

CHESAPEAKE ENERGY CORP
Form S-3
June 09, 2005
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As filed with the Securities and Exchange Commission on June 9, 2005

Registration No. 333-

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-3

REGISTRATION STATEMENT

Under

THE SECURITIES ACT OF 1933

CHESAPEAKE ENERGY CORPORATION

(Name of Registrant as specified in its charter)

Oklahoma
(State or other jurisdiction
of incorporation or organization)
6100 North Western Avenue
Oklahoma City, Oklahoma 73118
(405) 848-8000
(Address, including zip code,
and telephone number, including area code,
of Registrant's principal executive offices)

73-1395733
(I.R.S. Employer
Identification No.)
Aubrey K. McClendon
Chairman of the Board and
Chief Executive Officer
6100 North Western Avenue
Oklahoma City, Oklahoma 73118
(405) 848-8000
(Name, address, including zip code,
and telephone number, including
area code, of agent for service)

Copy to:

James M. Prince, Esq.
Vinson & Elkins L.L.P.

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1001 Fannin Street

Houston, Texas 77002-6760

(713) 758-3710

(713) 615-5962 (Fax)

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. "

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. "

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed	Proposed maximum aggregate	Amount of registration fee
		maximum offering price per share (1)	offering price (1)	
5.00% Cumulative Convertible Preferred Stock (Series 2005)	4,600,000 shares	\$ 100	\$ 460,000,000	\$ 54,142
Common Stock, \$.01 per share	(2)	(3)	(3)	(3)

(1) Estimated solely for purposes of calculating the registration fee.

(2) There are being registered hereunder an indeterminate number of shares of common stock issuable upon conversion of the Preferred Stock. Initially, 17,852,985 shares of common stock are issuable upon conversion of the Preferred Stock. Each share of Preferred Stock is convertible into approximately 3.8811 shares of common stock (based on an initial conversion price of \$25.766), subject to adjustments under certain circumstances. Pursuant to Rule 416 under the Securities Act, such number of shares of common stock registered hereby shall include an indeterminate number of shares of common stock that may be issued in connection with a stock split, stock dividend, recapitalization, or similar event or adjustment in the number of shares issuable as provided in certificate of designations of the Preferred Stock.

(3) The shares of common stock issuable upon conversion of the Preferred Stock will be issued for no additional consideration, and therefore no registration fee is required pursuant to Rule 457(i).

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY PROSPECTUS

Subject to Completion, Dated _____, 2005

4,600,000 Shares

of

Chesapeake Energy Corporation

5.00% Cumulative Convertible Preferred Stock (Series 2005)

(Liquidation Preference \$100 per share)

and

Common Stock

(Par Value \$.01 per share)

This prospectus relates to the offering for resale of Chesapeake Energy Corporation's 5.00% Cumulative Convertible Preferred Stock (Series 2005) (liquidation preference \$100 per share) and the shares of our common stock issuable upon conversion of the preferred stock. In this prospectus, the terms "Chesapeake," "we," or "us" will each refer to Chesapeake Energy Corporation and its subsidiaries. The preferred stock was offered to qualified institutional buyers in reliance on Rule 144A and to certain persons in offshore transactions in reliance on Regulation S, in transactions exempt from, or not subject to, the registration requirements of the Securities Act, through the initial purchasers, Credit Suisse First Boston LLC, Banc of America Securities LLC, Bear, Stearns & Co. Inc., Lehman Brothers Inc., Morgan Stanley & Co. Incorporated, Citigroup Global Markets Inc., Deutsche Bank Securities Inc., Raymond James & Associates, Inc., RBC Capital Markets Corporation, UBS Securities LLC, Howard Weil Incorporated, Johnson Rice & Company L.L.C., Pritchard Capital Partners, LLC, Simmons & Company International and Sterne, Agee & Leach, Inc. This prospectus will be used by selling securityholders to resell their shares of our preferred stock and shares of our common stock issuable upon conversion of their preferred stock. We will not receive any proceeds from sales by the selling securityholders.

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

Convertibility of the Preferred Stock:

Holders may convert their preferred stock at any time into approximately 3.8811 shares of common stock of Chesapeake per share of preferred stock, based on an initial conversion price of \$25.766. The conversion price may be adjusted upon the occurrence of certain events. The common stock currently trades on the New York Stock Exchange under the symbol CHK. The closing price of the common stock on the New York Stock Exchange was \$21.08 per share on June 8, 2005.

Mandatory Conversion of the Preferred Stock at Our Option:

On or after April 15, 2010, we may, at our option, cause the preferred stock to be automatically converted into that number of shares of common stock that are issuable at the then prevailing conversion price. We may exercise our conversion right only if, for 20 trading days within any period of 30 consecutive trading days (including the last trading day of such period), the closing price of our common stock exceeds 130% of the then prevailing conversion price of the preferred stock.

In addition, if there are less than 250,000 shares of preferred stock outstanding, we may, on or after April 15, 2010, at our option, cause the preferred stock to be automatically converted into that number of shares of common stock equal to the liquidation preference divided by the lesser of the then prevailing conversion price or the average closing price of the common stock for the five trading day period ending on the second day immediately preceding the date fixed for conversion.

Investing in our preferred or common stock involves risks. Please read carefully the section entitled Risk Factors beginning on page 5.

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.

, 2005

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission utilizing a shelf registration process or continuous offering process. Under this shelf registration process, the selling securityholders may, from time to time, sell the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities which may be offered by the selling securityholders. Each time a selling securityholder sells securities, the selling securityholder is required to provide you with this prospectus and, in certain cases, a prospectus supplement containing specific information about the selling securityholder and the terms of the securities being offered. That prospectus supplement may include additional risk factors or other special considerations applicable to those securities. Any prospectus supplement may also add, update, or change information in this prospectus. If there is any inconsistency between the information in this prospectus and any prospectus supplement, you should rely on the information in that prospectus supplement. You should read both this prospectus and any prospectus supplement together with additional information described under Where You Can Find More Information.

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PROSPECTUS SUMMARY

This summary may not contain all the information that may be important to you. You should read this entire prospectus and the documents to which we have referred you before making an investment decision. You should carefully consider the information set forth under Risk Factors. In addition, certain statements include forward-looking information which involves risks and uncertainties. See Forward-Looking Statements.

Chesapeake

We are the third largest independent producer of natural gas in the U.S. and own interests in approximately 20,700 producing oil and gas wells. Our internally-estimated proved oil and natural gas reserves as of March 31, 2005 were approximately 5.4 tcf. At March 31, 2005, approximately 90% of our proved reserves (by volume) were natural gas, and approximately 67% of our proved oil and natural gas reserves were located in our primary operating area the Mid-Continent region of the United States, which includes Oklahoma, western Arkansas, southwestern Kansas and the Texas Panhandle. In addition, we are building significant secondary operating areas in the South Texas and Texas Gulf Coast regions, the Permian Basin of western Texas and eastern New Mexico and in the Barnett Shale and Ark-La-Tex areas of central and eastern Texas and northern Louisiana.

From January 1, 1998 through March 31, 2005, we have been one of the most active consolidators of onshore U.S. natural gas assets, having purchased approximately 4.1 tcf of proved reserves at a total cost of approximately \$4.9 billion (excluding amounts paid for unproved leasehold and \$677 million of deferred taxes in connection with certain corporate acquisitions).

During the first quarter of 2005, we were especially active in the acquisitions market. Acquisition expenditures totaled \$385.0 million in this period (excluding amounts paid for unproved leasehold and \$119 million of deferred taxes in connection with certain corporate acquisitions). Through these acquisitions, we acquired an internally estimated 304 bcfe of proved oil and natural gas reserves at a cost of \$1.26 per mcfe (excluding \$0.39 per mcfe of deferred taxes in connection with certain corporate acquisitions).

During the first quarter of 2005, we led the nation in drilling activity with an average utilization of 69 operated rigs and 64 non-operated rigs. Through this drilling activity, we drilled 189 (143 net) operated wells and participated in another 209 (26 net) wells operated by other companies and we added approximately 333 bcfe of proved oil and natural gas reserves. Our success rate was 98% for operated wells and 97% for non-operated wells. As of March 31, 2005, our proved developed reserves were 63% of our total proved reserves. In the first quarter of 2005, we invested \$66 million in leasehold (exclusive of leases acquired through acquisitions) and 3-D seismic data.

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

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The Offering

On April 19, 2005, we sold 4,000,000 shares of the preferred stock to the initial purchasers. On April 25, 2005, we sold an additional 600,000 shares of the preferred stock to the initial purchasers following the exercise of the initial purchasers' over-allotment option. We entered into a registration rights agreement with the initial purchasers in the private offering in which we agreed, for the benefit of the holders of the preferred stock, to file a shelf registration statement with the SEC by August 17, 2005 with respect to resales of the preferred stock and common stock issued upon the conversion thereof. We also agreed to use our reasonable best efforts to cause the shelf registration statement to be declared effective under the Securities Act by December 15, 2005 and to keep the shelf registration statement effective until April 19, 2007 or such earlier date as of which the preferred stock and common stock issued upon the conversion thereof have been sold pursuant to the shelf registration statement.

Securities Offered 4,600,000 shares of 5.00% Cumulative Convertible Preferred Stock (series 2005).

Dividends Cumulative annual dividends of \$5.00 per share payable quarterly in cash on each January 15, April 15, July 15 and October 15, commencing July 15, 2005, when, as and if declared by the board of directors. Dividends will be paid in arrears on the basis of a 360-day year consisting of twelve 30-day months. Dividends on the preferred stock will accumulate and be cumulative from the date of issuance thereof and may be paid in cash or, where transferable by the recipient thereof, in common stock. Accumulated dividends on the preferred stock will not bear interest. Dividends may not be paid in cash under certain circumstances. See Description of Preferred Stock Dividends.

Liquidation Preference \$100 per share, plus accumulated and unpaid dividends.

Ranking The preferred stock will rank with respect to dividend rights and rights upon our liquidation, winding-up or dissolution:

senior to all of our common stock and to all of our other capital stock issued in the future unless the terms of that stock expressly provide that it ranks senior to, or on a parity with, the preferred stock;

on a parity with our existing 6.00% Cumulative Convertible Preferred Stock, our existing 5.00% Cumulative Convertible Preferred Stock (Series 2003), our existing 4.125% Cumulative Convertible Preferred Stock and with any of our capital stock issued in the future, the terms of which expressly provide that it will rank on a parity with the preferred stock; and

junior to all of our capital stock issued in the future, the terms of which expressly provide that such stock will rank senior to the preferred stock.

We currently have 102,610 shares of 6.00% Cumulative Convertible Preferred Stock issued and outstanding with an aggregate liquidation preference of \$5.1 million, 1,725,000 shares of 5.00% Cumulative Convertible Preferred Stock (Series 2003) issued and outstanding with an aggregate liquidation preference of \$172.5 million and 313,250 shares of 4.125% Cumulative Convertible Preferred Stock issued and outstanding with an aggregate liquidation preference of \$313.3 million.

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Redemption	Shares of the preferred stock are not redeemable by us.
Conversion Rights	Each share of the preferred stock may be converted at any time, at the option of the holder, into approximately 3.8811 shares of our common stock (which is calculated using an initial conversion price of \$25.766 per share of common stock) plus cash in lieu of fractional shares, subject to adjustment based on the conversion price. The conversion price is subject to adjustment upon the occurrence of certain events.
Mandatory Conversion	On or after April 15, 2010, we may, at our option, cause the preferred stock to be automatically converted into that number of shares of common stock that are issuable at the then prevailing conversion price. We may exercise our conversion right if, for 20 trading days within any period of 30 consecutive trading days (including the last trading day of such period), the closing price of our common stock exceeds 130% of the then prevailing conversion price of the preferred stock. See Description of Preferred Stock Mandatory Conversion.
Make-Whole Premium upon a Fundamental Change	<p>If a fundamental change occurs we may be required to pay a make-whole premium on the preferred stock converted in connection with the fundamental change. The make-whole premium will be payable in shares of our common stock or the consideration into which our common stock has been converted or exchanged in connection with the fundamental change.</p> <p>The amount of the make-whole premium, if any, will be based on the stock price and the effective date of the fundamental change. A description of how the make-whole premium will be determined and a table showing the make-whole premium that would apply at various stock prices and effective dates is set forth under Description of Preferred Stock Determination of the Make-Whole Premium.</p>
Voting Rights	Except as required by Oklahoma law and our certificate of incorporation, which includes the certificate of designation for the preferred stock, the holders of preferred stock will have no voting rights unless dividends payable on the preferred stock are in arrears for six or more quarterly periods. In that event, the holders of the preferred stock, voting as a single class with the shares of any other preferred stock or preference securities having similar voting rights (including the existing preferred stock), will be entitled at the next regular or special meeting of our stockholders to elect two additional directors and the number of directors that comprise our board will be increased by the number of directors so elected. These voting rights and the terms of the directors so elected will continue until such time as the dividend arrearage on the preferred stock has been paid in full. The affirmative consent of holders of at least 66 ² / ₃ % of the outstanding preferred stock will be required for the issuance of any class or series of stock (or security convertible into stock) ranking senior to the preferred stock as to dividend rights or rights upon our

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liquidation, winding-up or dissolution and for amendments to our certificate of incorporation that would affect adversely the rights of holders of the preferred stock.

Tax Consequences

The U.S. Federal income tax consequences of purchasing, owning and disposing of the preferred stock and any common stock received upon its conversion are described in U.S. Federal Income Tax Considerations. Prospective investors are urged to consult their own tax advisors regarding the tax consequences of purchasing, owning and disposing of the preferred stock and any common stock received upon its conversion in light of their personal investment circumstances, including consequences resulting from the possibility that actual or constructive distributions on the preferred stock may exceed our current and accumulated earnings and profits, as calculated for U.S. Federal income tax purposes, in which case they would not be treated as dividends for U.S. Federal income tax purposes.

Common Stock

Our common stock is listed for trading on the NYSE under the symbol CHK.

Risk Factors

An investment in the preferred stock involves certain risks that a potential investor should carefully evaluate prior to making an investment in the preferred stock. See Risk Factors.

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RISK FACTORS

In addition to the other information set forth elsewhere or incorporated by reference in this prospectus, the following factors relating to our company, our preferred stock and our common stock should be considered carefully before making an investment decision.

Risks Relating to Our Business

Oil and 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 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 gas have been volatile and they are likely to continue to be volatile. Wide fluctuations in oil and 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 gas;

weather conditions;

the level of consumer demand;

the price and availability of alternative fuels;

the availability of pipeline capacity;

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

the overall economic environment.

These factors and the volatility of the energy markets make it extremely difficult to predict future oil and gas price movements with any certainty. Declines in oil and gas prices would not only reduce revenue, but could reduce the amount of oil and 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 gas prices do not necessarily move in tandem. Because approximately 90% of our reserves at March 31, 2005 are natural gas reserves, we are more affected by movements in natural gas prices.

Our level of indebtedness may limit our financial flexibility.

As of March 31, 2005, we had long term indebtedness of approximately \$3.7 billion, with \$724 million drawn under our revolving bank credit facility. Our long-term indebtedness represented 54% of our total book capitalization at March 31, 2005. We issued \$600 million in aggregate principal amount of our 6.625% Senior Notes due 2016 in April 2005. On June 6, 2005, we priced a private offering of \$600 million principal amount of our 6.25% Senior Notes due 2018, the proceeds of which we intend to use to fund our recently announced tender offers for all of our outstanding 8.125% Senior Notes due 2011 and 9.00% Senior Notes due 2012. As of June 8, 2005, we had approximately \$538 million drawn under our revolving bank credit facility.

Our level of indebtedness 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 is not available for other purposes;

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

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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, in order to make future acquisitions or to develop our properties. A higher level of indebtedness increases the risk that we may default on our existing debt 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 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.

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 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 to meet these requirements.

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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 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 34% of our total estimated proved reserves (by volume) at December 31, 2004 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 26% from the beginning until the end of 2005. 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.

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

This prospectus and the documents incorporated by reference herein contain estimates of our proved reserves and the estimated future net revenues from our proved reserves and estimates relating to pending acquisitions. These estimates are based upon various assumptions, including assumptions required by the SEC relating to oil and gas prices, drilling and operating expenses, capital expenditures, taxes and availability of funds. The process of estimating oil and gas 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, oil and gas prices, revenues, taxes, development expenditures, operating expenses and quantities of recoverable oil and gas 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 oil and gas 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, 2004, approximately 34% 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 \$1.0 billion in 2005. 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 referred to in this prospectus and the documents incorporated by reference herein represent the current market value of our estimated oil and gas 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, 2004 present value is based on weighted average oil and gas wellhead prices of \$39.91 per barrel of oil and \$5.65 per mcf of natural gas. 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 oil and gas purchasers or in governmental regulations or taxation will also affect actual future net cash flows.

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The timing of both the production and the costs for the development and production of oil and gas 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 oil and gas industry in general will affect the accuracy of the 10% discount factor.

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

Our recent growth is due in part to acquisitions of exploration and production companies, producing properties and undeveloped leasehold. We expect acquisitions will also contribute to our future growth. Successful acquisitions require an assessment of a number of factors, including estimates of recoverable reserves, exploration potential, future oil and gas 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 and environmental problems that may exist or arise. We are generally not entitled to contractual indemnification for preclosing liabilities, including environmental liabilities. Normally, we acquire interests in properties on an as is basis with limited remedies for breaches of representations and warranties. As a result of these factors, we may not be able to acquire oil and gas properties that contain economically recoverable reserves or be able to complete such acquisitions on acceptable terms.

Additionally, significant acquisitions can change the nature of our operations and business depending upon the character of the acquired properties, which may have substantially different operating and geological characteristics or be in different geographic locations than our existing properties. It is our current intention to continue focusing on acquiring properties with development and exploration potential located in the Mid-Continent, the South Texas and Texas Gulf Coast regions, the Permian Basin region and the Barnett Shale and Ark-La-Tex areas. To the extent that we acquire properties substantially different from the properties in our primary operating regions or acquire properties that require different technical expertise, we may not be able to realize the economic benefits of these acquisitions as efficiently as in our prior acquisitions.

Reserve estimates of properties acquired in 2005 have not been prepared by independent petroleum engineers. Our internal estimates may not be as reliable as estimates of those reserves by independent engineers.

Our estimates of proved reserves attributed to our 2005 acquisitions have not been reviewed or reported on by independent petroleum engineers. These estimates were prepared by our own engineers and professionals using criteria otherwise in compliance with SEC rules. Furthermore, our internal reserve estimates for these acquisitions are based upon data available to us which may not be as complete as data available on our other properties. Oil and gas pricing can affect estimates of quantities of proved reserves due to the impact of pricing on ultimate economic recovery. Estimates prepared by independent engineers might be different than our internal estimates.

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 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 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:

unexpected drilling conditions;

title problems;

pressure or irregularities in formations;

equipment failures or accidents;

adverse weather conditions;

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compliance with environmental and other governmental requirements; and

the high cost, or shortages or delays in the availability of drilling rigs and equipment.

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 oil and gas 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 oil and gas 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 oil and gas at that date, adjusted for the impact of derivatives accounted for as cash flow hedges. A significant decline in oil and gas prices from current levels, or other factors, without other mitigating circumstances, could cause a future writedown of capitalized costs and a non-cash charge against future earnings. Our aggregate present value of future net revenues plus the value of the unproved properties would equal the recorded net book value of our oil and gas properties at December 31, 2004, assuming an index price of approximately \$3.90 per mcf for gas and assuming the price of oil remains constant at \$43.39 per barrel for oil. If index prices were to fall below these levels, we could experience a write-down of the book value of our oil and gas assets.

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

In order to manage our exposure to price volatility in marketing our oil and gas, we enter into oil and gas price risk management arrangements for a portion of our expected production. Commodity price hedging may limit the prices we actually realize and therefore reduce oil and gas revenues in the future. The fair value of our oil and gas derivative instruments outstanding as of March 31, 2005 was a liability of approximately \$283.4 million. 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.

Some of our commodity price and interest rate risk management arrangements require us to deliver cash collateral or other assurances of performance to the counterparties in the event that our payment obligations exceed certain levels. As of March 31, 2005, we were required to post a total of \$55 million of collateral with our counterparties through letters of credit issued under our bank credit facility with respect to commodity price and financial risk management transactions. As of June 8, 2005, we were required to post \$50 million of collateral with our counterparties through letters of credit. Future collateral requirements are uncertain and will depend on arrangements with our counterparties and highly volatile natural gas and oil prices.

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

Our revolving bank credit facility limits our borrowings to \$1.25 billion, based on our borrowing base. The borrowing base is determined periodically at the discretion of a majority of the banks and is based in part on oil and gas prices. Additionally, some of our indentures contain covenants limiting our ability to incur indebtedness in addition to that incurred under our 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 oil and gas reserves as of the end of each year. The second alternative is based on the ratio of our adjusted consolidated EBITDA (as defined in all of our indentures) to our adjusted consolidated interest expense over a trailing twelve-month period. As of the date of this prospectus, we are permitted to incur

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significant additional indebtedness under both of these debt incurrence tests. Lower oil and gas 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.

Oil and gas drilling and producing operations can be hazardous and may expose us to environmental liabilities.

Oil and gas operations are subject to many risks, including well blowouts, cratering and explosions, pipe failure, 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 penalties; and

suspension of operations.

Our liability for environmental hazards includes those created either by the previous owners of properties that we purchase or lease or by acquired companies prior to the date we acquire them. We 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 continue to obtain insurance at premium levels that justify its purchase.

Risks Relating to Our Preferred Stock

We may not be able to pay cash dividends on the preferred stock.

Our existing indentures limit, and any indentures and other financing agreements that we enter into in the future will likely limit, our ability to pay cash dividends on our capital stock. Specifically, under our existing indentures, we may pay cash dividends and make other distributions on or in respect of our capital stock, including the preferred stock, only if certain financial tests are met. In addition, the terms of the preferred stock prohibit us from paying dividends in cash unless we are in compliance with certain fixed charge coverage ratios. In the event that any of our

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indentures or other financing agreements in the future restrict our ability to pay cash dividends on the preferred stock, we will be unable to pay cash dividends on the preferred stock unless we can refinance amounts outstanding under those agreements.

Under Oklahoma law, cash dividends on capital stock may only be paid from surplus or, if there is no surplus, from the corporation's net profits for the then current or the preceding fiscal year. Unless we continue to operate profitably, our ability to pay cash dividends on the preferred stock would require the availability of adequate surplus, which is defined as the excess, if any, of our net assets (total assets less total liabilities) over our capital. Further, even if adequate surplus is available to pay cash dividends on the preferred stock, we may not have sufficient cash to pay dividends on the preferred stock.

We cannot assure that we will be able to keep effective the registration statement required to permit us to pay dividends on the preferred stock in shares of our common stock.

We may pay dividends on the preferred stock by delivering common stock to holders of the preferred stock. We may pay dividends in this manner, however, only if the common stock issued as a dividend is fully transferable by the recipient without further action on its behalf, or if there is an effective registration statement permitting the sale of the common stock in the public market. We cannot assure you that we will be able to keep this registration statement effective.

Table of Contents**RATIOS OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS**

For purposes of determining the ratio of earnings to fixed charges and preferred dividends, earnings are defined as net income before income taxes, cumulative effect of accounting change, 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. Preferred dividends consist of preferred stock dividends grossed up to reflect the pre-tax amount.

	<u>Year Ended December 31,</u>					Three Months
						Ended
	2000	2001	2002	2003	2004	March 31,
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Ratio of earnings to fixed charges and preferred dividends	2.8x	4.2x	1.3x	3.3x	3.7x	3.4x

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USE OF PROCEEDS

We will not receive any proceeds from the sale of the preferred stock or the common stock contemplated by this prospectus. Please read [Selling Securityholders](#) for a list of the persons receiving proceeds from the sale of the preferred stock or the underlying common stock.

BUSINESS

We are the third largest independent producer of natural gas in the U.S. and own interests in approximately 20,700 producing oil and gas wells. Our internally-estimated proved oil and natural gas reserves as of March 31, 2005 were approximately 5.4 tcf. At March 31, 2005, approximately 90% of our proved reserves (by volume) were natural gas, and approximately 67% of our proved oil and natural gas reserves were located in our primary operating area the Mid-Continent region of the United States, which includes Oklahoma, western Arkansas, southwestern Kansas and the Texas Panhandle. In addition, we are building significant secondary operating areas in the South Texas and Texas Gulf Coast regions, the Permian Basin of western Texas and eastern New Mexico and in the Barnett Shale and Ark-La-Tex areas of central and eastern Texas and northern Louisiana.

From January 1, 1998 through March 31, 2005, we have been one of the most active consolidators of onshore U.S. natural gas assets, having purchased approximately 4.1 tcf of proved reserves at a total cost of approximately \$4.9 billion (excluding amounts paid for unproved leasehold and \$677 million of deferred taxes in connection with certain corporate acquisitions).

During the first quarter of 2005, we were especially active in the acquisitions market. Acquisition expenditures totaled \$385.0 million in this period (excluding amounts paid for unproved leasehold and \$119 million of deferred taxes in connection with certain corporate acquisitions). Through these acquisitions, we acquired an internally estimated 304 bcfe of proved oil and natural gas reserves at a cost of \$1.26 per mcfe (excluding \$0.39 per mcfe of deferred taxes in connection with certain corporate acquisitions).

During the first quarter of 2005, we led the nation in drilling activity with an average utilization of 69 operated rigs and 64 non-operated rigs. Through this drilling activity, we drilled 189 (143 net) operated wells and participated in another 209 (26 net) wells operated by other companies and we added approximately 333 bcfe of proved oil and natural gas reserves. Our success rate was 98% for operated wells and 97% for non-operated wells. As of March 31, 2005, our proved developed reserves were 63% of our total proved reserves. In the first quarter of 2005, we invested \$66 million in leasehold (exclusive of leases acquired through acquisitions) and 3-D seismic data.

Additional information concerning our company is included in our reports and other documents incorporated by reference in this prospectus. Please read [Where You Can Find More Information](#).

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DESCRIPTION OF THE PREFERRED STOCK

The following is a summary of certain provisions of the certificate of designation for our 5.00% Cumulative Convertible Preferred Stock (Series 2005) (which we will refer to as the Convertible Preferred Stock). A copy of the certificate of designation and the form of Convertible Preferred Stock share certificate are available upon request from us at the address set forth under Where You Can Find More Information. The following summary of the terms of Convertible Preferred Stock does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the certificate of designation. As used in this section, the terms the Company, us, we or our refer to Chesapeake Energy Corporation and not any of its subsidiaries.

General

Under our certificate of incorporation, our board of directors is authorized, without further stockholder action, to issue up to 20,000,000 shares of preferred stock, par value \$.01 per share, in one or more series, with such voting powers or 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. We have 12,759,140 shares of authorized preferred stock that are undesignated. We have 102,610 shares of preferred stock that are designated as 6.00% Cumulative Convertible Preferred Stock, all of which are currently outstanding, 1,725,000 shares of preferred stock that are designated as 5.00% Cumulative Convertible Preferred Stock (Series 2003), all of which are currently outstanding, 313,250 shares of preferred stock that are designated as 4.125% Cumulative Convertible Preferred Stock, all of which are currently outstanding and 4,600,000 shares of 5.00% Cumulative Convertible Preferred Stock (Series 2005), all of which are currently outstanding. The board of directors has also authorized the issuance of up to 500,000 shares of Series A Junior Participating Convertible Preferred Stock in connection with the adoption of our share rights plan in July 1998. None of these shares are currently outstanding.

When issued, the Convertible Preferred Stock and any common stock issued upon the conversion of the Convertible Preferred Stock will be fully paid and nonassessable. The holders of the Convertible Preferred Stock will have no preemptive or preferential right to purchase or subscribe to stock, obligations, warrants or other securities of the Company of any class. The transfer agent, registrar, redemption, conversion and dividend disbursing agent for shares of both the Convertible Preferred Stock and common stock is UMB Bank, N.A.

The Convertible Preferred Stock is subject to mandatory conversion, as described below in Mandatory Conversion, but is not redeemable by us.

Ranking

The Convertible Preferred Stock, with respect to dividend rights or rights upon our liquidation, winding-up or dissolution, ranks:

senior to all classes of our common stock and to the Series A Junior Participating Convertible Preferred Stock and each other class of capital stock or series of preferred stock established after the original issue date of the Convertible Preferred Stock (which we will refer to as the Issue Date), the terms of which do not expressly provide that such class or series ranks senior to or on a parity with the Convertible Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution (which we will refer to collectively as Junior Stock);

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on a parity, in all respects, with our existing 6.00% Cumulative Convertible Preferred Stock, our existing 5.00% Cumulative Convertible Preferred Stock (Series 2003), our existing 4.125% Cumulative Convertible Preferred Stock and with any class of capital stock or series of preferred stock established after the Issue Date, the terms of which expressly provide that such class or series will rank on a parity with the Convertible Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution (which we will refer to collectively as Parity Stock); and

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junior to each class of capital stock or series of preferred stock established after the Issue Date, the terms of which expressly provide that such class or series will rank senior to the Convertible Preferred Stock as to dividend rights or rights upon our liquidation, winding-up or dissolution (which we will refer to collectively as Senior Stock).

While any shares of Convertible Preferred Stock are outstanding, we may not authorize or issue any class or series of Senior Stock (or any security convertible into Senior Stock) without the affirmative vote or consent of the holders of at least 66 ²/₃% of the outstanding shares of Convertible Preferred Stock. Without the consent of any holder of Convertible Preferred Stock, however, we may authorize, increase the authorized amount of, or issue any class or series of Parity Stock or Junior Stock. See Voting Rights below.

Dividends

Holders of shares of Convertible Preferred Stock will be entit