

CHESAPEAKE ENERGY CORP

Form 424B5

June 26, 2006

Table of Contents

Filed pursuant to Rule 424(b)(5)
A filing fee of \$75,011, calculated in accordance with
Rule 457(r), has been transmitted to the SEC in connection
with the securities offered from the registration statement
(File No. 333-130196) by means of this prospectus supplement

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated June 26, 2006

Prospectus Supplement to Prospectus dated December 8, 2005

20,000,000 Shares

Chesapeake Energy Corporation

Common Stock

We are offering 20,000,000 shares of common stock to be sold 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 June 23, 2006 was \$30.48 per share.

See Risk Factors beginning on page S-13 of this prospectus supplement to read about factors you should consider before buying shares of the common stock.

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

	<u>Per Share</u>	<u>Total</u>
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

The underwriters may also purchase up to an additional 3,000,000 shares of common stock from us at the public offering price less any underwriting discounts and commissions payable by us, if any, within 30 days from the date of this prospectus supplement. If the underwriters exercise the option in full, the total underwriting discounts and commissions will be \$ _____ and the total proceeds, before expenses, to us will be \$ _____.

The underwriters expect to deliver the shares against payment in New York, New York on _____, 2006.

Joint Book-Running Managers

Goldman, Sachs & Co.

Banc of America Securities LLC

Bear, Stearns & Co. Inc.

Lehman Brothers

Raymond James

Senior Co-Managers

Citigroup

Credit Suisse

Deutsche Bank Securities

Morgan Stanley

UBS Investment Bank

Co-Managers

**Calyon Securities (USA)
Jefferies & Company, Inc.
Pritchard Capital Partners, LLC**

**Gilford Securities Incorporated
Johnson Rice & Company L.L.C.**

**Howard Weil Incorporated
Petrie Parkman & Co.
Simmons & Company International**

Prospectus Supplement dated , 2006.

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 second largest independent producer of natural gas in the United States, and we own interests in approximately 32,000 producing oil and natural gas wells that are currently producing approximately 1.6 bcfe per day, 92% of which is natural gas. Our strategy is focused on discovering, developing and acquiring onshore natural gas reserves in the U.S. east of the Rocky Mountains. Our most important operating area has historically been the Mid-Continent region, which includes Oklahoma, Arkansas, Kansas and the Texas Panhandle. At March 31, 2006, 49% of our proved oil and natural gas reserves were located in the Mid-Continent. During the past four years, we have also built significant positions in various conventional and unconventional plays in the South Texas and Texas Gulf Coast regions, the Permian Basin of West Texas and eastern New Mexico, the Barnett Shale area of North Texas, the Ark-La-Tex area of East Texas and northern Louisiana, the Appalachian Basin in West Virginia, eastern Kentucky, eastern Ohio and southern New York, the Caney and Woodford Shales in southeastern Oklahoma, the Fayetteville Shale in Arkansas and the Barnett and Woodford Shales in West Texas.

As of December 31, 2005, we had 7.5 tcf of proved reserves, of which 92% were natural gas and all of which were onshore. During 2005, we produced an average of 1.3 bcfe per day, a 30% increase over the 1.0 bcfe per day produced in 2004. For 2005, we generated net income available to common shareholders of \$880 million, or \$2.51 per fully diluted common share, which was a 64% increase over the prior year.

During the first quarter of 2006, we led the nation in drilling activity with an average utilization of 77 operated rigs and 75 non-operated rigs. Through this drilling activity, we drilled 262 (210 net) operated wells and participated in another 371 (45 net) wells operated by other companies. Our success rate was 97% for operated wells and 98% for non-operated wells. We replaced our 137 bcfe of production with an internally estimated 427 bcfe of new proved reserves for a reserve replacement rate of 312%. Reserve replacement through the drillbit was 184 bcfe, or 135% of production (including 76 bcfe of upward performance revisions and 88 bcfe of downward revisions resulting from oil and natural gas price declines between December 31, 2005 and March 31, 2006), and reserve replacement through acquisitions was 243 bcfe, or 177% of production. As a result, our proved reserves grew by 4% during the first quarter of 2006, from 7.5 tcf to 7.8 tcf. Of the 7.8 tcf, 64% were proved developed reserves.

In the first quarter of 2006, we produced an average of 1.5 bcfe per day, a 31% increase over the 1.2 bcfe per day produced in the first quarter of 2005. During the first quarter of 2006, we generated net income available to common shareholders of \$604 million, or \$1.44 per fully diluted common share, which was a 300% increase over the first quarter of 2005. Also, in the first quarter we added approximately 700 new employees to support our growth, which increased our total employee base to

Table of Contents

approximately 3,600 employees at March 31, 2006, and invested \$200 million in leasehold (excluding leasehold acquired through acquisitions) and 3-D seismic data, all of which we consider the building blocks of future value creation.

From January 1, 1998 through March 31, 2006, we have been one of the most active consolidators of onshore U.S. natural gas assets, having purchased approximately 6.3 tcf of proved reserves, at a total cost of approximately \$12.2 billion (including \$3.4 billion for unproved leasehold, but excluding \$891 million of deferred taxes established in connection with certain corporate acquisitions). Excluding the amounts allocated to unproved leasehold and deferred taxes, our acquisition cost per proved mcfe was \$1.40 over this time period. During 2006, we have been especially active in the acquisitions market. Acquisition expenditures totaled \$1.9 billion (including \$1.1 billion for unproved leasehold), pro forma for our pending acquisitions. Through these acquisitions, we will have acquired an internally estimated 404 bcf of proved oil and natural gas reserves.

On June 5, 2006, we announced that we had entered into an agreement to acquire from Four Sevens Oil Co. Ltd. and its equal equity partner, Sinclair Oil Corporation (collectively referred to as Four Sevens/Sinclair), 39,000 net acres of Barnett Shale leasehold, 30 mmcf of current natural gas production and \$55 million of midstream natural gas assets for \$845 million in cash. We also announced that we acquired or agreed to acquire an additional 28,000 net acres of prospective Barnett Shale leasehold, primarily in Johnson and Tarrant Counties, Texas, from various additional sellers for \$87 million. Please see Recent Developments Pending Acquisitions.

We intend to use the net proceeds from this offering, together with the net proceeds from our concurrent public offering of senior notes and our concurrent public offering of preferred stock, to fund the purchase price for our pending acquisitions discussed above, to pay related fees and expenses, to repay outstanding indebtedness under our revolving bank credit facility and for general corporate purposes. Please see Use of Proceeds. There is no assurance, however, that these acquisitions will close, or close without material adjustment, as scheduled. Neither this offering nor our concurrently announced proposed public offerings of senior notes and preferred stock are conditioned upon the closing of these acquisitions. Our pending acquisitions are not conditioned upon the closing of any of these offerings.

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

Business Strategy

Since our inception in 1989, Chesapeake's goal has been to create value for investors by building one of the largest onshore natural gas resource bases in the United States. For much of the past eight years, our strategy to accomplish this goal has been to build a dominant operating position in the Mid-Continent region, the third largest natural gas supply region in the U.S. In building our industry-leading position in the Mid-Continent, we have integrated an aggressive and technologically advanced drilling program with an active property consolidation program focused on small to medium-sized corporate and property acquisitions. In 2002, we began expanding our focus from the Mid-Continent to other regions where we believed we could extend our successful strategy. To date, those areas have included the South Texas and Texas Gulf Coast regions, the Permian Basin of West Texas and eastern New Mexico, the Barnett Shale area of North Texas, the Ark-La-Tex area of East Texas and northern Louisiana, the Appalachian Basin in West Virginia, eastern Kentucky, eastern Ohio and southern New York, the Caney and Woodford Shales in southeastern Oklahoma, the Fayetteville Shale

Table of Contents

in Arkansas and the Barnett and Woodford Shales in West Texas. We believe significant elements of our successful Mid-Continent strategy of acquisition, exploitation, extension and exploration have been or will be successfully transferred to these areas.

Key elements of this business strategy are further explained below:

Make High-Quality Acquisitions. Our acquisition program is focused on acquisitions of natural gas properties that offer high-quality, long-lived production and significant development and high potential deep drilling opportunities. From January 1, 1998 through March 31, 2006 and pro forma for our pending acquisitions, we have purchased approximately 6.3 tcf of proved reserves, at a total cost of approximately \$12.2 billion (including \$3.4 billion for unproved leasehold, but excluding \$891 million of deferred taxes established in connection with certain corporate acquisitions). Excluding the amounts allocated to unproved leasehold and deferred taxes, our acquisition cost per proved mcf was \$1.40 over this time period. The vast majority of these acquisitions either increased our ownership in existing wells or fields or added additional drilling locations in our focused operating areas. Because these operating areas contain many smaller companies seeking liquidity opportunities and larger companies seeking to divest non-core assets, we expect to continue to find additional attractive acquisition opportunities in the future.

Grow through the Drillbit. One of Chesapeake's most distinctive characteristics is our ability to increase reserves and production through the drillbit. We are currently utilizing 87 operated drilling rigs and 81 non-operated drilling rigs to conduct the most active drilling program in the United States. We focus both on finding significant new natural gas reserves and developing existing proved reserves, principally at deeper depths than the industry average. For the past seven years, we have been actively investing in leasehold, 3-D seismic information and human capital to be able to take advantage of the favorable drilling economics that exist today. While we believe U.S. natural gas production has declined during the past five years, we are one of the few large-cap companies that have been able to increase production, which we have successfully achieved for the past 16 consecutive years and 19 consecutive quarters. We believe key elements of the success and scale of our drilling programs have been our early recognition that natural gas prices were likely to move higher in the U.S. in the post-1999 period accompanied by our willingness to proactively hire new employees and to build the nation's largest onshore leasehold and 3-D seismic inventories, all of which are the building blocks of a successful large-scale drilling program.

Build Regional Scale. We believe one of the keys to success in the natural gas exploration industry is to build significant operating scale in a limited number of operating areas that share many similar geological and operational characteristics. Achieving such scale provides many benefits, the most important of which are higher per unit revenues, lower per unit operating costs, greater rates of drilling success, higher returns from more easily integrated acquisitions and higher returns on drilling investments. We first began pursuing this focused strategy in the Mid-Continent in late 1997 and we are now the largest natural gas producer, the most active driller and the most active acquirer of leasehold and producing properties in the Mid-Continent. We believe this region, which trails only the Gulf Coast and Rocky Mountain basins in U.S. natural gas production, has many attractive characteristics. These characteristics include long-lived natural gas properties with predictable decline curves; multi-pay geological targets that decrease drilling risk and have resulted in a drilling success rate of 94% over the past 16 years; generally lower service costs than in more competitive or more remote basins; and a favorable regulatory environment with virtually no federal land ownership. We believe our other operating areas possess many of these same favorable characteristics and our goal is to become or remain a top five natural gas producer in each of our operating areas.

Table of Contents

Focus on Low Costs. By minimizing lease operating costs and general and administrative expense through focused activities and increased scale, we have been able to deliver attractive financial returns through all phases of the commodity price cycle. We believe our low cost structure is the result of management's effective cost-control programs, a high-quality asset base and extensive and competitive services, natural gas processing and transportation infrastructures that exist in our key operating areas. As of March 31, 2006, we operated approximately 18,800 wells, which accounted for approximately 80% of our daily production volume. This large percentage of operated properties provides us with a high degree of operating flexibility and cost control.

Improve our Balance Sheet. We have made significant progress in improving our balance sheet over the past seven years. From December 31, 1998 through March 31, 2006, we have increased our shareholders' equity by \$7.6 billion (\$8.6 billion pro forma for this offering and our pending offering of preferred stock) through a combination of earnings and common and preferred equity issuances. As of March 31, 2006, our debt as a percentage of total capitalization (total capitalization is the sum of debt and stockholders' equity) was 46%, compared to 137% as of December 31, 1998. On a pro forma basis for our pending public offerings of preferred stock and senior notes, our recently completed preferred stock exchanges and this offering, our debt to total capitalization ratio as of March 31, 2006, would be 43%. We plan to continue improving our balance sheet in the years ahead.

Based on our view that natural gas will be in a tight supply/demand relationship in the U.S. during at least the next few years because of the significant structural challenges to growing natural gas supply and the growing demand for this clean-burning, domestically-produced fuel, we believe our focused natural gas acquisition, exploitation and exploration strategy should provide substantial value-creating growth opportunities in the years ahead. Our goal is to increase our overall production by 10% to 20% per year, with growth at an annual rate of 7% to 10% generated organically through the drillbit and the remaining growth generated through acquisitions. We have reached or exceeded this overall production goal in 11 of our 13 years as a public company.

Company Strengths

We believe the following six characteristics distinguish our past performance and differentiate our future growth potential from other independent natural gas producers:

High-Quality Asset Base. Our producing properties are characterized by long-lived reserves, established production profiles and an emphasis on onshore natural gas. Based upon current production and proved reserve estimates, and including estimates for our pending acquisitions, our proved reserves-to-production ratio, or reserve life, is approximately 14 years. In addition, we believe we are the sixth largest producer of natural gas in the U.S. (second among independents) and the fourth largest owner of proved U.S. natural gas reserves (first among independents). In each of our operating areas, our properties are concentrated in locations that enable us to establish substantial economies of scale in drilling and production operations and facilitate the application of more effective reservoir management practices. We intend to continue building our asset base in each of our operating areas through a balance of acquisitions, exploitation and exploration.

Low-Cost Producer. Our high-quality asset base, the work ethic of our employees, our hands-on management style and our headquarters location in Oklahoma City have enabled us to achieve a low operating and administrative cost structure. During the first quarter of 2006, our operating costs per unit of production were \$1.48 per mcf, which consisted of general and administrative expenses of \$0.21 per mcf (including non-cash stock-based compensation of \$0.05 per mcf), production

Table of Contents

expenses of \$0.87 per mcf and production taxes of \$0.40 per mcf. We believe this is one of the lowest cost structures among publicly traded, large-cap independent oil and natural gas producers.

Successful Acquisition Program. Our experienced acquisition team focuses on enhancing and expanding our existing assets in each of our operating areas. These areas are characterized by long-lived natural gas reserves, low lifting costs, multiple geological targets, favorable basis differentials to benchmark commodity prices, well-developed oil and natural gas transportation infrastructures and considerable potential for further consolidation of assets. Since 1998 and including our pending acquisitions, we have acquired approximately 6.3 tcf of proved reserves that replaced 317% of our total production. We believe we are well-positioned to continue making attractive acquisitions as a result of our extensive track record of identifying, completing and integrating multiple successful acquisitions, our large operating scale and our knowledge and experience in the regions in which we operate.

Large Inventory of Drilling Projects. During the 16 years since our inception, we have been among the five most active drillers of new wells in the United States. Presently we are the most active driller in the U.S. with 87 operated and 81 non-operated rigs drilling. Through this high level of activity over the years, we have developed an industry-leading expertise in drilling deep vertical and horizontal wells in search of large natural gas accumulations in challenging conventional and unconventional reservoirs. As a result of our successful acquisition program and active leasehold acquisition and seismic acquisition strategies, we have been able to accumulate a U.S. onshore leasehold position of approximately 9.3 million net acres, pro forma for our pending acquisitions, and have acquired rights to 12.3 million acres of onshore 3-D seismic data to provide informational advantages over our competitors and to help evaluate our large acreage inventory. On this very large acreage position, our technical teams believe approximately 31,000 exploratory and developmental drill sites exist, representing a backlog of more than ten years of future drilling opportunities at current drilling rates.

Hedging Program. We have used and intend to continue using hedging programs to reduce the risks inherent in acquiring and producing oil and natural gas reserves, commodities that are frequently characterized by significant price volatility. We believe this price volatility is likely to continue in the years ahead and that we can use this volatility to our benefit by taking advantage of prices when they reach levels that management believes are either unsustainable for the long-term or provide unusually high rates of return on our invested capital. We currently have natural gas hedges in place covering 88%, 69% and 55% of our anticipated natural gas production for the remainder of 2006 (including the second quarter of 2006) and all of 2007 and 2008 at average NYMEX prices of \$9.08, \$9.86 and \$9.34 per mcf, respectively. In addition, we have 79%, 56% and 48% of our anticipated oil production hedged for the remainder of 2006 (including the second quarter of 2006) and all of 2007 and 2008 at average NYMEX prices of \$63.24, \$68.79 and \$69.50 per barrel of oil, respectively. During the first quarter of 2006, we realized gains from our hedging program of approximately \$248.2 million.

Entrepreneurial Management. Our management team formed the company in 1989 with an initial capitalization of \$50,000 and fewer than ten employees. Since then, our management team has guided the company through various operational and industry challenges and extremes of oil and natural gas prices to create the second largest independent producer of natural gas in the U.S. with approximately 4,000 employees and an enterprise value of approximately \$20.2 billion (based on a common stock price of \$28.50 per share and pro forma for this offering and our pending offerings of senior notes and preferred stock). Our chief executive officer and co-founder, Aubrey K. McClendon, has been in the oil and natural gas industry for 25 years and beneficially owns, as of June 23, 2006, approximately 25 million shares of our common stock and intends to purchase 400,000 shares in this offering.

Table of Contents

Recent Developments

Pending Acquisitions. On June 5, 2006, we announced that we had entered into an agreement to acquire from Four Sevens/Sinclair, 39,000 net acres of Barnett Shale leasehold, 30 mmcf of current natural gas production and \$55 million of mid-stream natural gas assets for \$845 million in cash. Of the 39,000 net acres, 26,000 net acres are located in Johnson and Tarrant Counties, Texas, where we have identified 500 net potential drillsites, and 13,000 net acres are located in counties outside our core focus area where we have not yet identified any drilling opportunities that would produce returns as competitive as those in our core focus area. We also announced that we acquired or agreed to acquire an additional 28,000 net acres of prospective Barnett Shale leasehold, primarily in Johnson and Tarrant Counties, from various additional sellers for \$87 million. On these 28,000 acres, we anticipate drilling as many as 400 net wells to develop these properties under current market conditions.

We have also recently agreed to invest approximately \$450 million to acquire an additional 225,000 net acres of leasehold in the Delaware Basin shale plays of West Texas and to acquire a leading drilling contractor in the Appalachian Basin. We may use part of the proceeds from this offering and our concurrent public offerings together with borrowings under our revolving bank credit facility to finance such acquisitions, which we expect to close in July 2006.

There is no assurance that our pending acquisitions will close, close without material adjustment, or close as scheduled. Neither this offering nor either of our concurrently announced proposed offerings is conditioned upon the closing of these acquisitions. The pending acquisitions are not conditioned upon the closing of any of these offerings. We intend to finance these acquisitions with the net proceeds from this offering and our concurrent public offerings of senior notes and preferred stock. If one or more of the concurrent offerings are not consummated, we intend to finance these acquisitions with the net proceeds from this offering and borrowings under our revolving bank credit facility.

Pending Public Offerings. We are concurrently conducting separate public offerings of \$500 million of Senior Notes due 2013 and 2,000,000 shares of mandatory convertible preferred stock with a stated value of \$500 million (plus up to an additional 300,000 shares to cover the option of the underwriters to purchase additional shares). This prospectus supplement shall not be deemed an offer to sell or a solicitation of an offer to buy any of our senior notes or preferred stock. There is no assurance our concurrent public offerings will be completed or, if completed, that they will be completed for the amounts contemplated. The completion of this offering is not conditioned on the completion of our pending acquisitions or the completion of our concurrent public offerings of senior notes or preferred stock.

Table of Contents**THE OFFERING**

Common stock offered by Chesapeake	20,000,000 shares(1)
Common stock outstanding after this offering	415,326,139 shares(1)(2)
Use of Proceeds	We expect the net proceeds to us from this offering, after deducting discounts to the underwriters and estimated expenses of the offering payable by us, to be approximately \$548.4 million, assuming an offering price per share of \$28.50. We intend to use the net proceeds from this offering, together with the net proceeds from our pending public offerings of senior notes and preferred stock to finance the purchase of our pending acquisitions, to pay related fees and expenses, to repay outstanding indebtedness under our revolving bank credit facility and for general corporate purposes, including to finance possible future acquisitions. Please see Use of Proceeds.
New York Stock Exchange Symbol	CHK

- (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 additional shares in full, the total number of shares of common stock offered will be 23,000,000, and the total number of shares of our common stock outstanding after this offering will be 418,326,139. We had 395,326,139 shares of our common stock outstanding at June 22, 2006.
- (2) Excludes shares of common stock potentially issuable upon the exercise of stock options, which as of June 22, 2006 included 7,754,789 shares potentially issuable upon the exercise of outstanding stock options at a weighted average price of \$7.52 and 8,766,480 shares of common stock reserved for issuance upon exercise of future additional options or awards of restricted stock, if granted under our stock compensation plans. Also excludes, as of June 21, 2006:

235,465 shares of common stock potentially issuable upon conversion of the 38,625 shares of our outstanding issue of 5.00% Cumulative Convertible Preferred Stock (Series 2003) at an initial conversion price of \$16.40 per share;

184,070 shares of common stock potentially issuable upon conversion of the 3,065 shares of our outstanding issue of 4.125% Cumulative Convertible Preferred Stock at an initial conversion price of \$16.65 per share;

17,853,060 shares of common stock potentially issuable upon conversion of the 4,600,000 shares of our outstanding issue of 5.00% Cumulative Convertible Preferred Stock (Series 2005) at an initial conversion price of \$25.766 per share;

7,810,455 shares of common stock potentially issuable upon conversion of the 3,450,000 shares of our outstanding issue of 4.50% Cumulative Convertible Preferred Stock at an initial conversion price of \$44.172 per share;

Table of Contents

14,717,125 shares of common stock potentially issuable upon conversion of the 5,750,000 shares of our outstanding issue of 5.00% Cumulative Convertible Preferred Stock (Series 2005B) at an initial conversion price of \$39.07 per share;

17,660,619 shares of common stock potentially issuable upon conversion of the \$690,000,000 of our outstanding 2.75% Contingent Convertible Senior Notes at an initial conversion ratio of 39.07; and

1,604,081 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 the common stock.

S-8

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, 2005, 2004 and 2003 and three months ended March 31, 2006 and 2005. 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, 2005 and from our unaudited condensed consolidated financial statements included in our quarterly report on Form 10-Q for the three months ended March 31, 2006, 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,	
	2005	2004	2003	2006	2005
(\$ in thousands, except per share data)					
Statement of Operations Data:					
Revenues:					
Oil and natural gas sales	\$ 3,272,585	\$ 1,936,176	\$ 1,296,822	\$ 1,510,821	\$ 538,942
Marketing sales	1,392,705	773,092	420,610	404,367	244,508
Service operations revenue				29,379	
Total revenues	4,665,290	2,709,268	1,717,432	1,944,567	783,450
Operating costs:					
Production expenses	316,956	204,821	137,583	119,392	69,562
Production taxes	207,898	103,931	77,893	55,373	35,958
General and administrative expenses	64,272	37,045	23,753	28,791	12,067
Marketing expenses	1,358,003	755,314	410,288	391,360	237,276
Service operations expense				14,437	
Oil and natural gas depreciation, depletion and amortization	894,035	582,137	369,465	304,957	180,968
Depreciation and amortization of other assets	50,966	29,185	16,793	23,872	10,082
Provision for legal settlements		4,500	6,402		
Employee retirement expense				54,753	
Total operating costs	2,892,130	1,716,933	1,042,177	992,935	545,913
Income from operations	1,773,160	992,335	675,255	951,632	237,537
Other income (expense):					
Interest and other income	10,452	4,476	2,827	9,636	3,357
Interest expense	(219,800)	(167,328)	(154,356)	(72,658)	(43,128)
Loss on investment in Seven Seas			(2,015)		
Loss on repurchases or exchanges of Chesapeake debt	(70,419)	(24,557)	(20,759)		(900)
Gain on sale of investment				117,396	
Total other income (expense)	(279,767)	(187,409)	(174,303)	54,374	(40,671)
Income before income taxes and cumulative effect of accounting change	1,493,393	804,926	500,952	1,006,006	196,866
Income tax expense (benefit):					

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Current			5,000		
Deferred	545,091	289,771	185,360	382,283	71,856
Total income tax expense (benefit)	545,091	289,771	190,360	382,283	71,856
Net income before cumulative effect of accounting change, net of tax	948,302	515,155	310,592	623,723	125,010
Cumulative effect of accounting change, net of income taxes of \$1,464,000			2,389		
Net Income	948,302	515,155	312,981	623,723	125,010
Preferred stock dividends	(41,813)	(39,506)	(22,469)	(18,812)	(5,463)
Loss on conversion/exchange of preferred stock	(26,874)	(36,678)		(1,009)	
Net income available to common shareholders	\$ 879,615	\$ 438,971	\$ 290,512	\$ 603,902	\$ 119,547

S-9

Table of Contents

	Years Ended December 31,			Three Months Ended March 31,	
	2005	2004	2003	2006	2005
(\$ in thousands, except per share data)					
Earnings per common share basic:					
Income before cumulative effect of accounting change	\$ 2.73	\$ 1.73	\$ 1.36	\$ 1.64	\$ 0.39
Cumulative effect of accounting change			0.02		
	<u>\$ 2.73</u>	<u>\$ 1.73</u>	<u>\$ 1.38</u>	<u>\$ 1.64</u>	<u>\$ 0.39</u>
Earnings per common share assuming dilution:					
Income before cumulative effect of accounting change	\$ 2.51	\$ 1.53	\$ 1.20	\$ 1.44	\$ 0.36
Cumulative effect of accounting change			0.01		
	<u>\$ 2.51</u>	<u>\$ 1.53</u>	<u>\$ 1.21</u>	<u>\$ 1.44</u>	<u>\$ 0.36</u>
Cash dividends declared per common share	\$ 0.195	\$ 0.170	\$ 0.135	\$ 0.050	\$ 0.045
Cash Flow Data:					
Cash provided by operating activities	\$ 2,406,888	\$ 1,432,274	\$ 938,907	\$ 967,458	\$ 512,685
Cash used in investing activities	6,921,378	3,381,204	2,077,217	1,960,061	1,173,937
Cash provided by financing activities	4,567,621	1,915,245	931,254	970,862	654,356
Other Financial Data:					
Ratio of earnings to fixed charges(1)(2)	5.6x	4.8x	4.0x	10.2x	3.8x
Ratio of earnings to fixed charges and preference dividends(1)(3)	4.6x	3.7x	3.3x	8.0x	3.4x
	As of December 31,			As of March 31,	
	2005	2004	2003	2006	2005
(\$ in thousands)					
Balance Sheet Data:					
Total assets	\$ 16,118,462	\$ 8,244,509	\$ 4,572,291	\$ 18,052,360	\$ 9,343,411
Long-term debt, net of current maturities	5,489,742	3,075,109	2,057,713	6,320,915	3,718,679
Stockholders' equity	6,174,323	3,162,883	1,732,810	7,362,823	3,168,201

- (1) For purposes of determining the ratios of earnings to fixed charges and earnings to fixed charges and preference dividends, earnings are defined as net income before income taxes, cumulative effect of accounting changes, pretax gain or loss of equity investees, amortization of capitalized interest and fixed charges, less capitalized interest. Fixed charges consist of interest (whether expensed or capitalized and excluding the effect of unrealized gains or losses on interest rate derivatives), and amortization of debt expenses and discount or premium relating to any indebtedness. Preference dividends consist of preferred stock dividends grossed up to reflect the pre-tax amount.
- (2) The pro forma ratio of earnings to fixed charges after giving effect to this offering, our concurrent public offerings and the application of net proceeds from such offerings is 5.1x for the year ended December 31, 2005 and 9.4x for the three months ended March 31, 2006.
- (3) The pro forma ratio of earnings to fixed charges and preference dividends after giving effect to this offering, our concurrent public offerings and the application of net proceeds from such offerings is 3.9x for the year ended December 31, 2005 and 7.0x for the three months ended March 31, 2006.

Table of Contents**SUMMARY RESERVE INFORMATION**

The following table sets forth our estimated proved reserves and the present value of the proved reserves as of December 31, 2005 (based on our weighted average wellhead prices at December 31, 2005 of \$56.41 per barrel of oil and \$8.76 per mcf of natural gas). These prices were based on the cash spot prices for oil and natural gas at December 31, 2005.

	Oil	Gas	Gas Equivalent	Percent of Proved Reserves	Present Value
	(mdbl)	(mmcf)	(mmcfe)		(\$ in thousands)
Mid-Continent	48,915	3,504,653	3,798,216	51%	\$ 11,308,766
South Texas and Texas Gulf Coast	3,308	602,551	622,399	8	2,459,379
Ark-La-Tex and Barnett Shale	6,379	1,030,962	1,069,236	14	3,551,565
Permian	39,126	457,811	692,570	9	2,040,175
Appalachia	1,094	1,289,919	1,296,482	17	3,462,744
Other	4,501	14,858	41,787	1	110,965
Total	103,323	6,900,754	7,520,690	100%	\$ 22,933,594(1)

(1) The standardized measure of discounted future net cash flows at December 31, 2005 was \$16.0 billion.

As of December 31, 2005, the present value of our proved developed reserves as a percentage of total proved reserves was 71%, and the volume of our proved developed reserves as a percentage of total proved reserves was 65%. Natural gas reserves accounted for 92% of the volume of total proved reserves at December 31, 2005.

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, 2005 present value of estimated future net revenue of proved reserves of approximately \$315 million and \$50 million, respectively.

Table of Contents**SUMMARY PRODUCTION, SALES, PRICES AND EXPENSES DATA**

The following table sets forth certain information regarding the production volumes, oil and natural gas sales, average sales prices received and expenses associated with sales of natural gas and oil for the periods indicated:

	Years Ended December 31,			Three Months Ended March 31,	
	2005	2004	2003	2006	2005
Net Production:					
Oil (m bbl)	7,698	6,764	4,665	2,116	1,746
Natural gas (mmcf)	422,389	322,009	240,366	124,056	94,131
Natural gas equivalent (mmcfe)	468,577	362,593	268,356	136,752	104,607
Oil and Natural Gas Sales (\$ in thousands):					
Oil sales	\$ 401,845	\$ 260,915	\$ 132,630	\$ 124,667	\$ 79,944
Oil derivatives realized gains (losses)	(34,132)	(69,267)	(12,058)	(3,808)	(7,067)
Oil derivatives unrealized gains (losses)	4,374	3,454	(9,440)	(1,335)	(12,842)
Total oil sales	\$ 372,087	\$ 195,102	\$ 111,132	\$ 119,524	\$ 60,035
Natural gas sales	\$ 3,231,286	\$ 1,789,275	\$ 1,171,050	\$ 940,318	\$ 535,777
Natural gas derivatives realized gains (losses)	(367,551)	(85,634)	(5,331)	252,029	47,415
Natural gas derivatives unrealized gains (losses)	36,763	37,433	19,971	198,950	(104,285)
Total natural gas sales	\$ 2,900,498	\$ 1,741,074	\$ 1,185,690	\$ 1,391,297	\$ 478,907
Total oil and natural gas sales	\$ 3,272,585	\$ 1,936,176	\$ 1,296,822	\$ 1,510,821	\$ 538,942
Average Sales Price: (excluding gains (losses) on derivatives):					
Oil (\$ per bbl)	\$ 52.20	\$ 38.57	\$ 28.43	\$ 58.92	\$ 45.79
Natural gas (\$ per mcf)	\$ 7.65	\$ 5.56	\$ 4.87	\$ 7.58	\$ 5.69
Natural gas equivalent (\$ per mcfe)	\$ 7.75	\$ 5.65	\$ 4.86	\$ 7.79	\$ 5.89
Average Sales Price: (excluding unrealized gains (losses) on derivatives):					
Oil (\$ per bbl)	\$ 47.77	\$ 28.33	\$ 25.85	\$ 57.12	\$ 41.74
Natural gas (\$ per mcf)	\$ 6.78	\$ 5.29	\$ 4.85	\$ 9.61	\$ 6.20
Natural gas equivalent (\$ per mcfe)	\$ 6.90	\$ 5.23	\$ 4.79	\$ 9.60	\$ 6.27
Expenses (\$ per mcfe):					
Production expenses	\$ 0.68	\$ 0.56	\$ 0.51	\$ 0.87	\$ 0.66
Production taxes	\$ 0.44	\$ 0.29	\$ 0.29	\$ 0.40	\$ 0.34
General and administrative expenses	\$ 0.14	\$ 0.10	\$ 0.09	\$ 0.21	\$ 0.12
Oil and natural gas depreciation, depletion and amortization	\$ 1.91	\$ 1.61	\$ 1.38	\$ 2.23	\$ 1.73
Depreciation and amortization of other assets	\$ 0.11	\$ 0.08	\$ 0.06	\$ 0.17	\$ 0.10
Interest expense(1)	\$ 0.47	\$ 0.45	\$ 0.55	\$ 0.52	\$ 0.44

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(1) Includes the effects of realized gains or (losses) from hedging, but does not include the effects of unrealized gains or (losses) from hedging.

S-12

Table of Contents

RISK FACTORS

You should carefully consider the following factors as well as other information contained in this prospectus supplement and the documents we have incorporated herein by reference before deciding to invest in our common stock.

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

worldwide and domestic supplies of oil and natural gas;

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 oil and natural gas price movements with any certainty. Declines in oil and natural gas prices would not only reduce revenue, but could reduce the amount of oil and natural gas 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, oil and natural gas prices do not necessarily move in tandem. Because approximately 92% of our reserves at December 31, 2005 are natural gas reserves, we are more affected by movements in natural gas prices.

Our level of indebtedness and preferred stock may adversely affect operations and limit our growth, and we may have difficulty making debt service payments on our indebtedness as such payments become due.

As of March 31, 2006, we had long-term indebtedness of approximately \$6.3 billion, with \$444 million of outstanding borrowings drawn under our revolving bank credit facility. Our long-term

S-13

Table of Contents

indebtedness represented 46% of our total book capitalization at March 31, 2006. We expect to continue to be highly leveraged in the foreseeable future.

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 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;

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; and

we may be more vulnerable to general adverse economic and industry conditions.

We may incur additional debt, including significant secured indebtedness, or issue additional series of preferred stock in order to make future acquisitions or to develop our properties. 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, oil and natural gas 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 need to further secure the lenders with additional collateral.

Competition in the oil and natural gas 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 oil and natural gas acquisition, development, exploitation, exploration and production. We face intense competition from both major and other independent oil and natural gas 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.

S-14

Table of Contents

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 oil and natural gas 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 oil and natural gas 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 oil and gas, and our success in developing and producing new reserves. If revenue were to decrease as a result of lower oil and gas 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.

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 oil and natural gas 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 35% of our total estimated proved reserves (by volume) at December 31, 2005 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 24% from 2006 to 2007. Thus, our future oil and natural gas 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.