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

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

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

Subject to Completion, dated July 8, 2008

PROSPECTUS SUPPLEMENT

(To Prospectus dated December 8, 2005)

25,000,000 Shares

Chesapeake Energy Corporation

Common Stock

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

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

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

	Per Share	Total
Public offering price	$	$
Underwriting discounts and commissions(1)	$	$
Proceeds to Chesapeake (before expenses)	$	$

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

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

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

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

Joint Book-Running Managers

Lehman Brothers	**UBS Investment Bank**

ABN AMRO	**Banc of America Securities LLC**	**Wells Fargo Securities**

July , 2008.

Table of Contents

TABLE OF CONTENTS

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

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

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

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

Chesapeake

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

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

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

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

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

Table of Contents

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

Recent Developments

Haynesville Shale Joint Ventures

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

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

Capital resources update

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

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

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

Table of Contents

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

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

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

Hedging policy and impact of mark-to-market losses

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

Table of Contents

The Offering

Common stock offered by Chesapeake	25,000,000 shares(1)
Common stock outstanding after this offering	573,715,364 shares(1)(2)
Use of proceeds	We expect the net proceeds to us from this offering, after deducting underwriting discounts and commissions and estimated expenses of the offering payable by us, to be approximately $1.6 billion. We intend to use the net proceeds from this offering to temporarily repay outstanding indebtedness under our revolving bank credit facility, which we anticipate reborrowing from time to time to fund our drilling and leasehold acquisition initiatives and for general corporate purposes. Affiliates of certain of the underwriters in this offering are lenders under our existing revolving bank credit facility and will receive a substantial portion of the proceeds from this offering. Please see Use of Proceeds.
New York Stock Exchange symbol	CHK
Transfer agent and registrar	Computershare Trust Company, N.A.

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

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

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

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

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

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

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

Table of Contents

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

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

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

499,723 shares of treasury stock.

Risk Factors

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

Pending SEC Staff Comments

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

Table of Contents

Summary Consolidated Financial Data

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

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

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