York. Bracewell & Giuliani LLP and Cravath, Swaine & Moore LLP will rely upon Commercial Law Group, P.C. as to all matters of Oklahoma law.

**EXPERTS**

The financial statements and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus supplement by reference to the Annual Report on Form 10-K for the year ended December 31, 2007 have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

Estimates of the natural gas and oil reserves of Chesapeake Energy Corporation and related future net cash flows and the present values thereof, included in Chesapeake's Annual Report on Form 10-K for the year ended December 31, 2007, were based in part upon reserve reports prepared by Netherland, Sewell & Associates, Inc., Schlumberger Data and Consulting Services, Lee Keeling and Associates, Inc., Ryder Scott Company, L.P. and LaRoche Petroleum Consultants, Ltd., independent petroleum engineers. We have incorporated these estimates in this prospectus supplement by reference to such Annual Report in reliance on the authority of each such firm as experts in such matters.



**Table of Contents**

**Prospectus**

# **Chesapeake Energy Corporation**

## **Preferred Stock**

## **Common Stock**

We may from time to time offer and sell common stock and preferred stock. The preferred stock may be convertible into or exercisable or exchangeable for our common stock. We may offer and sell these securities to or through one or more underwriters, dealers and agents, or directly to purchasers, on a continuous or delayed basis.

This prospectus provides you some of the general terms that may apply to the securities that may be offered. Each time securities are sold, we will provide one or more supplements to this prospectus that will contain additional information about the specific offering and the terms of the securities being offered. The supplements may also add, update or change information contained in this prospectus. You should carefully read this prospectus and any accompanying prospectus supplement before you invest in any of our securities.

Our common stock is listed for trading on the New York Stock Exchange under the symbol **CHK**. Our executive offices are located at 6100 North Western Avenue, Oklahoma City, Oklahoma 73118, and our telephone number is (405) 848-8000.

**NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS TRUTHFUL OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

**The date of this prospectus is December 8, 2005.**

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>Where You Can Find More Information</u>	2
<u>Description of Chesapeake Capital Stock</u>	4
<u>Use of Proceeds</u>	10
<u>Legal Matters</u>	10
<u>Experts</u>	10

**Table of Contents**

**WHERE YOU CAN FIND MORE INFORMATION**

We file annual, quarterly and current reports and other information with the SEC. You may inspect and copy such material at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for more information on the public reference room. You can also find our SEC filings at the SEC's website at [www.sec.gov](http://www.sec.gov) and on our website at [www.chkenergy.com](http://www.chkenergy.com) (click on Investor Relations and then SEC Filings). Information contained on our website is not part of this prospectus. In addition, our reports and other information concerning us can be inspected at the New York Stock Exchange, 20 Broad Street, New York, New York 10005, where our common stock is listed.

We have filed with the SEC a registration statement on Form S-3 relating to the securities covered by this prospectus. This prospectus is a part of the registration statement and does not contain all the information in the registration statement. Whenever a reference is made in this prospectus to a contract or other document, the reference is only a summary and you should refer to the exhibits that are a part of the registration statement for a copy of the contract or other document. You may view a copy of the registration statement at the SEC's public reference room in Washington, D.C. as well as through the SEC's website.

The following documents we filed with the SEC pursuant to the Exchange Act are incorporated herein by reference:

our Annual Report on Form 10-K for the fiscal year ended December 31, 2004;

our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2005, June 30, 2005 and September 30, 2005;

our current reports on Form 8-K filed on January 3, 2005, January 20, 2005, January 31, 2005, February 2, 2005, February 22, 2005, March 15, 2005, March 24, 2005, April 13, 2005 (four reports of the same date, one such report as amended on April 25, 2005), April 14, 2005 (two reports of the same date), April 19, 2005, April 25, 2005 (two reports of the same date), May 2, 2005, May 23, 2005 (two reports of the same date), June 7, 2005, June 10, 2005, June 13, 2005, June 16, 2005, June 21, 2005 (two reports of the same date), June 23, 2005, June 30, 2005, July 1, 2005 (two reports of the same date), July 8, 2005, July 11, 2005, July 12, 2005, July 19, 2005, July 22, 2005 (such report as amended on July 22, 2005), August 5, 2005 (such report as amended on August 12, 2005), August 11, 2005, August 12, 2005, August 16, 2005 (three reports of the same date, one such report as amended on August 17, 2005), August 17, 2005, August 22, 2005, August 23, 2005, September 7, 2005, September 8, 2005 (two reports of the same date), September 9, 2005 (two reports of the same date), September 15, 2005, September 20, 2005, September 26, 2005, September 28, 2005 (two reports of the same date), September 30, 2005, October 4, 2005, October 7, 2005, October 11, 2005 (such report as amended on October 21, 2005), October 13, 2005, October 21, 2005, November 1, 2005 (two reports of the same date), November 3, 2005, November 4, 2005 (two reports of the same date), November 9, 2005, November 15, 2005 (two reports of the same date), November 18, 2005 and November 21, 2005 (excluding any information furnished pursuant to Item 2.02 or Item 7.01 of any such current report on Form 8-K).

All documents filed by us pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (excluding any information furnished pursuant to Item 2.02 or Item 7.01 on any current report on Form 8-K) subsequent to the date of this filing and prior to the termination of this offering shall be deemed to be incorporated in this prospectus and to be a part hereof from the date of the filing of such document. Any statement contained in a document incorporated by reference herein shall be

**Table of Contents**

deemed to be modified or superseded for all purposes to the extent that a statement contained in this prospectus, or in any other subsequently filed document which is also incorporated or deemed to be incorporated by reference, modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus.

We will provide without charge to each person to whom this prospectus is delivered, upon written or oral request of such person, a copy of any or all documents incorporated by reference in this prospectus. Requests for such copies should be directed to Jennifer M. Grigsby, Secretary, Chesapeake Energy Corporation, 6100 North Western Avenue, Oklahoma City, Oklahoma 73118, by mail, or if by telephone at (405) 848-8000.

**Table of Contents**

**DESCRIPTION OF CHESAPEAKE CAPITAL STOCK**

Set forth below is a description of the material terms of our capital stock. However, this description is not complete and is qualified by reference to our certificate of incorporation (including our certificates of designation) and bylaws. Copies of our certificate of incorporation (including our certificates of designation) and bylaws are available from us upon request. These documents have also been filed with the SEC. Please read [Where You Can Find More Information](#).

**Authorized Capital Stock**

Our authorized capital stock consists of 500,000,000 shares of common stock, par value \$.01 per share, and 20,000,000 shares of preferred stock, par value \$.01 per share, of which 500,000 shares are designated as Series A Junior Participating Preferred Stock, 100,310 shares are designated as 6.00% Cumulative Convertible Preferred Stock, 1,025,946 shares are designated as 5.00% Cumulative Convertible Preferred Stock (Series 2003), 94,810 shares are designated as 4.125% Cumulative Convertible Preferred Stock, 4,600,000 shares are designated as 5.00% Cumulative Convertible Preferred Stock (Series 2005), 3,450,000 shares are designated as 4.50% Cumulative Convertible Preferred Stock and 5,750,000 shares are designated as 5.00% Cumulative Convertible Preferred Stock (Series 2005B).

**Common Stock**

Holders of our common stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Subject to preferences that may be applicable to any outstanding preferred stock, holders of our common stock are entitled to receive ratably such dividends as may be declared by the board of directors out of funds legally available for dividends. In the event of our liquidation or dissolution, holders of our common stock are entitled to share ratably in all assets remaining after payment of liabilities and the liquidation preference of any outstanding preferred stock.

Holders of our common stock have no preemptive rights and have no rights to convert their common stock into any other securities. All of the outstanding shares of common stock are duly authorized, validly issued, fully paid and nonassessable.

**Preferred Stock**

As of the date of this prospectus, we have 4,478,934 shares of authorized but unissued preferred stock which are undesignated. Currently 100,310 shares are designated as 6.00% Cumulative Convertible Preferred Stock, all of which are outstanding, 1,025,946 shares are designated as 5.00% Cumulative Convertible Preferred Stock (Series 2003), all of which are outstanding, 94,810 shares are designated as 4.125% Cumulative Convertible Preferred Stock, all of which are outstanding, 4,600,000 shares are designated as 5.00% Cumulative Convertible Preferred Stock (Series 2005), all of which are outstanding, 3,450,000 shares are designated as 4.50% Cumulative Convertible Preferred Stock, all of which are outstanding, and 5,750,000 shares are designated as 5.00% Cumulative Convertible Preferred Stock (Series 2005B), all of which are outstanding. Our board of directors has also authorized the issuance of up to 500,000 shares of Series A Junior Participating Preferred Stock in connection with the adoption of our shareholder rights plan in July 1998. None of these shares are currently outstanding. The Series A Preferred Stock is described below under [Share Rights Plan](#).

Our board of directors has the authority, without further shareholder approval, to issue shares of preferred stock from time to time in one or more series, with such voting powers or

## **Table of Contents**

without voting powers, and with such designations, preferences and relative, participating, optional or other special rights, and qualifications, limitations or restrictions, as shall be set forth in the resolutions providing therefor.

While providing desirable flexibility for possible acquisitions and other corporate purposes, and eliminating delays associated with a shareholder vote on specific issuances, the issuance of preferred stock could adversely affect the voting power of holders of common stock, as well as dividend and liquidation payments on both common and preferred stock. It also could have the effect of delaying, deferring or preventing a change in control.

### **Anti-Takeover Provisions**

Our certificate of incorporation and bylaws and the Oklahoma General Corporation Act include a number of provisions which may have the effect of encouraging persons considering unsolicited tender offers or other unilateral takeover proposals to negotiate with our board of directors rather than pursue non-negotiated takeover attempts. These provisions include a classified board of directors, authorized blank check preferred stock, restrictions on business combinations and the availability of authorized but unissued common stock.

*Classified Board of Directors.* Our certificate of incorporation and bylaws contain provisions for a staggered board of directors with only one-third of the board standing for election each year. Directors can only be removed for cause. A staggered board makes it more difficult for shareholders to change the majority of the directors.

*Oklahoma Business Combination Statute.* Section 1090.3 of the Oklahoma General Corporation Act prevents an interested shareholder from engaging in a business combination with an Oklahoma corporation for three years following the date the person became an interested shareholder, unless:

prior to the date the person became an interested shareholder, the board of directors of the corporation approved the transaction in which the interested shareholder became an interested shareholder or approved the business combination;

upon consummation of the transaction that resulted in the interested shareholder becoming an interested shareholder, the interested shareholder owns stock having at least 85% of all voting power of the corporation at the time the transaction commenced, excluding stock held by directors who are also officers of the corporation and stock held by certain employee stock plans; or

on or subsequent to the date of the transaction in which the person became an interested shareholder, the business combination is approved by the board of directors of the corporation and authorized at a meeting of shareholders by the affirmative vote of the holders of two-thirds of all voting power not attributable to shares owned by the interested shareholder.

The statute defines a business combination to include:

any merger or consolidation involving the corporation and an interested shareholder;

any sale, lease, exchange, mortgage, pledge, transfer or other disposition to or with an interested shareholder of 10% or more of the assets of the corporation;

subject to certain exceptions, any transaction which results in the issuance or transfer by the corporation of any stock of the corporation to an interested shareholder;



## **Table of Contents**

any transaction involving the corporation which has the effect of increasing the proportionate share of the stock of any class or series or voting power of the corporation owned by the interested shareholder;

the receipt by an interested shareholder of any loans, guarantees, pledges or other financial benefits provided by or through the corporation; or

any share acquisition by the interested shareholder pursuant to Section 1090.1 of the Oklahoma General Corporation Act. For purposes of Section 1090.3, the term corporation also includes the corporation's majority-owned subsidiaries.

In addition, Section 1090.3 defines an interested shareholder, generally, as any person that owns stock having 15% or more of all voting power of the corporation, any person that is an affiliate or associate of the corporation and owned stock having 15% or more of all voting power of the corporation at any time within the three-year period prior to the time of determination of interested shareholder status, and any affiliate or associate of such person.

*Stock Purchase Provisions.* Our certificate of incorporation includes a provision which requires the affirmative vote of two-thirds of the votes cast by the holders, voting together as a single class, of all then outstanding shares of capital stock, excluding the votes by an interested shareholder, to approve the purchase of any of our capital stock from the interested shareholder at a price in excess of fair market value, unless the purchase is either (1) made on the same terms offered to all holders of the same securities or (2) made on the open market and not the result of a privately negotiated transaction.

## **Share Rights Plan**

*The Rights.* On July 7, 1998, our board of directors declared a dividend distribution of one preferred stock purchase right for each outstanding share of common stock. The distribution was paid on July 27, 1998 to the shareholders of record on that date. Each right entitles the registered holder to purchase from us one one-thousandth of a share of Series A Preferred Stock at a price of \$25.00, subject to adjustment.

The following is a summary of these rights. The full description and terms of the rights are set forth in a rights agreement with UMB Bank, N.A., as rights agent. Copies of the rights agreement and the certificate of designation for the Series A Preferred Stock are available free of charge. This summary description of the rights and the Series A Preferred Stock does not purport to be complete and is qualified in its entirety by reference to all the provisions of the rights agreement and the certificate of designation for the Series A Preferred Stock.

Initially, the rights attached to all certificates representing shares of our outstanding common stock, and no separate rights certificates were distributed. The rights will separate from our common stock and the distribution date will occur upon the earlier of:

ten days following the date of public announcement that a person or group of persons has become an acquiring person; or

ten business days (or a later date set by the board of directors prior to the time a person becomes an acquiring person) following the commencement of, or the announcement of an intention to make, a tender offer or exchange offer upon consummation of which the offeror would, if successful, become an acquiring person.

The earlier of these dates is called the distribution date.



**Table of Contents**

The term **acquiring person** means any person who or which, together with all of its affiliates and associates, is the beneficial owner of 15% or more of our outstanding common stock, but does not include:

us or any of our subsidiaries or employee benefit plans;

Aubrey K. McClendon, his spouse, lineal descendants and ascendants, heirs, executors or other legal representatives and any trusts established for the benefit of the foregoing or any other person or entity in which the foregoing persons or entities are at the time of determination the direct record and beneficial owners of all outstanding voting securities (each a McClendon shareholder );

Tom L. Ward, his spouse, lineal descendants and ascendants, heirs, executors or other legal representatives and any trusts established for the benefit of the foregoing, or any other person or entity in which the foregoing persons or entities are at the time of determination the direct record and beneficial owners of all outstanding voting securities (each a Ward shareholder );

Morgan Guaranty Trust Company of New York, in its capacity as pledgee of shares beneficially owned by a McClendon or Ward shareholder, or both, under any pledge agreement in effect on September 11, 1998, to the extent that upon the exercise by the pledgee of any of its rights or duties as pledgee, other than the exercise of any voting power by the pledgee or the acquisition of ownership by the pledgee, such pledgee becomes a beneficial owner of pledged shares; or

any person (other than the pledgee just described) that is neither a McClendon nor Ward shareholder, but who or which is the beneficial owner of common stock beneficially owned by a McClendon or Ward shareholder (a second tier shareholder ), but only if the shares of common stock otherwise beneficially owned by a second tier shareholder ( second tier holder shares ) do not exceed the sum of (A) the holder s second tier holder shares held on September 11, 1998 and (B) 1% of the shares of our common stock then outstanding (collectively, exempt persons ).

The rights agreement provides that, until the distribution date, the rights will be transferred with and only with the common stock. Until the distribution date (or earlier redemption or expiration of the rights), new common stock certificates issued after July 27, 1998, upon transfer or new issuance of common stock, will contain a notation incorporating the rights agreement by reference. Until the distribution date or earlier redemption or expiration of the rights, the surrender for transfer of any certificate for common stock, outstanding as of July 27, 1998, even without a notation or a copy of a summary of the rights being attached, will also constitute the transfer of the rights associated with the common stock represented by the certificate. As soon as practicable following the distribution date, separate certificates evidencing the rights will be mailed to holders of record of the common stock as of the close of business on the distribution date and these separate rights certificates alone will evidence the rights.

The rights are not exercisable until the distribution date. The rights will expire on July 27, 2008.

The purchase price payable, and the number of one one-thousandths of a share of Series A Preferred Stock or other securities or property issuable, upon exercise of the rights are subject to adjustment from time to time to prevent dilution:

in the event of a stock dividend on, or a subdivision, combination or reclassification of, the Series A Preferred Stock;

**Table of Contents**

upon the grant to holders of the Series A Preferred Stock of certain rights or warrants to subscribe for or purchase shares of Series A Preferred Stock at a price, or securities convertible into Series A Preferred Stock with a conversion price, less than the then current market price of the Series A Preferred Stock; or

upon the distribution to holders of the Series A Preferred Stock of evidences of indebtedness or assets (excluding regular periodic cash dividends paid or dividends payable in Series A Preferred Stock) or of subscription rights or warrants (other than those referred to above).

The number of outstanding rights and the number of one one-thousandths of a share of Series A Preferred Stock issuable upon exercise of each right are also subject to adjustment in the event of a stock split of the common stock or a stock dividend on the common stock payable in the common stock or subdivisions, consolidations or combinations of the common stock occurring, in any such case, prior to the distribution date.

In the event that following the date of public announcement that a person has become an acquiring person, we are acquired in a merger or other business combination transaction or more than 50% of our consolidated assets or earning power is sold, proper provision will be made so that each holder of a right will thereafter have the right to receive, upon the exercise of the right at the then current exercise price of the right, that number of shares of common stock of the acquiring company which at the time of such transaction will have a market value of two times the exercise price of the right (the flip-over right ).

In the event that a person, other than an exempt person, becomes an acquiring person, proper provision will be made so that each holder of a right, other than the acquiring person and its affiliates and associates, will thereafter have the right to receive upon exercise that number of shares of common stock, or, if applicable, cash, other equity securities or property of us, having a market value equal to two times the purchase price of the rights (the flip-in right ). Any rights that are or were at any time owned by an acquiring person will then become void.

With certain exceptions, no adjustment in the purchase price will be required until cumulative adjustments require an adjustment of at least 1% in the purchase price. Upon exercise of the rights, no fractional shares of Series A Preferred Stock will be issued other than fractions which are integral multiples of one one-hundredth of a share of Series A Preferred Stock. Cash will be paid in lieu of fractional shares of Series A Preferred Stock that are not integral multiples of one one-hundredth of a share of Series A Preferred Stock.

At any time prior to the earlier to occur of (1) 5:00 p.m., Oklahoma City, Oklahoma time on the tenth day after the stock acquisition date or (2) the expiration of the rights, we may redeem the rights in whole, but not in part, at a price of \$0.01 per right; provided, that (a) if the board of directors authorizes redemption on or after the time a person becomes an acquiring person, then the authorization must be by board approval and (b) the period for redemption may, upon board approval, be extended by amending the rights agreement. Board approval means the approval of a majority of our directors. Immediately upon any redemption of the rights described in this paragraph, the right to exercise the rights will terminate and the only right of the holders of rights will be to receive the redemption price.

Our board of directors may amend the terms of the rights without the consent of the holders of the rights at any time and from time to time provided that any amendment does not adversely affect the interests of the holders of the rights. In addition, during any time that the rights are subject to redemption, the terms of the rights may be amended by the approval of a

## **Table of Contents**

majority of the directors, including an amendment that adversely affects the interests of the holders of the rights, without the consent of the holders of rights.

Until a right is exercised, a holder will have no rights as a shareholder, including, without limitation, the right to vote or to receive dividends. While the distribution of the rights will not be taxable to us or our shareholders, shareholders may, depending upon the circumstances, recognize taxable income in the event that the rights become exercisable for Series A Preferred Stock, or other consideration.

*The Series A Preferred Stock.* Each one-thousandth of a share of the Series A Preferred Stock (a preferred share fraction ) that may be acquired upon exercise of the rights will be nonredeemable and junior to any other shares of preferred stock that we may issue.

Each preferred share fraction will have a minimum preferential quarterly dividend rate of \$0.01 per preferred share fraction but will, in any event, be entitled to a dividend equal to the per share dividend declared on the common stock.

In the event of liquidation, the holder of a preferred share fraction will receive a preferred liquidation payment equal to the greater of \$0.01 per preferred share fraction or the per share amount paid in respect of a share of common stock.

Each preferred share fraction will have one vote, voting together with the common stock. The holders of preferred share fractions, voting as a separate class, will be entitled to elect two directors if dividends on the Series A Preferred Stock are in arrears for six fiscal quarters.

In the event of any merger, consolidation or other transaction in which shares of common stock are exchanged, each preferred share fraction will be entitled to receive the per share amount paid in respect of each share of common stock.

The rights of holders of the Series A Preferred Stock to dividends, liquidation and voting, and in the event of mergers and consolidations, are protected by customary antidilution provisions.

Because of the nature of the Series A Preferred Stock's dividend, liquidation and voting rights, the economic value of one preferred share fraction that may be acquired upon the exercise of each right should approximate the economic value of one share of our common stock.

## **Shareholder Action**

Except as otherwise provided by law or in our certificate of incorporation or bylaws, the approval by holders of a majority of the shares of common stock present in person or represented by proxy at a meeting and entitled to vote is sufficient to authorize, affirm, ratify or consent to a matter voted on by shareholders. Our bylaws provide that all questions submitted to shareholders will be decided by a plurality of the votes cast, unless otherwise required by law, our certificate of incorporation, stock exchange requirements or any certificate of designation. The Oklahoma General Corporation Act requires the approval of the holders of a majority of the outstanding stock entitled to vote for certain extraordinary corporate transactions, such as a merger, sale of substantially all assets, dissolution or amendment of the certificate of incorporation. Our certificate of incorporation provides for a vote of the holders of two-thirds of the issued and outstanding stock having voting power, voting as a single class, to amend, repeal or adopt any provision inconsistent with the provisions of the certificate of

## **Table of Contents**

incorporation limiting director liability and stock purchases by us, and providing for staggered terms of directors and indemnity for directors. The same vote is also required for shareholders to amend, repeal or adopt any provision of our bylaws.

Under Oklahoma law, shareholders may take actions without the holding of a meeting by written consent or consents signed by the holders of a sufficient number of shares to approve the transaction had all of the outstanding shares of our capital stock entitled to vote thereon been present at a meeting. If shareholder action is taken by written consent, the rules and regulations of the SEC require us to send each shareholder entitled to vote on the matter, but whose consent was not solicited, an information statement containing information substantially similar to that which would have been contained in a proxy statement.

## **Transfer Agent and Registrar**

UMB Bank, N.A. is the transfer agent and registrar for our common stock, our 6.00% Cumulative Convertible Preferred Stock, our 5.00% Cumulative Convertible Preferred Stock (Series 2003), our 4.125% Cumulative Convertible Preferred Stock, our 5.00% Cumulative Convertible Preferred Stock (Series 2005), our 4.50% Cumulative Convertible Preferred Stock and our 5.00% Cumulative Convertible Preferred Stock (Series 2005B).

## **USE OF PROCEEDS**

We will use the net proceeds from the sales of the securities as set forth in the applicable prospectus supplement.

## **LEGAL MATTERS**

In connection with particular offerings of the securities in the future, and if stated in the applicable prospectus supplements, the validity of the preferred stock and the common stock (including any common stock issuable upon the conversion of any preferred stock) offered by this prospectus may be passed upon for us by Commercial Law Group, P.C. Legal counsel to any underwriters may pass upon legal matters for such underwriters.

## **EXPERTS**

The financial statements of Chesapeake Energy Corporation and management's assessment of the effectiveness of internal control over financial reporting (which is included in Management's Report on Internal Control over Financial Reporting) incorporated in this prospectus by reference to the annual report on Form 10-K for the year ended December 31, 2004, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

The financial statements of Columbia Energy Resources, LLC as of December 31, 2004 and 2003 and for the year ended December 31, 2004 and the four months ended December 31, 2003, incorporated in this prospectus by reference from the current report on Form 8-K of Chesapeake Energy Corporation filed with the SEC on November 1, 2005, have been so incorporated in reliance on the report of Ernst & Young LLP, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting.

**Table of Contents**

Estimates of the oil and gas reserves of Chesapeake Energy Corporation and related future net cash flows and the present values thereof, included in Chesapeake's Annual Report on Form 10-K for the year ended December 31, 2004, were based in part upon reserve reports prepared by Netherland, Sewell & Associates, Inc., Lee Keeling and Associates, Inc., Ryder Scott Company, L.P., LaRoche Petroleum Consultants, Ltd., H.J. Gruy and Associates, Inc. and Miller and Lents, Ltd., independent petroleum engineers. Estimates of the oil and gas reserves of Columbia Energy Resources, LLC and related future net cash flows and the present value thereof, included in Chesapeake's current report on Form 8-K filed with the SEC on November 1, 2005 were based in part upon a reserve report prepared by Schlumberger Data and Consulting Services, independent petroleum engineers. We have incorporated these estimates in reliance on the authority of each such firm as experts in such matters.

**Table of Contents**