CHESAPEAKE ENERGY CORP
Form 424B5
September 09, 2005
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Filed pursuant to Rule 424(b)(5)

Registration No. 333-119313

PROSPECTUS SUPPLEMENT

(To Prospectus dated August 12, 2005)

3,000,000 Shares

Chesapeake Energy Corporation

4.50% Cumulative Convertible Preferred Stock

We are offering 3,000,000 shares of 4.50% cumulative convertible preferred stock. The annual dividend on each share of preferred stock is \$4.50 and is payable quarterly in cash, common stock or a combination thereof, in arrears, on each March 15, June 15, September 15 and December 15, commencing December 15, 2005. Each share of preferred stock has an initial liquidation preference of \$100.00 per share and is convertible, at the holder s option at any time, initially into approximately 2.2639 shares of our common stock based on an initial conversion price of \$44.172 per share, subject in each case to specified adjustments. The conversion price will be adjusted as described herein upon the occurrence of certain change of control transactions and other events. The preferred stock is not redeemable by us at any time. In the event that a fundamental change occurs, we will pay a make-whole premium on preferred stock converted in connection therewith, as described in this prospectus supplement. On or after September 15, 2010, if the closing price of our common stock exceeds 130% of the conversion price for 20 trading days during any consecutive 30 trading day period, we may at our option cause the preferred stock to be automatically converted into shares of common stock at the then prevailing conversion price.

Our common stock is listed on the New York Stock Exchange under the symbol CHK. On September 8, 2005, the last reported sale price of our common stock was \$32.72 per share.

We expect to list the common stock issuable upon conversion of the preferred stock on the New York Stock Exchange.

Investing in the preferred stock involves risks. See Supplemental Risk Factors beginning on page S-13 of this prospectus supplement and Risk Factors beginning on page 2 of the accompanying prospectus.

	Per Share	Total
Public Offering Price	$ 100.00	$ 300,000,000
Underwriting Discount	$ 2.75	$ 8,250,000
Proceeds to Chesapeake (before expenses)	$ 97.25	$ 291,750,000

We have granted the underwriters a 30-day option to purchase up to an additional 450,000 shares from us on the same terms and conditions as set forth above if the underwriters sell more than 3,000,000 shares of preferred stock in this offering.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus supplement or the prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

Lehman Brothers, on behalf of the underwriters, expects to deliver the preferred stock in book-entry form on or about September 14, 2005.

Joint Book-Running Managers

Banc of America Securities LLC

Credit Suisse First Boston

Lehman Brothers

Morgan Stanley

Wachovia Securities

Senior Co-Managers

Bear, Stearns & Co. Inc. **Citigroup** **Deutsche Bank Securities**

Goldman, Sachs & Co. **Raymond James** **UBS Investment Bank**

Co-Managers

GILFORD SECURITIES INCORPORATED	**HARRIS NESBITT**	**HOWARD WEIL INCORPORATED**
JEFFERIES & COMPANY, INC.	**JOHNSON RICE & COMPANY L.L.C.**	**PRITCHARD CAPITAL PARTNERS, LLC**
	SIMMONS & COMPANY INTERNATIONAL	

September 8, 2005

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You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. 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.

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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 over-allotment option.

Chesapeake

We are the third largest independent producer of natural gas in the U.S. and own interests in approximately 21,500 producing oil and gas wells. At June 30, 2005, approximately 90% of our proved reserves (by volume) were natural gas, and approximately 64% 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, Arkansas, 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 West Texas and eastern New Mexico, the Barnett Shale area of north-central Texas and the Ark-La-Tex areas of East Texas and northern Louisiana.

As of December 31, 2004, our estimated proved reserves were 4,902 bcfe. As of June 30, 2005, our internally estimated proved reserves had grown to 5,850 bcfe, an increase of 948 bcfe, or 19%. During the first half of 2005, we replaced our 218 bcfe of production with an internally estimated 1,166 bcfe of new proved reserves, for a reserve replacement rate of 535%. Reserve replacement through the drillbit was 583 bcfe, or 268% of production (including 43 bcfe from positive performance revisions and 25 bcfe from oil and natural gas price increases), and reserve replacement through acquisitions was 583 bcfe, or 267% of production.

From January 1, 1998 through June 30, 2005, we have been one of the most active consolidators of onshore U.S. natural gas assets, having purchased approximately 4.5 tcfe of proved reserves at a total cost of approximately $7.1 billion (including amounts paid for unproved leasehold but excluding $809 million of deferred taxes in connection with certain corporate acquisitions), pro forma for our recent and pending acquisitions.

During the first half of 2005, we were especially active in the acquisitions market. Acquisition expenditures totaled $1.8 billion in this period (including amounts paid for unproved leasehold but excluding $252 million of deferred taxes in connection with certain corporate acquisitions), pro forma for our recent and pending acquisitions. Through these acquisitions, we will have acquired an internally estimated 696 bcfe of proved oil and natural gas reserves at a cost of $1.54 per mcfe (excluding amounts paid for unproved leasehold and $0.36 per mcfe of deferred taxes in connection with certain corporate acquisitions).

During the first half of 2005, we led the nation in drilling activity with average utilization of 71 operated rigs and 65 non-operated rigs. Through this drilling activity, we drilled 413 (305 net) operated wells and participated in another 505 (60 net) wells operated by other companies and we added approximately 515 bcfe of proved oil and natural gas reserves. Our success rate was 98% for both operated and non-operated wells. As of June 30, 2005, our proved developed reserves were 63% of our total proved reserves. In the first half of 2005, we invested $118 million in leasehold (exclusive of leases acquired through acquisitions) and 3-D seismic data.

We intend to use the net proceeds from this offering to repay amounts borrowed under our revolving bank credit facility. Please see Use of Proceeds.

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

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Business Strategy

Since our inception in 1989, our goal has been to create value for investors by building one of the largest onshore natural gas resource bases in the United States. For the past seven years, our strategy to accomplish this goal has been to build the dominant operating position in the Mid-Continent region, the third largest gas supply region in the U.S. In building this 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. We have also been building significant secondary operating areas 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-central Texas and the Ark-La-Tex areas of East Texas and northern Louisiana. We believe significant elements of our successful Mid-Continent strategy have been transferred to these areas.

Key elements of this business strategy are further explained below:

Make High-Quality Acquisitions. Our acquisition program is focused on small to medium-sized acquisitions of natural gas properties that offer high-quality, long-lived production and significant development and higher potential deep drilling opportunities. From January 1, 1998 through June 30, 2005, pro forma for our recent and pending acquisitions, we have acquired $5.6 billion of such proved properties (largely through 62 separate transactions of greater than $10 million each) at an estimated average cost of $1.23 per mcfe of proved reserves (excluding amounts paid for unproved leasehold and $0.18 per mcfe of deferred taxes in connection with certain corporate acquisitions). The vast majority of these acquisitions either increased our ownership in existing wells or fields or added additional drilling locations in the Mid-Continent, and more recently in our secondary operating areas. Because our operating areas contain many smaller companies seeking liquidity opportunities and larger companies seeking to divest of non-core assets, we expect to continue to find additional attractive acquisition opportunities in the future.

Grow through the Drillbit. One of our most distinctive characteristics is our ability to increase reserves and production through the drillbit. We are currently utilizing 73 operated drilling rigs and 61 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 aggressively 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 U.S. natural gas production has been declining during the past few years, we are one of the few mid- to large-cap companies that have been able to increase production, as we have successfully done for the past 15 consecutive years and 16 consecutive quarters. In the Mid-Continent, our drilling program remains the most active in the region and is supported by our ownership of the region s largest leasehold and 3-D seismic inventories.

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. 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 current U.S. 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

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success rate of 93% over the past sixteen years; favorable basis differentials to benchmark commodity prices; 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 secondary operating areas possess many of these same favorable characteristics.

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 the extensive and competitive services, gas processing and transportation infrastructures that exist in our key operating areas. As of June 30, 2005, we operated approximately 9,900 wells, or approximately 80% of our daily production.

Improve our Balance Sheet. We have made significant progress in improving our balance sheet over the past seven years. From December 31, 1998 through June 30, 2005, we have increased our shareholders equity by $4.1 billion ($4.6 billion pro forma for our pending offering of common stock and this offering) through a combination of earnings and common and preferred equity issuances. As of June 30, 2005, our debt as a percentage of total capitalization (total capitalization is the sum of debt and stockholders equity) was 52%, compared to 137% as of December 31, 1998. As of June 30, 2005, on a pro forma basis for our recent private placement of senior notes, our pending offering of common stock and this offering, our debt to total capitalization ratio was 49%. 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/high demand relationship in the U.S. during at least the next few years because of flat to declining supply and 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 5 to 10% generated organically through the drillbit and the remaining growth generated through future acquisitions. We have reached or exceeded this overall production goal in 10 of our 12 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 recent and pending acquisitions, our proved reserves-to-production ratio, or reserve life, is approximately 13 years. 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. As of June 30, 2005, we operated properties accounting for approximately 80% of our daily production volumes. This large percentage of operated properties provides us with a high degree of operating flexibility and cost control.

Low-Cost Producer. Our high-quality asset base, the work ethic of our employees, our hands-on management style and our location in Oklahoma City have enabled us to achieve a low operating and administrative cost structure. During the first half of 2005, our operating costs per unit of production were $1.14 per mcfe, which consisted of general and administrative expenses of $0.11 per mcfe (including non-cash stock-based compensation of $0.02 per mcfe), production expenses of $0.65 per mcfe and production taxes of $0.38 per mcfe. We believe this is one of the lowest cost structures among publicly traded, mid- to large-cap independent oil and natural gas producers.

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Successful Acquisition Program. Our experienced asset 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 gas transportation infrastructures and considerable potential for further consolidation of assets. Since 1998, and including our recently announced acquisitions, we have completed $5.6 billion in acquisitions at an average cost of $1.23 per mcfe of proved reserves (excluding amounts paid for unproved leasehold and $0.18 per mcfe of deferred taxes in connection with certain corporate acquisitions). We believe we are well-positioned to continue making attractive small and medium-sized 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 expertise 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 73 operated and 61 non-operated rigs drilling) and the most active driller in the Mid-Continent (with 42 operated and 54 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 reservoir conditions. In addition, we believe that our large 10.8 million acre 3-D seismic inventory, much of which is proprietary to us, provides significant informational advantages over our competitors. As a result of our aggressive leasehold acquisition and seismic acquisition strategies, we have been able to accumulate an onshore leasehold position of approximately 4.1 million net acres and have acquired rights to 10.8 million acres of onshore 3-D seismic data to help evaluate our expansive acreage inventory. On this very large acreage position, our technical teams have identified 14,100 exploratory and developmental drill sites, representing a backlog of more than nine 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 producing oil and natural gas, 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. Between January 1, 2001 and June 30, 2005, we have increased our oil and gas revenues by over $25.1 million from realized gains through our successful hedging programs, while significantly reducing the risks associated with our aggressive growth strategy during that time. We currently have gas hedges in place covering 69% of our anticipated gas production for the second half of 2005 and 37% of our anticipated gas production for 2006 at average NYMEX prices of $7.17 and $7.93 per mcf, respectively. In addition, we have 51% of our anticipated oil production hedged for the second half of 2005 and 51% of our anticipated oil production hedged for 2006 at average NYMEX prices of $53.46 and $59.65 per barrel of oil, respectively.

Entrepreneurial Management. Our management team formed the company in 1989 with an initial capitalization of $50,000. Since then, our management team has guided the company through various operational and industry challenges and extremes of oil and gas prices to create the third largest independent producer of natural gas in the U.S. with an enterprise value of approximately $17.1 billion (based on a common stock price of $32.72 per share and pro forma for our pending common stock offering and this offering). Our co-founders, Aubrey K. McClendon and Tom L. Ward, have been business partners in the oil and gas industry for 22 years and beneficially own, as of September 6, 2005, approximately 19.5 million and 19.9 million of our common shares, respectively.

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Recent Developments

We recently announced a series of transactions intended to improve our capitalization.

Recent and Pending Acquisitions. In July 2005, we acquired oil and natural gas assets from Hallwood Energy III L.P. for cash consideration of approximately $249.5 million. In addition, we have acquired or agreed to acquire $160 million of oil and natural gas assets in the third quarter of 2005. We believe these recent and pending acquisitions will add an internally estimated 113 bcfe to our proved reserves, 99% of which are natural gas and 45% of which are proved developed. These acquisitions are expected to initially add approximately 33 mmcfe of natural gas equivalent to our daily production. Approximately $210 million of the aggregate purchase price will be allocated to unproved properties. The properties are located in our secondary operating areas of the Barnett Shale, East Texas and the Permian Basin. We have closed all but one of the acquisitions scheduled to close in the third quarter of 2005. There is no assurance that the pending acquisition for approximately $45.0 million will be completed or that our internal estimates of the reserves and production being acquired will prove correct.

Recent Private Offering of Senior Notes. On August 16, 2005, we completed a private placement of $600 million of 6.50% Senior Notes due 2017. We used the net proceeds of this offering of approximately $584.8 million to repay outstanding borrowings under our revolving bank credit facility.

*Pending Public Offering of Common Stoc*k. On September 8, 2005, we priced a public offering of 8,000,000 shares of common stock at a share price to the public of $32.72 (plus up to 1,200,000 additional shares subject to the underwriters over-allotment option) under our existing shelf registration statement. The offering is expected to close concurrently with this offering and provide aggregate net proceeds of approximately $251.7 million. The closing of this offering is conditioned on the closing of our pending public offering of common stock.

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The Offering

Unless otherwise indicated, all information in this prospectus supplement assumes no exercise of the underwriters option to purchase up to 450,000 additional shares of preferred stock.

Securities Offered	3,000,000 shares of 4.50% cumulative convertible preferred stock; 3,450,000 shares if the underwriters exercise their option in full.
Dividends	Cumulative annual dividends of $4.50 per share payable quarterly on each March 15, June 15, September 15 and December 15, commencing December 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, our existing 5.00% Cumulative Convertible Preferred Stock (Series 2005) 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 101,275 shares of 6.00% Cumulative Convertible Preferred Stock issued and outstanding with an aggregate liquidation preference of $5.1 million, 1,588,180 shares of 5.00% Cumulative Convertible Preferred Stock (Series 2003) issued and outstanding with an aggregate liquidation preference of $158.8 million, 165,935 shares of 4.125% Cumulative Convertible Preferred Stock issued and outstanding with an aggregate liquidation preference of $165.9 million and 4,600,000 shares of 5.00% Cumulative Convertible Preferred Stock (Series 2005) issued and outstanding with an aggregate liquidation preference of $460.0 million.

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Redemption	Shares of the preferred stock will not be 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 2.2639 shares of our common stock (which is calculated using an initial conversion price of $44.172 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 September 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	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.

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.

Voting Rights	Except as required by Oklahoma law and our certificate of incorporation, which will include 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 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 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.
Use of Proceeds	The net proceeds to us from this offering, after deducting discounts to the underwriters and estimated expenses of the offering, will be approximately $291.5 million. Net proceeds to us, together with a portion of the net proceeds from our pending public offering of common stock, are expected to be used to repay indebtedness under our revolving bank credit facility, which may be reborrowed for general corporate purposes, including to fund costs of our drilling program and our pending and possible future acquisitions. Please read Use of Proceeds.
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.
Absence of a Public Market	The preferred stock is a new issue for which there is currently no public market. Upon issuance, the preferred stock will not be listed on an exchange. If an active public market does not develop, the market price and liquidity of the preferred stock will be adversely affected.
Book-Entry, Delivery and Form	Initially, the preferred stock will be represented by one or more permanent global certificates in definitive, fully registered form deposited with a custodian for, and registered in the name of, a nominee of DTC.
Common Stock	Our common stock is listed for trading on the NYSE under the symbol CHK.

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 Supplemental Risk Factors in this prospectus supplement and the section entitled Risk Factors in the accompanying prospectus for a discussion of risks relating to an investment in the preferred stock.

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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, 2004, 2003 and 2002 and six months ended June 30, 2005 and 2004. 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, 2004 and from our unaudited condensed consolidated financial statements included in our quarterly report on Form 10-Q for the six months ended June 30, 2005, each of which is incorporated by reference herein. The financial data below should be read together with, and are qualified in their 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 our annual report on Form 10-K.

	Years Ended December 31,			Six Months Ended June 30,	
	2004	2003	2002	2005	2004
				(unaudited)	
	($ in thousands, except per share data)				
Statement of Operations Data:					
Revenues:					
Oil and gas sales	$ 1,936,176	$ 1,296,822	$ 568,187	$ 1,311,343	$ 819,458
Oil and gas marketing sales	773,092	420,610	170,315	520,125	317,963
Total revenues	2,709,268	1,717,432	738,502	1,831,468	1,137,421
Operating costs:					
Production expenses	204,821	137,583	98,191	141,895	94,398
Production taxes	103,931	77,893	30,101	83,211	37,687
General and administrative expenses:					
General and administrative (excluding stock-based compensation)	32,217	22,808	17,262	18,932	15,586
Stock-based compensation	4,828	945	356	4,923	2,541
Oil and gas marketing expenses	755,314	410,288	165,736	507,279	310,779
Oil and gas depreciation, depletion and amortization	582,137	369,465	221,189	390,339	256,651
Depreciation and amortization of other assets	29,185	16,793	14,009	21,889	12,455
Provision for legal settlements	4,500	6,402			
Total operating costs	1,716,933	1,042,177	546,844	1,168,468	730,097
Income from operations	992,335	675,255	191,658	663,000	407,324
Other income (expense):					
Interest and other income	4,476	2,827	7,340	5,362	2,678
Interest expense	(167,328)	(154,356)	(112,031)	(97,030)	(75,351)
Loss on repurchases or exchanges of Chesapeake debt	(24,557)	(20,759)	(2,626)	(69,300)	(6,925)
Loss on investment in Seven Seas		(2,015)	(17,201)		
Total other income (expense)	(187,409)	(174,303)	(124,518)	(160,968)	(79,598)